



BCOM Finance (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

Report of the directors and Financial Statements
for the year ended 31 December 2023

Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2023.

Principal activities

BCOM Finance (Hong Kong) Limited ("the Company") is a deposit-taking company authorised under the Hong Kong Banking Ordinance. The Company is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The principal activities of the Company are fund management, deposit-taking and the provision of related financial services in Hong Kong.

Results and appropriations

The financial performance of the Company for the year ended 31 December 2023 and the financial position of the Company as at that date are set out in the financial statements on pages 7 to 29.

Dividend

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2023 (2022: Nil).

Business review

No business review is presented for the year ended 31 December 2023 as the Company has been able to claim an exemption under section 388(3)(b) of the Companies Ordinance (Cap. 622) since it is a wholly owned subsidiary of Bank of Communications Co., Ltd. (incorporated in the People's Republic of China with limited liability).

Charitable donations

There are no charitable and other donations made by the Company during the years ended 31 December 2023 and 2022.

Share capital

Details of the Company's share capital are set out in note 13 to the financial statements. There was no movement in share capital during the year.

Directors

The directors during the year and up to date of this report were:

Fan Chaorong
Kwan Shui Cheung
Tang Kwai Chang

In accordance with the Company's Articles of Association, all directors shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business

No transactions, arrangements and contracts of significance in relation to the Company's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in the shares, underlying shares and debentures of the Company or any specified undertaking of the Company

At no time during the year was the Company, its fellow subsidiaries or its parent company a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to hold any interests in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associates corporation.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Disclosure requirements

The Company is exempted from the application of the Banking (Disclosure) Rules under the Banking Ordinance.

Indemnity of directors

During the year ended 31 December 2023 and up to the date of this report, a permitted indemnity provision for the benefit of the Directors of the Company is in force.

Auditors

The financial statements for the year ended 31 December 2023 of the Company have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



Fan Chaorong, Director

18 April 2024



Independent auditor's report to the members of BCOM Finance (Hong Kong) Limited *(incorporated in Hong Kong with limited liability)*

Opinion

We have audited the financial statements of BCOM Finance (Hong Kong) Limited ("the company") set out on pages 7 to 29, which comprise the statement of financial position as at 31 December 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Independent auditor's report to the members of BCOM Finance (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



**Independent auditor's report to the members of
BCOM Finance (Hong Kong) Limited (continued)**
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 April 2024

Statement of profit or loss and other comprehensive income for the year ended 31 December 2023

(Expressed in Hong Kong dollars)

	Notes	2023 HK\$	2022 HK\$
Management fee income	15	7,959,613	7,962,201
Interest income	5	781,189	162,117
Change in expected credit losses	3(b)(i)	(77,183)	8,321
Operating expenses	6	<u>(1,620,571)</u>	<u>(1,487,994)</u>
Profit before taxation		7,043,048	6,644,645
Income tax expense	7	<u>(1,158,837)</u>	<u>(1,094,993)</u>
Profit for the year		5,884,211	5,549,652
Other comprehensive income			
<u>Item that will not be reclassified subsequently to profit or loss</u>			
Equity investment at fair value through other comprehensive income - change in fair value	3(g)	319,925	(865,535)
Deferred income tax arising from the fair value change	14	<u>(52,788)</u>	<u>142,813</u>
		<u>267,137</u>	<u>(722,722)</u>
Total comprehensive income for the year		<u><u>6,151,348</u></u>	<u><u>4,826,930</u></u>

The notes on pages 12 to 29 form part of these financial statements.

Statement of financial position as at 31 December 2023

(Expressed in Hong Kong dollars)

	Notes	2023 HK\$	2022 HK\$
ASSETS			
Non-current asset			
Financial asset at fair value through other comprehensive income	9	14,862,921	14,542,996
		<u>14,862,921</u>	<u>14,542,996</u>
Current assets			
Prepayments		68,082	68,082
Amount due from the ultimate holding company	10	34,421,447	34,444,342
Amount due from a fellow subsidiary	10	1,012,699	961,373
Cash and cash equivalents	11	232,665,139	227,566,568
		<u>268,167,367</u>	<u>263,040,365</u>
Current liabilities			
Deposits from customers	12	1,009,704	1,009,704
Other payables and accruals		145,942	130,273
Current tax payable		79,845	852,723
		<u>1,235,491</u>	<u>1,992,700</u>
Net current assets		<u>266,931,876</u>	<u>261,047,665</u>
Total assets less current liabilities		<u>281,794,797</u>	<u>275,590,661</u>

Statement of financial position as at 31 December 2023 (continued)

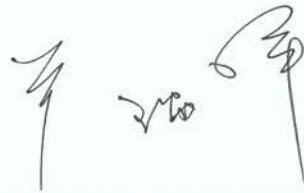
(Expressed in Hong Kong dollars)

	Notes	2023 HK\$	2022 HK\$
Non-current liability			
Deferred tax liabilities	14	637,383	584,595
		<u>637,383</u>	<u>584,595</u>
EQUITY			
Share capital	13	90,000,000	90,000,000
General reserve		82,000,000	82,000,000
Investments revaluation reserve		3,225,538	2,958,401
Retained earnings		105,931,876	100,047,665
TOTAL EQUITY		<u>281,157,414</u>	<u>275,006,066</u>
		<u>281,794,797</u>	<u>275,590,661</u>

Approved and authorised for issue by the board of directors on 18 April 2024



Fan Chaorong, Director



Kwan Shui Cheung, Director

The notes on pages 12 to 29 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2023 (Expressed in Hong Kong dollars)

	Notes	Share capital HK\$	General reserve HK\$ (Note)	Investments revaluation reserve HK\$	Retained earnings HK\$	Total HK\$
At 1 January 2022		90,000,000	82,000,000	3,681,123	94,498,013	270,179,136
Profit for the year		-	-	-	5,549,652	5,549,652
<i>Other comprehensive income</i>						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	14	-	-	(722,722)	-	(722,722)
Total comprehensive (loss)/income		-	-	(722,722)	5,549,652	4,826,930
At 31 December 2022 and 1 January 2023		90,000,000	82,000,000	2,958,401	100,047,665	275,006,066
Profit for the year		-	-	-	5,884,211	5,884,211
<i>Other comprehensive income</i>						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	14	-	-	267,137	-	267,137
Total comprehensive income		-	-	267,137	5,884,211	6,151,348
At 31 December 2023		90,000,000	82,000,000	3,225,538	105,931,876	281,157,414

Note: The general reserve has been set up by the directors in accordance with Article 92 of the Company's Articles of Association and the amount is distributable.

The notes on pages 12 to 29 form part of these financial statements.

Statement of cash flows for the year ended 31 December 2023

(Expressed in Hong Kong dollars)

	Notes	2023 HK\$	2022 HK\$
Cash flows from operating activities			
Profit before taxation		7,043,048	6,644,645
Adjustments for:			
Interest income	5	(781,189)	(162,117)
Change in expected credit losses	3(b)(i)	77,183	(8,321)
		<u>6,339,042</u>	<u>6,474,207</u>
Operating cash flows before movements in working capital		6,339,042	6,474,207
Decrease in amount due from a fellow subsidiary		(51,648)	(75,753)
Increase in prepayments		-	(6,188)
Increase/(decrease) in other payables and accruals		15,669	(53,668)
		<u>6,303,063</u>	<u>6,338,598</u>
Income tax paid		(1,931,715)	-
Interest income received		794,965	162,104
		<u>5,166,313</u>	<u>6,500,702</u>
Net cash inflows from operating activities		5,166,313	6,500,702
		<u>5,166,313</u>	<u>6,500,702</u>
Net increase in cash and cash equivalents		5,166,313	6,500,702
Cash and cash equivalents at beginning of year		227,566,568	221,063,989
Change in expected credit losses for cash and cash equivalents for the year		(67,742)	1,877
		<u>232,665,139</u>	<u>227,566,568</u>
Cash and cash equivalents at end of year		232,665,139	227,566,568

The notes on pages 12 to 29 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 General information

BCOM Finance (Hong Kong) Limited (“the Company”) is a private company incorporated and domiciled in Hong Kong. The address of its registered office is 1/F, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong and its principal place of business is 1/F, Wheelock House, 20 Pedder Street, Central, Hong Kong. Its immediate and ultimate holding company is Bank of Communications Co., Ltd., which is incorporated in the People’s Republic of China with limited liability.

The Company is a deposit-taking company authorised under the Hong Kong Banking Ordinance. The Company is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The principal activities of the Company are fund management, deposit-taking and the provision of related financial services in Hong Kong.

2 Material accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Company are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the financial assets at fair value through other comprehensive income, which are measured at fair value.

The financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

2 Material accounting policies (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) *Changes in accounting policies*

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period.

None of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Management fee income is recognised when investment management services are provided.

Interest income is recognised using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

2 Material accounting policies (continued)

(e) Financial instruments

Measurement methods

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, an expected credit loss (“ECL”) allowance is recognised for financial assets measured at amortized cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Company recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument’s fair value can be determined using market observable inputs, or realized through settlement.

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted cash flows using the original effective interest rate. Any changes are recognised in profit or loss.

2 Material accounting policies (continued)

Financial assets

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through OCI, and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 Material accounting policies (continued)

(f) Cash and cash equivalents

Cash and cash equivalents include demand deposits, saving deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(h) Other payables and accruals

Accrued expenses and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accrued expenses and other payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(i) Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

The Company considers whether it is probable that a taxation authority will accept an uncertain tax treatment. If the Company concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Company reflects the effect of uncertainty in determining the related taxable profit/loss, tax bases, unused tax losses, unused tax credits or tax rates. The Company reflects the effect of uncertainty for each uncertain tax treatment by using the most likely amount.

2 Material accounting policies (continued)

(j) *Offset financial assets and liabilities*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously.

(k) *Related parties*

- (a) A person, or a close member of that person's family, is related to the Company if that person:
- (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Financial risk management and fair values of financial instruments

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is integral to the business of the Company. The Company's activities expose it to a wide range of financial risks. The Company has in place controls to manage these risks to an acceptable level without stifling its business. The management continually monitors the Company's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Company's financial performance.

(a) Fair values of financial instruments

	2023 HK\$	2022 HK\$
Financial assets		
Cash and cash equivalents	232,665,139	227,566,568
Amount due from the ultimate holding company	34,421,447	34,444,342
Amount due from a fellow subsidiary	1,012,699	961,373
Financial asset at fair value through other comprehensive income	14,862,921	14,542,996
	<u>282,962,206</u>	<u>277,515,279</u>
Financial liabilities		
Deposits from customers	1,009,704	1,009,704
	<u>1,009,704</u>	<u>1,009,704</u>

(b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet commitments it has entered into with the Company. The maximum credit risk exposure of the Company representing the carrying value of the financial assets at the end of the reporting period. The Company's credit risk exposures arise from cash and cash equivalents, amounts due from the ultimate holding company and a fellow subsidiary.

3 Financial risk management and fair values of financial instruments (continued)

(i) Impairment of financial assets

The Company has two types of financial assets that are subject to HKFRS 9's expected credit loss model:

- Other financial assets; and
- Cash and cash equivalents

Other financial assets at amortised cost include amount due from the ultimate holding company and amount due from a fellow subsidiary. Cash and cash equivalents at amortised cost include demand deposits, saving deposits and short term time deposits with original maturity less than 3 months placed with Bank of Communications Co., Ltd. Hong Kong Branch, a branch of its ultimate holding company and the Bank of Communications (Hong Kong) Limited, a fellow subsidiary. The loss allowance for these financial assets at amortised cost as at 1 January 2022 reconciles to the closing loss allowance as at 31 December 2023 as follows:

	Amount due from a fellow subsidiary HK\$	Amount due from the ultimate holding company HK\$	Cash and cash equivalents HK\$	Total HK\$
Opening loss allowance as at 1 January 2022	1,072	41,735	27,806	70,613
Change in the allowance recognised in profit or loss during the year	(85)	(6,359)	(1,877)	(8,321)
Closing loss allowance as at 31 December 2022	<u>987</u>	<u>35,376</u>	<u>25,929</u>	<u>62,292</u>
	Amount due from a fellow subsidiary HK\$	Amount due from the ultimate holding company HK\$	Cash and cash equivalents HK\$	Total HK\$
Opening loss allowance as at 1 January 2023	987	35,376	25,929	62,292
Change in the allowance recognised in profit or loss during the year	322	9,119	67,742	77,183
Closing loss allowance as at 31 December 2023	<u>1,309</u>	<u>44,495</u>	<u>93,671</u>	<u>139,475</u>

3 Financial risk management and fair values of financial instruments (continued)

(c) *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest income and interest expense are exposed to changes in market interest rates.

The Company's interest rate risk is mainly related to saving deposits and short-term time deposits. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

As at 31 December 2023, if interest rate on bank deposits had been 100 (2022: 100) basis points higher/lower with other variables held constant, profit before tax would have been approximately HK\$2,229,991 (2022: HK\$ 1,622,041) higher/lower.

The Company did not have any other financial instruments which expose the Company to significant interest rate risk.

(d) *Liquidity risk*

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Company maintains a balance between continuity of funding and flexibility through maintaining sufficient cash. The maturity of the Company's financial liabilities as at the end of the reporting period, based on the contractual terms, was less than one year.

(e) *Other price risk*

The Company is exposed to other price risk as a result of changes in fair value of its investment. The directors of the Company manage the exposure by closely monitoring the net asset value of the investment.

Other price sensitivity

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 percent change (2022: 10 percent change) is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

As at 31 December 2023, if the prices of the Company's investment had been 10 percent higher/lower, the Company's investments revaluation reserve, net of tax, would increase/decrease by HK\$1,241,054 (2022: HK\$1,214,340).

3 Financial risk management and fair values of financial instruments (continued)

(f) Capital management

The Company's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of the markets where the Company operates; and
- To safeguard the Company's ability to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance.

Consistent with industry practice, the Company monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Company's policy on the management of capital during the year.

The Company has complied with all externally imposed capital requirements during 2023.

The capital structure of the Company consists of equity attributable to owners of the Company, comprising issued share capital, reserve and retained earnings.

(g) Fair value measurement

The directors consider that the carrying amounts of financial assets and financial liabilities approximate their fair values.

The table below analyses the Company's financial instruments carried at fair value as at 31 December 2023 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The valuation of financial instruments is performed for financial reporting purposes. The fair value of level 3 investment is determined by multiplying its net asset value with percentage holding. Net asset value is obtained directly from the investee. The fair value is positively correlated to the net asset value.

	<i>Level 3</i>	
	2023	2022
	HK\$	HK\$
Financial assets at fair value through other comprehensive income	14,862,921	14,542,996

3 Financial risk management and fair values of financial instruments (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3):

<i>Description</i>	<i>Fair value at 31 December 2023</i>	<i>Valuation technique(s)</i>	<i>Unobservable input(s)</i>
Financial assets at fair value through other comprehensive income	HK\$14,862,921	Net asset value ⁽¹⁾	Net asset value ⁽¹⁾

⁽¹⁾ The Company has determined that the reported net asset value represents fair value at the end of the reporting period.

The movement in financial assets at fair value through other comprehensive income is summarised as follows:

	2023 HK\$	2022 HK\$
At beginning of the year	14,542,996	15,408,531
Fair value changes	319,925	(865,535)
At end of the year	<u>14,862,921</u>	<u>14,542,996</u>

(h) Offsetting financial assets and financial liabilities

The following table presents the recognised financial instruments that are offset as at 31 December 2023 and 2022. The column 'net amount' shows the impact on the Company's statement of financial position if all set-off rights were exercised.

	<i>Effects of offsetting on the balance sheet</i>			<i>Related amounts not offset</i>		
	<i>Gross amounts</i> HK\$	<i>Gross amounts set off in the statement of financial position</i> HK\$	<i>Net amounts presented in the statement of financial position</i> HK\$	<i>Amounts subject to master netting arrangements</i> HK\$	<i>Financial instrument collateral</i> HK\$	<i>Net amount</i> HK\$
2023						
Financial assets						
Amount due from the ultimate holding company	598,826,760	(564,360,818)	34,465,942	-	-	34,465,942
Financial liabilities						
Amount due to the ultimate holding company	564,360,818	(564,360,818)	-	-	-	-
2022						
Financial assets						
Amount due from the ultimate holding company	598,840,536	(564,360,818)	34,479,718	-	-	34,479,718
Financial liabilities						
Amount due to the ultimate holding company	564,360,818	(564,360,818)	-	-	-	-

4 Accounting judgements and estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the financial statements in the periods where the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Company's reporting to differ. The Company believes that the assumptions that have been made are appropriate and that the financial statements therefore present the financial position and results fairly, in all material respects.

(a) *Income taxes*

Judgement is required in determining the provision for income taxes. There are many transactions and calculations for tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) *Impairment of financial assets*

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(c) *Fair value of financial assets at fair value through other comprehensive income*

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market.

Fair value estimates are made at a specific point in time, based on net asset value of that financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Due to the inherent uncertainty of valuations, the estimated fair value for the investment not quoted in an active market may differ significantly from the value that would have been used had an active market for the unlisted investment exists, and the difference could be material.

5 Net interest income

	2023 HK\$	2022 HK\$
Interest income		
Saving deposits placed with a fellow subsidiary (Note 15)	671,837	-
Time deposits placed with the ultimate holding company (Note 15)	109,352	162,117
	<u>781,189</u>	<u>162,117</u>
Interest income	<u>781,189</u>	<u>162,117</u>

6 Operating expenses

	2023 HK\$	2022 HK\$
License and registration fee	113,125	113,020
Directors' emoluments	420,000	400,000
Auditor's remuneration	113,790	114,170
Secretarial service fee (Note 15)	400,000	323,713
Insurance premium (Note 15)	116,717	110,529
Legal and professional fee	111,049	111,103
Others	345,890	315,459
Total operating expenses	<u>1,620,571</u>	<u>1,487,994</u>

The Company is staffed by the ultimate holding company which has agreed not to recharge related staff costs to the Company.

7 Income tax in the statement of profit or loss and other comprehensive income

(a) Taxation charged to profit or loss:

	2023 HK\$	2022 HK\$
Current tax - Hong Kong Profits Tax		
Provision for the year	1,174,838	1,094,993
Over-provision in respect of prior years	(16,001)	-
	<u>1,158,837</u>	<u>1,094,993</u>

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year. The Company is not eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong SAR Government in both years as this concession has been taken elsewhere in the group to which the Company belongs.

(b) Reconciliation between tax expense charged to profit or loss and accounting profit at applicable tax rates:

	2023 HK\$	2022 HK\$
Profit before taxation	<u>7,043,048</u>	<u>6,644,645</u>
Notional tax on profit before taxation	1,162,103	1,096,366
Tax effect of income not taxable for tax purpose	-	(1,373)
Tax effect of expense not deductible for tax purpose	12,735	-
Over provision in prior years	(16,001)	-
Income tax expense	<u>1,158,837</u>	<u>1,094,993</u>

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2023 HK\$	2022 HK\$
Directors' fees	420,000	400,000
Salaries, allowances and benefits in kind	-	-
Discretionary bonuses	-	-
Retirement scheme contributions	-	-
	<u>420,000</u>	<u>400,000</u>

9 Financial assets at fair value through other comprehensive income

	2023 HK\$	2022 HK\$
Unlisted shares in Hong Kong	<u>14,862,921</u>	<u>14,542,996</u>

Refer to Note 3(g) for the movement of financial assets at fair value through other comprehensive income.

The Company's financial assets at fair value through other comprehensive income represents a holding of 2.5% (2022: 2.5%) of the ordinary shares of China BOCOM Insurance Company Limited, a fellow subsidiary incorporated in Hong Kong, and a holding of 3.922% (2022: 3.922%) of the ordinary shares of Vpower Security Guarding Limited.

The Company has designated the equity instruments at fair value through other comprehensive income because the investments were made for strategic purpose rather than with a view to profit on a subsequent sale, and there is no plan to dispose of these investments in the short or medium term.

The fair value of these investments is HK\$14,862,921 as at 31 December 2023 (2022: HK\$14,542,996). There was no dividend recognised nor transfer of the cumulative gain within equity during the year ended 31 December 2023 and 2022.

10 Amount due from the ultimate holding company/a fellow subsidiary

	2023 HK\$	2022 HK\$
Amount due from the ultimate holding company	34,465,942	34,479,718
Less: ECL allowances	(44,495)	(35,376)
	34,421,447	34,444,342
	2023 HK\$	2022 HK\$
Amount due from a fellow subsidiary	1,014,008	962,360
Less: ECL allowances	(1,309)	(987)
	1,012,699	961,373

Refer to Note 3(b)(i) for the movement of ECL allowance for the year.

The amounts are unsecured, interest free and repayable on demand.

11 Cash and cash equivalents

	2023 HK\$	2022 HK\$
Cash and cash equivalents	232,758,810	227,592,497
Less: ECL allowances	(93,671)	(25,929)
	232,665,139	227,566,568

Refer to Note 3(b)(i) for the movement of ECL allowance for the year.

Cash and cash equivalents represents demand deposits, saving deposits and short-term time deposits with original maturity not more than 3 months placed with the Bank of Communications Co., Ltd. Hong Kong Branch, a branch of its ultimate holding company and the Bank of Communications (Hong Kong) Limited, a fellow subsidiary.

The effective interest rate on saving deposits and short-term time deposits for the year ended 31 December 2023 was 0.41% p.a. (2022: 0.10% p.a.).

12 Deposits from customers

	2023 HK\$	2022 HK\$
Repayable on demand	<u>1,009,704</u>	<u>1,009,704</u>

The effective interest rate for the year ended 31 December 2023 and 2022 was nil.

13 Share capital

	Number of ordinary shares	HK\$
Issued and fully paid:		
At 1 January 2022, 31 December 2022 and 31 December 2023	<u>900,000</u>	<u>90,000,000</u>

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

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 regard to the Company's residual assets.

14 Deferred tax liabilities

The movement in deferred tax liabilities during the year is as follows:

	<i>Revaluation reserve of financial assets at fair value through other comprehensive income</i>	
	2023 HK\$	2022 HK\$
At 1 January	584,595	727,408
Tax charged to components of other comprehensive income	<u>52,788</u>	<u>(142,813)</u>
At 31 December	<u>637,383</u>	<u>584,595</u>

Deferred taxation is calculated on temporary differences under the liability method using a principal taxation rate of 16.5% (2022: 16.5%).

14 Deferred tax liabilities (continued)

The tax charge relating to components of other comprehensive income and the movements during the year are as follows:

	<u>2023</u>			<u>2022</u>		
	<i>Before tax</i> HK\$	<i>Tax charge</i> HK\$	<i>After tax</i> HK\$	<i>Before tax</i> HK\$	<i>Tax charge</i> HK\$	<i>After tax</i> HK\$
Change in fair value of financial assets at fair value through other comprehensive income	319,925	(52,788)	267,137	(865,535)	142,813	(722,722)
Other comprehensive income	319,925	(52,788)	267,137	(865,535)	142,813	(722,722)
Deferred tax for the year	-	(52,788)	-	-	142,813	-

15 Related party transactions

(a) Transactions with key management personnel

All members of key management personnel are directors of the Company, and their remuneration is disclosed in note 8.

(b) Transactions with other related parties

During the year, the company entered into the following material related party transactions:

	<u>2023</u> HK\$	<u>2022</u> HK\$
Management fee income (Note)	7,959,613	7,962,201
Interest income from time deposits placed with the ultimate holding company (Note 5)	109,352	162,117
Interest income from saving deposits placed with a fellow subsidiary (Note 5)	671,837	-
Secretarial service fee to a fellow subsidiary (Note 6)	(400,000)	(323,713)
Insurance premium to a fellow subsidiary (Note 6)	(116,717)	(110,529)

Note: The fund management fee was received at fixed rates of the net asset values in relation to the provision of fund management services to a number of provident or retirement funds of which a fellow subsidiary is the trustee of these funds, the ultimate holding company is the employer of the provident funds and certain fellow subsidiaries are the investors/beneficiaries of other retirement funds.

Other than those amounts already disclosed elsewhere, the outstanding balances arising from the above transactions at the end of the reporting period are as follows:

	<u>2023</u> HK\$	<u>2022</u> HK\$
Prepayment for insurance premium fee to a fellow subsidiary	68,082	68,082

16 Immediate and ultimate controlling party

At 31 December 2023, the directors consider the immediate parent and ultimate controlling party of the Company to be Bank of Communications Co., Ltd., which is incorporated in People's Republic of China. Bank of Communications Co., Ltd. produces financial statements available for public use.

17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Company.

		<i>Effective for annual period commencing on or after</i>
Amendments to HKAS 1	Classification of Current or Non-current Liabilities	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKAS 7	Supplier Finance Arrangements	1 January 2024
Amendments to HKAS 21	Lack of exchangeability	1 January 2025

The Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.