

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 2021

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 2021**

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BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

REPORT OF THE DIRECTORS

The directors submit their report with the audited financial statements for the year ended 31 December 2021.

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 results of the Company for the year are set out in the statement of comprehensive income on page 6. The directors do not recommend the payment of a dividend and propose that the profit for the year to be retained.

Business review

No business review is presented for the year ended 31 December 2021 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).

Donation

There are no charitable and other donations made by the Company during the years ended 31 December 2021 and 2020.

Shares issued in the year

There has been no new issue of share capital for the year ended 31 December 2021. Details of the share capital are set out in Note 14 to the financial statements.

Directors of the Company

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

Shou Fugang (ceased as director on 20 September 2021)
Fan Chaorong (appointed on 16 November 2021)
Liu Wang Kit, Alan
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.

BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

REPORT OF THE DIRECTORS (CONTINUED)

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 other associates corporation 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.


Permitted indemnity provisions

During the year ended 31 December 2021 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 2021 have been audited by PricewaterhouseCoopers, who shall retire as auditor upon expiration of their current term of office at the close of the 2022 AGM. Due to the requirement on rotation of auditor applicable to Bank of Communications Co., Ltd, a resolution for the appointment of incoming auditor of the Company for the financial year ending 31 December 2022 is to be proposed at the forthcoming AGM.

On behalf of the Board



Liu Wang Kit, Alan, Director

Hong Kong, 14 April 2022

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of BCOM Finance (Hong Kong) Limited (the "Company"), which are set out on pages 6 to 27, comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the report of the directors, but does not include 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 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. We report our opinion 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 HKSAAs 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 HKSAAs, we exercise professional judgment 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.
- 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.

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)

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.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 April 2022

BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 HK\$	2020 HK\$
Management fee income	16	7,298,666	7,835,814
Interest income	5	175,033	636,590
Change in expected credit losses	3.1	21,314	(6,045)
Operating expenses	6	(1,719,337)	(1,249,732)
Profit before taxation		<u>5,775,676</u>	<u>7,216,627</u>
Income tax expense	7	(939,469)	(1,171,740)
Profit for the year		<u>4,836,207</u>	<u>6,044,887</u>
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	3.3	308,531	-
Deferred income tax arising from the fair value change	15	(50,908)	-
		<u>257,623</u>	<u>-</u>
Total comprehensive income for the year		<u><u>5,093,830</u></u>	<u><u>6,044,887</u></u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.


BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 HK\$	2020 HK\$
Non-current asset			
Financial asset at fair value through other comprehensive income	9	15,408,531	15,100,000
		<u>15,408,531</u>	<u>15,100,000</u>
Current assets			
Prepayments		61,894	61,886
Amount due from the ultimate holding company	10	34,437,970	34,443,539
Amount due from a fellow subsidiary	10	885,535	1,099,121
Tax recoverable		242,270	54,475
Cash and cash equivalents	11	221,063,989	217,513,929
		<u>256,691,658</u>	<u>253,172,950</u>
Current liabilities			
Deposits from customers	12	1,009,704	1,009,704
Amount due to a fellow subsidiary	10	-	317,499
Other payables and accruals	13	183,941	1,183,941
		<u>1,193,645</u>	<u>2,511,144</u>
Net current assets		<u>255,498,013</u>	<u>250,661,806</u>
Total assets less current liabilities		<u>270,906,544</u>	<u>265,761,806</u>
Non-current liability			
Deferred tax liabilities	15	727,408	676,500
Equity			
Share capital	14	90,000,000	90,000,000
General reserve		82,000,000	82,000,000
Investments revaluation reserve		3,681,123	3,423,500
Retained earnings		94,498,013	89,661,806
Total equity		<u>270,179,136</u>	<u>265,085,306</u>
		<u>270,906,544</u>	<u>265,761,806</u>

The financial statements on pages 6 to 27 were approved by the Board of Directors on 14 April 2022 and were signed on its behalf by:


Liu Wang Kit, Alan, Director


Kwan Shui Cheung, Director

The above statement of financial position should be read in conjunction with the accompanying notes.

BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Notes	Share capital HK\$	General reserve HK\$ (Note)	Investments revaluation reserve HK\$	Retained earnings HK\$	Total HK\$
Balance at 1 January 2020		90,000,000	82,000,000	3,423,500	83,616,919	259,040,419
Profit for the year		-	-	-	6,044,887	6,044,887
<i>Other comprehensive income</i>						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	15	-	-	-	-	-
Total comprehensive income		-	-	-	6,044,887	6,044,887
Balance at 31 December 2020		90,000,000	82,000,000	3,423,500	89,661,806	265,085,306
Balance at 1 January 2021		90,000,000	82,000,000	3,423,500	89,661,806	265,085,306
Profit for the year		-	-	-	4,836,207	4,836,207
<i>Other comprehensive income</i>						
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	15	-	-	257,623	-	257,623
Total comprehensive income		-	-	257,623	4,836,207	5,093,830
Balance at 31 December 2021		90,000,000	82,000,000	3,681,123	94,498,013	270,179,136

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 above statement of changes in equity should be read in conjunction with the accompanying notes.

BCOM FINANCE (HONG KONG) LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 HK\$	2020 HK\$
Cash flows from operating activities			
Profit before taxation		5,775,676	7,216,627
Adjustments for:			
Interest income	5	(175,033)	(636,590)
Change in expected credit losses	3.1	(21,314)	6,045
		<hr/>	<hr/>
Operating cash flows before movements in working capital		5,579,329	6,586,082
Decrease/(increase) in amount due from a fellow subsidiary		213,907	(48,129)
(Increase)/decrease in prepayments		(8)	63,945
(Decrease)/increase in amount due to a fellow subsidiary		(317,499)	317,499
(Decrease)/increase in other payables and accruals		(1,000,000)	17,264
		<hr/>	<hr/>
Income tax paid		4,475,729	6,936,661
Interest income received		(1,127,264)	(1,209,951)
		<hr/>	<hr/>
Net cash inflows from operating activities		3,531,021	6,417,079
		<hr/>	<hr/>
Net increase in cash and cash equivalents		3,531,021	6,417,079
		<hr/>	<hr/>
Cash and cash equivalents at beginning of year		217,513,929	211,101,586
Change in expected credit losses for cash and cash equivalents for the year		19,039	(4,736)
		<hr/>	<hr/>
Cash and cash equivalents at end of year		<u>221,063,989</u>	<u>217,513,929</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

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.

These financial statements are presented in Hong Kong dollars (HK\$), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies Ordinance Cap. 622 (“HKCO”).

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through other comprehensive income, which are measured at fair value.

(iii) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2
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The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

BCOM FINANCE (HONG KONG) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 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 calculated by applying the effective interest rate to the gross carrying amount of amortised cost except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.3 Financial assets and liabilities

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:

BCOM FINANCE (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.3 Financial assets and liabilities (Continued)

Measurement methods (Continued)

Initial recognition and measurement (Continued)

- (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.

BCOM FINANCE (HONG KONG) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.3 Financial assets and liabilities (Continued)

2.3.1 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.

BCOM FINANCE (HONG KONG) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.3 Financial assets and liabilities (Continued)

2.3.1 Financial assets (Continued)

(iii) Measurement (Continued)

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.

2.4 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include demand deposits and short-term time deposits with original maturity within three months.

2.5 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.

2.6 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.

BCOM FINANCE (HONG KONG) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.7 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.8 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.

BCOM FINANCE (HONG KONG) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management

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.

3.1 Financial risk factors

Category of financial instruments

	2021 HK\$	2020 HK\$
Financial assets		
Cash and cash equivalents	221,063,989	217,513,929
Amount due from the ultimate holding company	34,437,970	34,443,539
Amount due from a fellow subsidiary	885,535	1,099,121
Financial asset at fair value through other comprehensive income	15,408,531	15,100,000
	<u>271,796,025</u>	<u>268,156,589</u>
Financial liabilities		
Deposits from customers	1,009,704	1,009,704
Other payable	-	1,000,000
Amount due to a fellow subsidiary	-	317,499
	<u>1,009,704</u>	<u>2,327,203</u>

BCOM FINANCE (HONG KONG) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) 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.

(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 deposit 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. The loss allowance for these financial assets at amortised cost as at 1 January 2020 reconciles to the closing loss allowance as at 31 December 2021 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 2020	1,293	42,480	42,109	85,882
Increase in the allowance recognised in profit or loss during the year	100	1,209	4,736	6,045
Closing loss allowance as at 31 December 2020	1,393	43,689	46,845	91,927

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Credit risk (Continued)

(i) Impairment of financial assets (Continued)

	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 2021	1,393	43,689	46,845	91,927
Decrease in the allowance recognised in profit or loss during the year	(321)	(1,954)	(19,039)	(21,314)
Closing loss allowance as at 31 December 2021	1,072	41,735	27,806	70,613

(b) 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 short-term time deposits. Interest income is fixed at inception, and thus the interest rate risk is minimal.

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

(c) 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.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(d) 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 (2020: 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 2021, 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\$1,286,612 (2020: HK\$1,260,850).

3.2 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 2021.

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

3.3 Fair value estimation

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 2021 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)

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3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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.

	Level 3	
	2021	2020
	HK\$	HK\$
Financial assets at fair value through other comprehensive income	15,408,531	15,100,000

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

<u>Description</u>	<u>Fair value at 31 December 2021</u>	<u>Valuation technique(s)</u>	<u>Unobservable input(s)</u>
Financial assets at fair value through other comprehensive income	HK\$15,408,531	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:

	2021	2020
	HK\$	HK\$
At beginning of the year	15,100,000	14,100,000
Addition	-	1,000,000
Fair value changes	308,531	-
At end of the year	15,408,531	15,100,000

On 16 November 2020, the Company was allotted 1,000,000 shares of Vpower Security Guarding Limited ("Vpower") at a consideration of HK\$1,000,000, representing 3.922% of the total share capital of Vpower. The Company intends to hold the investment for long-term purpose and would neither participate in the operations of Vpower nor control Vpower in view of its minority shareholding. The consideration was subsequently settled on 14 January 2021.

3.4 Offsetting financial assets and financial liabilities

The following table presents the recognised financial instruments that are offset as at 31 December 2021 and 31 December 2020. The column 'net amount' shows the impact on the Company's balance sheet if all set-off rights were exercised.

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3 Financial risk management (Continued)

3.4 Offsetting financial assets and financial liabilities (Continued)

	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts HK\$	Gross amounts set off in the statement of financial position HK\$	Net amounts presented in the statement of financial position HK\$	Amounts subject to master netting arrangements HK\$	Financial instrument collateral HK\$	Net amount HK\$
2021						
Financial assets						
Amount due from the ultimate holding company	598,840,523	(564,360,818)	34,479,705	-	-	34,479,705
Financial liabilities						
Amount due to the ultimate holding company	564,360,818	(564,360,818)	-	-	-	-
2020						
Financial assets						
Amount due from the ultimate holding company	598,848,046	(564,360,818)	34,487,228	-	-	34,487,228
Financial liabilities						
Amount due to the ultimate holding company	564,360,818	(564,360,818)	-	-	-	-

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(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.

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4 Critical accounting estimates and judgements (Continued)

(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

	2021 HK\$	2020 HK\$
Interest income		
Time deposits placed with the ultimate holding company (Note 16)	175,033	636,590
Interest income	<u>175,033</u>	<u>636,590</u>

6 Operating expenses

	2021 HK\$	2020 HK\$
License and registration fee	113,020	113,375
Directors' emoluments	400,000	17,204
Auditor's remuneration	161,204	231,204
Secretarial service fee (Note 16)	464,799	317,499
Insurance premium (Note 16)	106,098	93,785
Legal and professional fee	113,937	191,067
Others	360,279	285,598
Total operating expenses	<u>1,719,337</u>	<u>1,249,732</u>

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

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7 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) of the estimated assessable profit.

	2021 HK\$	2020 HK\$
Current tax		
Current tax on profit for the year	939,469	1,171,740

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

	2021 HK\$	2020 HK\$
Profit before tax	5,775,676	7,216,627
Tax calculated at the Hong Kong profits tax rate of 16.5%	952,987	1,190,743
Tax effect of income not taxable for tax purpose	(3,517)	-
Tax effect of expense not deductible for tax purpose	-	997
Over provision in prior years	(10,001)	(20,000)
Income tax expense	939,469	1,171,740

8 Benefits and interests of directors

(A) Directors' emoluments (equivalent to key management compensation)

Directors received HK\$400,000 (2020: HK\$17,204) in respect of their services rendered to the Company during the year.

(B) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the 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.

In addition, for the years ended and as at 31 December 2021 and 2020, there had been:

- no directors' retirement benefits;
- no payments made or benefit provided in respect of the termination of the service of directors, whether in the capacity of directors or in any other capacity while directors;
- no consideration provided to or receivable by any third party for making available the services of a person as a director of the Company or in any other capacity while a director; and
- no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

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9 Financial assets at fair value through other comprehensive income

	2021 HK\$	2020 HK\$
Unlisted shares in Hong Kong	15,408,531	15,100,000

Refer to Note 3.3 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% (2020: 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% (2020: 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 are no plan to dispose of these investments in the short or medium term.

The fair value of these investments is HK\$15,408,531 as at 31 December 2021 (2020: HK\$15,100,000). There was no dividend recognised during the year ended 31 December 2021 and 2020 nor transfer of the cumulative gain within equity.

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

	2021 HK\$	2020 HK\$
Amount due from the ultimate holding company	34,479,705	34,487,228
Less: ECL allowances	(41,735)	(43,689)
	34,437,970	34,443,539

	2021 HK\$	2020 HK\$
Amount due from a fellow subsidiary	886,607	1,100,514
Less: ECL allowances	(1,072)	(1,393)
	885,535	1,099,121

	2021 HK\$	2020 HK\$
Amount due to a fellow subsidiary	-	317,499

Refer to Note 3.1(a) for the movement of ECL allowance for the year.

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

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11 Cash and cash equivalents

	2021 HK\$	2020 HK\$
Cash and cash equivalents	221,091,795	217,560,774
Less: ECL allowances	(27,806)	(46,845)
	<u>221,063,989</u>	<u>217,513,929</u>

Refer to Note 3.1(a) for the movement of ECL allowance for the year.

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

Bank balances are placed with the ultimate holding company. The effective interest rate on short-term time deposits for the year ended 31 December 2021 was 0.11%p.a. (2020: 0.39% p.a.).

12 Deposits from customers

	2021 HK\$	2020 HK\$
Repayable on demand	<u>1,009,704</u>	<u>1,009,704</u>

The effective interest rate for the year ended 31 December 2021 and 2020 was nil.

13 Other payables and accruals

	2021 HK\$	2020 HK\$
Consideration payable for financial assets at fair value through other comprehensive income (Note 3.3)	-	1,000,000
Others	183,941	183,941
	<u>183,941</u>	<u>1,183,941</u>

14 Share capital

Ordinary shares, issued and fully paid:

	Number of shares	Share capital HK\$
As at 31 December 2020 and 31 December 2021	<u>900,000</u>	<u>90,000,000</u>

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15 Deferred tax liabilities

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

	Revaluation reserve of financial assets at fair value through other comprehensive income	
	2021 HK\$	2020 HK\$
At 1 January	676,500	676,500
Tax charged to components of other comprehensive income	50,908	-
At 31 December	<u>727,408</u>	<u>676,500</u>

Deferred taxable is calculated on temporary differences under the liability method using a principal taxation rate of 16.5% (2020: 16.5%).

As at 31 December 2021, the Company's deferred tax liabilities of HK\$727,408 (2020: HK\$676,500) are to be settled after more than 12 months.

The tax charge relating to components of other comprehensive income is as follows:

	2021			2020		
	Before tax HK\$	Tax charge HK\$	After tax HK\$	Before tax HK\$	Tax charge HK\$	After tax HK\$
Change in fair value of financial assets at fair value through other comprehensive income	308,531	(50,908)	257,623	-	-	-
Other comprehensive income	<u>308,531</u>	<u>(50,908)</u>	<u>257,623</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax for the year		<u>(50,908)</u>			<u>-</u>	

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16 Related party transactions

Other than as disclosed elsewhere in the financial statements, the Company entered into the following significant related party transactions during the year.

	2021 HK\$	2020 HK\$
Management fee income (Note)	7,298,666	7,835,814
Interest income from time deposits placed with the ultimate holding company (Note 5)	175,033	636,590
Secretarial service fee to a fellow subsidiary (Note 6)	(464,799)	(317,499)
Insurance premium to a fellow subsidiary (Note 6)	(106,098)	(93,785)
	<u> </u>	<u> </u>
Prepayment for insurance premium fee to a fellow subsidiary	61,894	61,886
	<u> </u>	<u> </u>

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.