



# **BANK OF SHANGHAI (HONG KONG) LIMITED**

## **2019 INTERIM FINANCIAL REPORT**

**BANK OF SHANGHAI (HONG KONG) LIMITED  
INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

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**BANK OF SHANGHAI (HONG KONG) LIMITED**  
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Bank of Shanghai (Hong Kong) Limited (the “Company”) is pleased to present the interim financial report of the Company and its subsidiaries (the “Group”) for the first half of 2019 ended 30 June 2019. The consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the six months period ended 30 June 2019, and the consolidated statement of financial position as at 30 June 2019 of the Group, (all of which are unaudited) along with the explanatory notes are illustrated on pages 6 to 36 of this interim financial report.

**Financial Review**

The Group’s pre-tax profit for the period was HK\$205 million, which increased by 41% as compared with the same period of the previous year. It should be noted that the Group’s operating results included a foreign exchange translation loss of HK\$4 million (first half of 2018: loss of HK\$7 million) on the capital denominated in Renminbi (“RMB”) due to depreciation of RMB against HK Dollar during the period. The increase in the net profit was mainly driven by the 29% increase in net interest income. Operating expenses increased by 29% to HK\$131 million mainly due to increase in staff cost and premises cost. Allowances for credit and other losses were HK\$55 million, 30% lower than the same period last year.

Total loans and advances to customers were up by 0.4% to HK\$14,887 million from 2018 year end, customer deposits increased by 8.9% to HK\$10,347 million.

The Group’s financial position continued sound. Total capital adequacy ratio was maintained at a comfortable level at 22.6%, and the average liquidity maintenance ratio (“LMR”) at 65.4%. Both ratios are calculated on unconsolidated basis and adequately met the statutory requirements.

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

	Notes	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
Interest income		656,339	530,210
Interest expense		(359,751)	(300,161)
<b>Net interest income</b>	5	296,588	230,049
Net fee and commission income	6	89,128	70,838
Net (loss)/income from financial instruments measured at fair value	7	(6,406)	23,665
Net income/(loss) from investment securities		11,971	(953)
Other operating income		622	3,548
<b>Total operating income</b>		391,903	327,147
Operating expenses	8	(131,390)	(102,141)
<b>Operating profit before impairment losses</b>		260,513	225,006
Allowances for credit and other losses	9	(55,181)	(79,192)
<b>Profit before taxation</b>		205,332	145,814
Taxation	10	(36,354)	(25,982)
<b>Profit for the period</b>		168,978	119,832
<b>Other comprehensive income for the period, net of tax</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for Mainland China subsidiaries		(824)	(7,444)
Net movement in revaluation reserve	11	177,279	(112,262)
<b>Total comprehensive income for the period</b>		345,433	126

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

	Notes	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
<b>Assets</b>			
Cash and balances with banks and central bank	12	652,128	1,394,837
Placements with and advances to banks	13	1,973,228	2,592,414
Financial assets at fair value through profit or loss		660,281	287,024
Derivative financial assets	21	23,005	32,787
Loans and advances to customers	14	14,887,327	14,830,120
Investment securities	15	9,736,544	9,118,004
Investment in associate		227	228
Property and equipment	16	15,011	16,437
Intangible assets		4,289	5,134
Current tax recoverable		–	2,000
Deferred tax assets		35,099	54,567
Other assets	17	388,821	256,907
<b>TOTAL ASSETS</b>		<u>28,375,960</u>	<u>28,590,459</u>
<b>Liabilities</b>			
Deposits from customers	18	10,347,469	9,503,353
Deposits from banks		5,333,988	4,981,828
Trading liabilities		122,190	8,159
Derivative financial liabilities	21	25,572	48,430
Certificates of deposit and other debt securities issued	19	6,995,921	9,126,264
Current tax payable		63,216	42,275
Other liabilities	20	659,229	397,208
<b>TOTAL LIABILITIES</b>		<u>23,547,585</u>	<u>24,107,517</u>
<b>Capital and reserves</b>			
Share capital	23	4,000,000	4,000,000
Retained profits		801,761	626,045
Other reserves		26,614	(143,103)
<b>TOTAL EQUITY</b>		<u>4,828,375</u>	<u>4,482,942</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>28,375,960</u>	<u>28,590,459</u>

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

	Share capital HK\$'000	Retained profits HK\$'000	Revaluation reserve/ (deficit) HK\$'000	Regulatory reserve HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
<b>Balance at 1 January 2018</b>	4,000,000	350,080	(7,476)	108,393	3,372	4,454,369
Impact of adopting HKFRS 9 on 1 January 2018	–	(43,819)	2,471	–	–	(41,348)
<b>Adjusted balance at 1 January 2018</b>	4,000,000	306,261	(5,005)	108,393	3,372	4,413,021
Profit for the year	–	218,129	–	–	–	218,129
Other comprehensive income	–	–	(132,669)	–	(15,539)	(148,208)
Total comprehensive income	–	218,129	(132,669)	–	(15,539)	69,921
Transfers	–	101,655	–	(101,655)	–	–
<b>Balance at 31 December 2018</b>	4,000,000	626,045	(137,674)	6,738	(12,167)	4,482,942
Profit for the year	–	168,978	–	–	–	168,978
Other comprehensive income	–	–	177,279	–	(824)	176,455
Total comprehensive income	–	168,978	177,279	–	(824)	345,433
Transfers	–	6,738	–	(6,738)	–	–
<b>Balance at 30 June 2019</b>	4,000,000	801,761	39,605	–	(12,991)	4,828,375

The regulatory reserve is maintained to satisfy the provisions of Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve was made directly through retained profits after consultation with the Hong Kong Monetary Authority. The regulatory reserve is non-distributable.

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**CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

	Notes	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
<b>Net cash outflow from operating activities</b>	22(a)	(1,090,123)	(2,097,711)
<b>Investing activities</b>			
Proceeds from sale and redemption of investment securities		3,815,134	6,309,472
Purchase of investment securities		(3,805,790)	(10,237,536)
Purchases of property and equipments and intangible assets		(2,862)	(2,432)
Interest received from investment securities		187,211	101,764
<b>Net cash inflow/(outflow) from investing activities</b>		193,693	(3,828,732)
<b>Financing activities</b>			
	22(d)		
Proceeds from the issuance of other debt securities		–	3,894,179
Redemption of other debt securities		–	(781,945)
Interest paid for the other debt securities		(113,877)	(75,533)
Redemption from short-term borrowing		(36,910)	–
Interest paid for short-term borrowing		(2,185)	–
Proceeds from long-term borrowing		193,128	–
Payment of lease liabilities		(12,252)	–
<b>Net cash inflow from financing activities</b>		27,904	3,036,701
<b>Decrease in cash and cash equivalents</b>		(868,526)	(2,889,742)
<b>Cash and cash equivalents at 1 January</b>		4,512,899	5,822,341
<b>Cash and cash equivalents at 30 June</b>	22(b)	3,644,373	2,932,599

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**(1) BASIS OF CONSOLIDATION**

The interim financial report covers the consolidated positions of the Company and its subsidiaries.

For regulatory reporting purposes, the Company is required to compute its capital adequacy ratios and leverage ratio on an unconsolidated basis that is different from the basis of consolidation for accounting purposes. The basis is illustrated in the Note 3(a) of the Regulatory Disclosure Statements.

**(2) BASIS OF PREPARATION**

**(a) Accounting policies**

These consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim financial report was authorised for issuance on 27 September 2019.

The accounting policies applied in preparing the consolidated financial report are the same as those applied in preparing the financial statements for the year ended 31 December 2018 as disclosed in the Group’s Directors’ Report and Consolidated Financial Statements for the year ended 31 December 2018, which were prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), except for the accounting policy changes that are expected to be reflected in 2019 annual financial statements. Details of any changes in accounting policies are set out in note (2)(b).

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(2) BASIS OF PREPARATION (CONTINUED)**

**(b) New and amended standards and interpretations**

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

*HKFRS 16, Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(2) BASIS OF PREPARATION (CONTINUED)**

**(b) New and amended standards and interpretations (continued)**

**(I) Changes in the accounting policies**

**(i) *New definition of a lease***

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

**(ii) *Lessee accounting***

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalized leases are primarily in relation to property, plant and equipment.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(2) BASIS OF PREPARATION (CONTINUED)**

**(b) New and amended standards and interpretations (continued)**

**(i) Changes in the accounting policies (continued)**

**(ii) Lessee accounting (continued)**

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred. The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value;
- right-of-use assets related to leasehold land and buildings where the group is the registered owner of the leasehold interest are carried at fair value; and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(2) BASIS OF PREPARATION (CONTINUED)**

**(b) New and amended standards and interpretations (continued)**

**(I) Changes in the accounting policies (continued)**

**(iii) *Determining the lease term***

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

**(II) Transitional impact**

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.12%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

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**(2) BASIS OF PREPARATION (CONTINUED)**

**(b) New and amended standards and interpretations (continued)**

**(II) Transitional impact (continued)**

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018	66,617
Less: total future interest expenses	<u>(2,773)</u>
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	<u><u>63,844</u></u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

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**(2) BASIS OF PREPARATION (CONTINUED)**

**(b) New and amended standards and interpretations (continued)**

**(II) Transitional impact (continued)**

The Group presents right-of-use assets that do not meet the definition of investment property in 'other assets' and presents lease liabilities in 'other liabilities' in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position.

	Carrying amount at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
<b>Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:</b>			
Other assets	256,907	63,844	320,751
<b>Total assets</b>	<b>28,590,459</b>	<b>63,844</b>	<b>28,654,303</b>
Other liabilities	397,208	63,844	461,052
<b>Total liabilities</b>	<b>24,107,517</b>	<b>63,844</b>	<b>24,171,361</b>
<b>Net assets</b>	<b>4,482,942</b>	–	<b>4,482,942</b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(2) BASIS OF PREPARATION (CONTINUED)**

**(b) New and amended standards and interpretations (continued)**

**(III) Lease liabilities**

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	24,740	26,981	22,001	23,512
After 1 year but within 2 years	25,596	26,981	22,527	23,512
After 2 years but within 5 years	17,416	18,679	19,316	19,593
After 5 years	1,791	1,821	–	–
	<u>44,803</u>	<u>47,481</u>	<u>41,843</u>	<u>43,105</u>
	<u>69,543</u>	<u>74,462</u>	<u>63,844</u>	<u>66,617</u>
Less: total future interest expenses		<u>(4,919)</u>		<u>(2,773)</u>
Present value of lease liabilities (note 20)		<u>69,543</u>		<u>63,844</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(2) BASIS OF PREPARATION (CONTINUED)**

**(c) Critical accounting estimates**

The preparation of interim financial report requires management to exercise judgements, use estimates and make assumptions that affect the application of policies and reported amounts in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. In preparing this consolidated financial statements, critical accounting estimates and assumptions used that are significant to the interim financial statements, and areas involving a higher degree of judgement and complexity were the same as those disclosed in the consolidated financial statements for the year ended 31 December 2018.

**(3) CONSOLIDATED INTERIM FINANCIAL REPORT AND STATUTORY FINANCIAL STATEMENTS**

The financial information relating to the year ended 31 December 2018 that is included in the consolidated interim financial report as comparative information does not constitute the Group's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is stated below:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Group's auditor's report was made on those financial statements which was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

**(4) STATEMENT OF COMPLIANCE**

In preparing the unaudited interim financial report and the Regulatory Disclosure Statements for the first half of 2019, the Company has fully complied with the disclosure requirements stipulated in the Banking (Disclosure) Rules.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(5) NET INTEREST INCOME**

Interest income calculated using the effective interest method amounted to HK\$641,020,000 (first half of 2018: HK\$530,210,000).

Interest expense recognised on financial liabilities that was not measured at fair value through profit or loss amounted to HK\$359,433,000 (first half of 2018: HK\$300,161,000).

The interest income accrued on impaired financial assets and on unwinding of discount on loan impairment allowances is immaterial for the six months ended 30 June 2019 and 2018.

**(6) NET FEE AND COMMISSION INCOME**

	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
Fee and commission income		
– Credit facilities	10,413	14,719
– Trade services	955	417
– IPO sponsorship	–	500
– Corporate advisory	80,141	52,669
– Asset management	5,902	6,132
– Brokerage	19	283
– Others	1,055	3,106
	<u>98,485</u>	<u>77,826</u>
Fee and commission expense	<u>(9,357)</u>	<u>(6,988)</u>
Net fee and commission income	<u><u>89,128</u></u>	<u><u>70,838</u></u>

Fee and commission income of HK\$86,081,000 (first half of 2018: HK\$15,876,000) and fee and commission expense of HK\$8,241,000 (first half of 2018: HK\$6,621,000) for the six months ended 30 June 2019 arose from financial assets and financial liabilities that were not measured at fair value through profit or loss.

Net fee and commission income arose from trust or other fiduciary activities in which the Group held or invested on behalf of its customers for the six months ended 30 June 2019 was HK\$5,902,000 (first half of 2018: HK\$6,132,000).

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(7) NET (LOSS)/INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**

	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
Foreign exchange	(2,288)	24,116
Interest rate and others	(4,118)	(451)
	<u>(6,406)</u>	<u>23,665</u>

The foreign exchange loss in 2019 included the translation loss of HK\$4 million (2018: loss of HK\$7 million) on those Renminbi (“RMB”) assets funded by the Company’s capital denominated in RMB (which was recorded on these financial statements at historical exchange rate) due to the depreciation of RMB against HKD in 2019. Excluding this translation loss, foreign exchange trading gain from normal activities was HK\$2 million (2018: HK\$31 million).

**(8) OPERATING EXPENSES**

	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
Staff costs		
– Salaries and other benefits	89,285	62,700
– Pension and provident funds	3,619	2,682
	<u>92,904</u>	<u>65,382</u>
Premises and equipment expenses excluding depreciation		
– Rental of premises	620	10,630
– Maintenance and office facility expenses	2,051	1,656
– Others	606	742
	<u>3,277</u>	<u>13,028</u>
Auditors’ remuneration	489	420
Depreciation of property and equipment	3,587	3,400
Amortisation of right-of-use assets	12,789	–
Amortisation of intangible assets	1,545	1,702
Legal and professional fees	1,622	1,556
IT and systems expenses	4,402	4,266
Data subscription fees	2,447	2,020
Advertising	29	4,009
Other operating expenses	8,299	6,358
	<u>35,209</u>	<u>23,731</u>
	<u>131,390</u>	<u>102,141</u>

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**(9) ALLOWANCES FOR CREDIT AND OTHER LOSSES**

	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
Cash and balances with banks and central banks	(119)	(2)
Placements with and advances to banks	(54)	(453)
Loans and advances to customers	50,187	66,134
Investment securities	6,246	16,459
Off-balance sheet credit exposures	(1,079)	(2,946)
	<u>55,181</u>	<u>79,192</u>

The table below shows the movements in impairment allowances during the period for the Group.

	Notes	Balance at 1 January HK\$'000	Charge/ (Write-back) to profit or loss HK\$'000	Recoveries HK\$'000	Write-off HK\$'000	Exchange and other movements HK\$'000	Balance at 30 June HK\$'000
<b>2019</b>							
<b>Stage 3 ECL</b>							
Loans and advances to customers	14(a)	146,455	(1,784)	1,226	(108,918)	164	37,143
Other assets	17	412	–	–	–	(1)	411
<b>Total stage 3 ECL</b>		<u>146,867</u>	<u>(1,784)</u>	<u>1,226</u>	<u>(108,918)</u>	<u>163</u>	<u>37,554</u>
<b>Stage 1&amp;2 ECL</b>							
Cash and balances from banks and central bank	12	207	(119)	–	–	–	88
Placements with and advances to banks	13	474	(54)	–	–	–	420
Loans and advances to customers	14(a)	144,473	51,971	–	–	–	196,444
Investment securities measured at amortised cost	15	30,514	(106)	–	–	–	30,408
Off-balance sheet exposures	20	3,007	(1,079)	–	–	–	1,928
<b>Total stage 1&amp;2 ECL</b>		<u>178,675</u>	<u>50,613</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>229,288</u>
<b>Total allowances for credit and other losses</b>		<u>325,542</u>	<u>48,829</u>	<u>1,226</u>	<u>(108,918)</u>	<u>163</u>	<u>266,842</u>

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**(10) TAXATION**

Taxation in the consolidated statement of comprehensive income is illustrated below:

	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
<b>Current tax</b>		
Hong Kong profits tax		
Provision for the period	41,063	27,075
Taxation outside Hong Kong		
Provision for the period	5,129	5,057
	<u>46,192</u>	<u>32,132</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(9,838)</u>	<u>(6,150)</u>
	<u>36,354</u>	<u>25,982</u>

The provision for Hong Kong profits tax was calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the countries in which the Group operates.

**(11) OTHER COMPREHENSIVE INCOME**

**Components of other comprehensive income**

	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
<b>Financial assets at fair value through other comprehensive income:</b>		
Changes in fair value recognised during the period	197,201	(132,745)
Reclassification adjustments for amounts transferred to profit or loss upon disposal	11,972	953
Net deferred tax (debited)/credited to revaluation reserve	<u>(31,894)</u>	<u>19,530</u>
Net movement in revaluation reserve during the period recognised in other comprehensive income	<u>177,279</u>	<u>(112,262)</u>

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**(12) CASH AND BALANCES WITH BANKS AND CENTRAL BANK**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Balances with banks	639,134	1,370,609
Balances with central bank	13,082	24,435
	<u>652,216</u>	<u>1,395,044</u>
Allowance for credit and other losses (note 9)	(88)	(207)
Net cash and balances with banks and central bank	<u><u>652,128</u></u>	<u><u>1,394,837</u></u>

**(13) PLACEMENTS WITH AND ADVANCES TO BANKS**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Gross placements with and advances to banks		
– maturing within one month	1,627,069	2,592,888
– maturing between one and twelve months	346,579	–
	<u>1,973,648</u>	<u>2,592,888</u>
Allowance for credit and other losses (note 9)	(420)	(474)
Net placements with and advances to banks	<u><u>1,973,228</u></u>	<u><u>2,592,414</u></u>

There were no overdue, impaired or rescheduled placements with and advances to banks for the periods indicated.

**(14) LOANS AND ADVANCES TO CUSTOMERS**

**(a) Loans and advances to customers**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Gross loans and advances to customers	15,120,914	15,121,048
Less: Allowance for credit and other losses (note 9)		
– Stage 1 & 2 ECL	(196,444)	(144,473)
– Stage 3 ECL	(37,143)	(146,455)
	<u><u>14,887,327</u></u>	<u><u>14,830,120</u></u>

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**(14) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**(b) Gross loans and advances to customers by industry sector**

	30 Jun 2019		31 Dec 2018	
	HK\$'000	% of gross advances covered by collaterals	HK\$'000	% of gross advances covered by collaterals
<b>Gross loans and advances to customers for use in Hong Kong</b>				
Industrial, commercial and financial sectors				
– property development	190,503	–	214,806	–
– property investment	66,160	100.0	892,120	100.0
– financial concerns	2,875,101	68.2	3,476,587	56.7
– wholesale and retail trade	–	–	7,399	52.7
– manufacturing	47,298	–	–	–
– transport and transport equipment	55,818	–	55,985	–
– information technology	–	–	544,286	27.2
– others	200,162	19.1	204,696	2.6
	<u>3,435,042</u>	60.2	<u>5,395,879</u>	56.0
<b>Individuals</b>	<u>70,614</u>	–	<u>70,660</u>	–
<b>Total gross loans and advances for use in Hong Kong</b>	<u>3,505,656</u>	58.9	<u>5,466,539</u>	55.2
<b>Trade finance</b>	747	100.0	2,169	–
<b>Gross loans and advances for use outside Hong Kong</b>	<u>11,614,511</u>	32.6	<u>9,652,340</u>	23.1
<b>Gross loans and advances to customers</b>	<u><u>15,120,914</u></u>	38.7	<u><u>15,121,048</u></u>	34.7

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**(14) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**(c) Segmental analysis of loans and advances to customers by geographical area**

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

	Gross loans and advances to customers HK\$'000	Stage 3 impaired loans and advances HK\$'000	Overdue loans and advances HK\$'000	Stage 3 ECL HK\$'000	Stage 1&2 ECL HK\$'000
At 30 June 2019					
– Hong Kong	3,166,438	–	–	–	(32,730)
– Mainland China	11,531,763	117,099	117,099	(37,143)	(157,475)
– Others	422,713	–	–	–	(6,239)
	<u>15,120,914</u>	<u>117,099</u>	<u>117,099</u>	<u>(37,143)</u>	<u>(196,444)</u>
At 31 December 2018					
– Hong Kong	3,498,046	31,320	31,320	(31,320)	(35,725)
– Mainland China	11,390,914	194,771	194,771	(115,135)	(103,994)
– Others	232,088	–	–	–	(4,754)
	<u>15,121,048</u>	<u>226,091</u>	<u>226,091</u>	<u>(146,455)</u>	<u>(144,473)</u>

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**(14) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**(d) Overdue loans and advances to customers**

The overdue loans and advances of the Company are analysed as follows:

	As at 30 June 2019		As at 31 December 2018	
	HK\$'000	% of gross loans and advances to customers	HK\$'000	% of gross loans and advances to customers
Six months or less but over three months	–	–	117,450	0.77
One year or less but over six months	117,099	0.77	–	–
Over one year	–	–	108,641	0.72
	<u>117,099</u>	<u>0.77</u>	<u>226,091</u>	<u>1.49</u>
Allowance for credit and other losses made in respect of the above overdue loans and advances	<u>37,143</u>		<u>146,455</u>	
Current market value of collateral held against the covered portion of the above overdue loans and advances	<u>846</u>		<u>848</u>	
Covered portion of the above overdue loans and advances	<u>846</u>		<u>848</u>	
Uncovered portion of the above overdue loans and advances	<u>116,253</u>		<u>225,243</u>	

**(e) Rescheduled loans and advances**

There were no rescheduled loans and advances as at 30 June 2019 and 31 December 2018.

**(f) Repossessed assets**

There were no repossessed assets as at 30 June 2019 and 31 December 2018.



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**(14) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**(g) Overdue other assets**

The overdue other assets of the Company are analysed as follows:

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Six months or less but over three months	–	412
One year or less but over six months	411	–
	<u>411</u>	<u>412</u>

**(15) INVESTMENT SECURITIES**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Investment securities measured at amortised cost	3,665,225	3,900,069
Investment securities at fair value through other comprehensive income	<u>6,101,727</u>	<u>5,248,449</u>
	9,766,952	9,148,518
Allowance for credit and other losses (note 9)	<u>(30,408)</u>	<u>(30,514)</u>
	<u>9,736,544</u>	<u>9,118,004</u>

As at 30 June 2019 and 31 December 2018, there were no investment securities individually determined to be impaired.

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**(16) PROPERTY AND EQUIPMENT**

Details of movement of property and equipment are as follows:

	Leasehold improvements HK\$'000	Furniture, computer and other equipments HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost:</b>				
At 1 January 2018	21,499	20,295	1,007	42,801
Additions	300	1,927	1,169	3,396
Exchange adjustments	–	(15)	(3)	(18)
At 31 December 2018	<u>21,799</u>	<u>22,207</u>	<u>2,173</u>	<u>46,179</u>
At 1 January 2019	21,799	22,207	2,173	46,179
Additions	190	1,253	763	2,206
Exchange adjustments	–	(36)	(15)	(51)
At 30 June 2019	<u>21,989</u>	<u>23,424</u>	<u>2,921</u>	<u>48,334</u>
<b>Accumulated depreciation:</b>				
At 1 January 2018	(7,322)	(14,303)	(1,007)	(22,632)
Charge for the year	(3,759)	(3,250)	(120)	(7,129)
Exchange adjustments	–	18	1	19
At 31 December 2018	<u>(11,081)</u>	<u>(17,535)</u>	<u>(1,126)</u>	<u>(29,742)</u>
At 1 January 2019	(11,081)	(17,535)	(1,126)	(29,742)
Charge for the period	(1,889)	(1,524)	(174)	(3,587)
Exchange adjustments	–	5	1	6
At 30 June 2019	<u>(12,970)</u>	<u>(19,054)</u>	<u>(1,299)</u>	<u>(33,323)</u>
<b>Net book value:</b>				
At 30 June 2019	<u>9,019</u>	<u>4,370</u>	<u>1,622</u>	<u>15,011</u>
At 31 December 2018	<u>10,718</u>	<u>4,672</u>	<u>1,047</u>	<u>16,437</u>

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**(17) OTHER ASSETS**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Interest receivables (Note a)	200,553	188,107
Collaterals placed (Note b)	16,004	16,130
Fees receivable	12,536	12,186
Customer liability under acceptances	13,556	6,207
Prepaid expenses	18,313	6,986
Accounts receivable	12,450	18,942
Trade date receivable	38,517	–
Right-of-use assets	69,007	–
Others	7,885	8,349
	<u>388,821</u>	<u>256,907</u>

Note a: Included Stage 3 ECL of \$411,000 (2018: \$412,000).

Note b: Mainly relates to cash collaterals placed in respect of derivative financial liabilities.

**(18) DEPOSITS FROM CUSTOMERS**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Deposits from customers		
– time, call and notice deposits	<u>10,347,469</u>	<u>9,503,353</u>

**(19) CERTIFICATES OF DEPOSIT AND OTHER DEBT SECURITIES ISSUED**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Certificates of deposits issued at amortised costs	3,104,200	5,227,536
Other debt securities issued at amortised costs (note 22(d))	<u>3,891,721</u>	<u>3,898,728</u>
	<u>6,995,921</u>	<u>9,126,264</u>

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**(20) OTHER LIABILITIES**

	30 Jun 2019 HK\$'000	31 Dec 2018 HK\$'000
Interest payable	95,643	176,972
Acceptance outstanding	13,556	6,207
Account payable	9,024	9,149
Accrued expenses	2,191	3,236
Provision for short term employee benefits	73,837	69,486
Collateral received	12,456	8,949
Short-term borrowing (note 22(d))	65,213	102,123
Long-term borrowings (note 22(d))	193,128	–
Trade date payable	86,267	–
Lease liabilities (note 22(d))	69,543	–
Others (note a)	38,371	21,086
	<u>659,229</u>	<u>397,208</u>

Note a: Included allowance for credit and other losses of HK\$1,928,000 (2018: \$3,007,000).

**(21) DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are presented in net when there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at 30 June 2019, no derivative financial instruments have fulfilled the above criteria, therefore no derivative financial instruments were offset on the consolidated statement of financial position (2018: Nil).

**Derivatives – held for trading**

	<u>At 30 Jun 2019</u>				<u>At 31 Dec 2018</u>			
	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000	Credit risk- weighted amounts HK\$'000	Notional amount HK\$'000	Derivative financial assets HK\$'000	Derivative financial liabilities HK\$'000	Credit risk- weighted amounts HK\$'000
Exchange rate contracts								
– Spot and forward	7,266,167	14,801	24,000	25,196	9,141,672	17,096	42,620	26,022
Interest rate contracts								
– Swap	1,197,035	8,204	1,572	12,119	1,200,720	15,691	5,810	12,127
	<u>8,463,202</u>	<u>23,005</u>	<u>25,572</u>	<u>37,315</u>	<u>10,342,392</u>	<u>32,787</u>	<u>48,430</u>	<u>38,149</u>

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**(22) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS**

**(a) Reconciliation of profit before taxation to net cash inflow/(outflow) from the operating activities**

	Notes	6 months ended 30 Jun 2019 HK\$'000	6 months ended 30 Jun 2018 HK\$'000
Profit before taxation		205,332	145,814
Adjustments for:			
Interest income		(656,339)	(530,210)
Interest expense		359,751	300,161
Depreciation of property and equipment	8	3,587	3,400
Amortisation of right-of-use assets	8	12,789	–
Amortisation of intangible assets	8	1,545	1,702
Written off of loans and advances net of recoveries		(107,692)	–
Impairment charges	9	55,181	79,192
Net (income)/loss from investment securities		(11,971)	953
Interest received		424,022	404,557
Interest paid		(288,451)	(182,431)
<b>Operating (loss)/profit before changes in working capital</b>		<b>(2,246)</b>	<b>223,138</b>
Changes in financial assets at fair value through profit or loss		(272,491)	(4,702)
Change in balances and placements with banks and advances to banks with original maturity beyond three months	4		1,668,040
Change in gross loans and advances to customers		7,454	(303,154)
Change in other assets		(4,593)	(212,070)
Change in deposits from banks		352,160	(1,143,085)
Change in deposits from customers		844,117	(4,506,590)
Change in certificates of deposit issued		(2,174,467)	1,933,405
Change in trading liabilities		114,031	–
Change in other liabilities		24,171	253,562
Elimination of exchange differences and other non-cash items		44,110	(4,504)
<b>Cash used in operating activities</b>		<b>(1,067,750)</b>	<b>(2,095,960)</b>
Hong Kong profits tax paid		(12,108)	–
Tax paid outside Hong Kong		(10,265)	(1,751)
<b>Net cash outflow from operating activities</b>		<b>(1,090,123)</b>	<b>(2,097,711)</b>

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**(22) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

**(b) Cash and cash equivalents in the consolidated statement of cash flows**

	30 Jun 2019 HK\$'000	30 Jun 2018 HK\$'000
Gross cash and balances with banks and central bank (Note 12)	652,216	353,490
Less: Balances with banks for segregated accounts	(4,001)	–
Gross placements with banks with original maturity within three months (Note 13)	1,973,648	1,358,533
Financial assets at fair value through profit or loss with original maturity within three months	54,607	–
Investment securities with original maturity within three months	967,903	1,220,576
	<u>3,644,373</u>	<u>2,932,599</u>

**(c) Reconciliation with the consolidated statement of financial position**

	30 Jun 2019 HK\$'000	30 Jun 2018 HK\$'000
Cash and balances with banks and central bank (Note 12)	652,216	353,490
Gross placements with and advances to banks (Note 13)	1,973,648	1,358,533
Financial assets at fair value through profit or loss	660,281	–
Investment securities (Note 15)	9,766,952	7,984,167
Amounts shown in the consolidated statement of financial position	<u>13,053,097</u>	<u>9,696,190</u>
Less: Balances, gross placements with and advances to banks and investment securities with an original maturity beyond three months	(9,404,723)	(6,763,591)
Less: Balances with banks for segregated accounts	(4,001)	–
	<u>3,644,373</u>	<u>2,932,599</u>

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**(22) NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

**(d) Reconciliation of liabilities arising from financing activities:**

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Other debt securities issued (Note 19) HK\$'000	Short-term borrowings (Note 20) HK\$'000	Long-term borrowings (Note 20) HK\$'000	Related interest payables HK\$'000	Total HK\$'000
At 1 January 2018	781,540	–	–	11,961	793,501
<b>Changes from financing cash flow:</b>					
Redemption from the issuance of other debt securities	(781,945)	–	–	–	(781,945)
Proceeds from short-term borrowings	–	102,123	–	–	102,123
Proceeds from the issuance of other debt securities	3,894,179	–	–	–	3,894,179
Interest paid	–	–	–	(85,193)	(85,193)
<b>Total changes from financing cash flow</b>	<b>3,112,234</b>	<b>102,123</b>	<b>–</b>	<b>(85,193)</b>	<b>3,129,164</b>
Interest expense	5,324	–	–	123,260	128,584
Exchange difference	(370)	–	–	(1,796)	(2,166)
<b>Total other changes</b>	<b>4,954</b>	<b>–</b>	<b>–</b>	<b>121,464</b>	<b>126,418</b>
At 31 December 2018 and 1 January 2019	3,898,728	102,123	–	48,232	4,049,083
<b>Changes from financing cash flow:</b>					
Redemption from short-term borrowings	–	(36,910)	–	–	(36,910)
Proceeds from long-term borrowings	–	–	193,128	–	193,128
Interest paid	–	–	–	(116,062)	(116,062)
<b>Total changes from financing cash flow</b>	<b>–</b>	<b>(36,910)</b>	<b>193,128</b>	<b>(116,062)</b>	<b>40,156</b>
Interest expense	4,620	–	–	65,562	70,182
Exchange difference	(11,627)	–	–	4,932	(6,695)
<b>Total other changes</b>	<b>(7,007)</b>	<b>–</b>	<b>–</b>	<b>70,494</b>	<b>63,487</b>
At 30 June 2019	3,891,721	65,213	193,128	2,664	4,152,726

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(23) SHARE CAPITAL**

	30 June 2019		31 December 2018	
	No. of shares		No. of shares	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Ordinary shares, issued and fully paid:</b>				
At 30 June 2019 and 31 December 2018	<u>360,439</u>	<u>4,000,000</u>	<u>360,439</u>	<u>4,000,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

**(24) CONTINGENT LIABILITIES AND COMMITMENTS**

	30 Jun 2019	31 Dec 2018
	HK\$'000	HK\$'000
Contract amounts		
- Direct credit substitutes	47,714	90,942
- Trade-related contingencies	435	12,477
- Transaction-related contingencies	10,860	10,860
- Other commitments:		
- which are unconditionally cancellable	1,253,195	1,775,644
- with an original maturity under one year	76,455	-
- with an original maturity over one year	78,066	74,978
	<u>1,466,725</u>	<u>1,964,901</u>
Credit risk weighted amount	<u>54,383</u>	<u>39,391</u>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(25) FAIR VALUE OF FINANCIAL INSTRUMENT**

**(a) Financial assets and liabilities measured at fair value**

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: fair value measured using quoted market prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: fair value measured using valuation techniques based on observable inputs, either directly or indirectly. This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: fair value measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value and the discount rate used is a discount rate at the end of reporting period applicable for an instrument with similar terms and conditions.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(25) FAIR VALUE OF FINANCIAL INSTRUMENT (CONTINUED)**

**(a) Financial assets and liabilities measured at fair value (continued)**

The table below analyses financial instruments, measured at fair value as at 30 June 2019 and 31 December 2018, by the level in the fair value hierarchy into which the fair value treatment is categorised.

**At 30 June 2019**

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss	54,961	53,904	551,416	660,281
Derivative financial assets (note 21)	–	23,005	–	23,005
Investment securities at fair value through other comprehensive income (note 15)	<u>284,453</u>	<u>5,817,274</u>	<u>–</u>	<u>6,101,727</u>
<b>Liabilities</b>				
Trading liabilities	8,585	–	113,605	122,190
Derivative financial liabilities (note 21)	<u>–</u>	<u>25,572</u>	<u>–</u>	<u>25,572</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(25) FAIR VALUE OF FINANCIAL INSTRUMENT (CONTINUED)**

**(a) Financial assets and liabilities measured at fair value (continued)**

**At 31 December 2018**

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Recurring fair value measurements</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss	19,192	–	267,832	287,024
Derivative financial assets (note 21)	–	32,787	–	32,787
Investment securities at fair value through other comprehensive income (note 15)	832,923	4,415,526	–	5,248,449
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities</b>				
Trading liabilities	8,159	–	–	8,159
Derivative financial liabilities (note 21)	–	48,430	–	48,430
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

During the six months ended 30 June 2019 and the year of 2018, there were no transfers of financial instruments between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of the debt securities in Level 2 is determined using broker quotes as at the end of the reporting period.

*Valuation of financial instruments with significant unobservable inputs*

The fair value of fair value through other comprehensive income/investment securities and trading liabilities in Level 3 is determined using significant inputs from the most recent transactions. As at 30 June 2019, it is estimated that with all other variable held constant, an increase/decrease in the price of same products by 5% would have increased/decreased the Group's equity by \$16.5 million (2018: \$4.9 million).

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(25) FAIR VALUE OF FINANCIAL INSTRUMENT (CONTINUED)**

**(a) Financial assets and liabilities measured at fair value (continued)**

The movement during the period in the balance of these Level 3 fair value measurements are as follows:

	Assets			Liabilities	
	Wealth management products from banks HK\$'000	Convertible bonds HK\$'000	Unlisted issued notes and put option HK\$'000	Unlisted equity investments HK\$'000	Unlisted issued notes payable HK\$'000
At 1 January 2019	–	239,075	22,769	5,988	–
Payment for purchases	62,483	658,909	–	19,449	–
Issued during the period	–	–	–	–	(113,605)
Disposal/redemption for the products	(53,394)	(403,298)	–	–	–
Other changes	–	(504)	(48)	(13)	–
At 30 June 2019	<u>9,089</u>	<u>494,182</u>	<u>22,721</u>	<u>25,424</u>	<u>(113,605)</u>
Total gains or losses for the period reclassified from other comprehensive income on disposal	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period:					
– Other operating income	239	–	–	–	–
– Interest income	–	13,047	760	–	–
– Interest expense	–	–	–	–	(318)

**(b) Financial assets and liabilities not measured at fair value**

Financial assets and liabilities that were presented not at their fair value on the consolidated statement of financial position mainly represented cash and balances with banks and central bank, placements with and advances to banks, loans and advances to customers and investment securities at amortised costs. These financial assets were measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the consolidated statement of financial position mainly included deposits from banks, deposits from customers and certificates of deposit issued. These financial liabilities were measured at amortised cost.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(25) FAIR VALUE OF FINANCIAL INSTRUMENT (CONTINUED)**

**(b) Financial assets and liabilities not measured at fair value (continued)**

The Group assessed that the differences between fair values and carrying amounts of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values are minimal as most of the Group's financial assets and liabilities are either short-term or priced at floating rates, except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts at 30 June 2019 HK\$'000	Fair value at 30 June 2019 HK\$'000	Fair value measurements as at 30 June 2019 categorised into		
			Level 1	Level 2	Level 3
			HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>					
Investments securities at amortised cost (Note 15)	3,665,225	3,597,912	698,579	2,899,333	–

	Carrying amounts at 31 December 2018 HK\$'000	Fair value at 31 December 2018 HK\$'000	Fair value measurements as at 31 December 2018 categorised into		
			Level 1	Level 2	Level 3
			HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>					
Investments securities at amortised cost (Note 15)	3,900,069	3,678,159	–	3,678,159	–

**(26) MATERIAL RELATED PARTY TRANSACTIONS**

There were no changes in the related party transactions described in the Group's Directors' Report and Consolidated Financial Statements for the year ended 31 December 2018 that have had a material impact on the financial position or performance of the Group in the first half of 2019.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)**

**(27) IMMEDIATE AND ULTIMATE HOLDING COMPANY**

As at 30 June 2019, the Company's immediate and ultimate holding company was Bank of Shanghai Co., Ltd., which is incorporated in the People's Republic of China. Bank of Shanghai Co., Ltd. produces financial statements available for public access.



**Review report to the board of directors of  
Bank of Shanghai (Hong Kong) Limited and its subsidiaries**  
*(Incorporated in Hong Kong with limited liability)*

**Introduction**

We have reviewed the interim financial report set out on pages 2 to 36, which comprises the consolidated statement of financial position of Bank of Shanghai (Hong Kong) Limited and its subsidiaries (the “Group”) as of 30 June 2019 and the related consolidated statement of comprehensive income and consolidated statement of changes in equity and consolidated statement of cash flows for the six month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

27 September 2019