

BANK OF COMMUNICATIONS (HONG KONG) LIMITED, A LICENSED BANK
(Incorporated in Hong Kong with limited liability)

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2017

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

Contents	Page(s)
Report of the Directors	1 - 3
Independent auditor's report	4 - 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 23
Unaudited supplementary financial information	24 - 27

BANK OF COMMUNICATIONS (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 2017.

Principal activities

On 29 September 2015, the Monetary Authority granted the Company a banking licence under the Banking Ordinance.

The Company had not yet commenced business as at 31 December 2017.

Results and appropriations

The results of the Company for the year are set out in the statement of comprehensive income on page 7.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017

Business Review

No business review is presented for the year ended 31 December 2017 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.

Shares issued in the year

There has been no new issue of share capital for the year ended 31 December 2017. Details of the share capital are set out in Note 12 to the financial statements.

Directors of the Company

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

Chairman:
Shou Fugang

Executive directors:
Chan Ha Fong, Nancy
Meng Yu
Cheng Man Wang

Non-executive director:
Liu Yang (Resigned on 12 September 2017)

Independent non-executive directors:
Lam Cheung Alexa
Chan Ka Lok
Tang Kwai Chang

Mr. Liu Yang resigned as non-executive director of the Company on 12 September 2017. Mr. Liu Yang has confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders of the Company.

In accordance with the Company's Articles of Association, the existing directors shall remain in the office.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

REPORT OF THE DIRECTORS (CONTINUED)

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's 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 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 holding company a party to any arrangement to enable the directors of the Company to hold any interests in the shares or debentures of, the Company or its specified undertakings.

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.

Subsequent events

The Company obtained a loan of HK\$2 billion, with drawdown date of 19 January 2018, from its ultimate holding company.

On 19 January 2018, the Company allotted and issued 7.6 billion ordinary shares to its ultimate holding company at a consideration of HK\$7.6 billion.

On 29 January 2018, the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the laws of Hong Kong) (the "Ordinance") has become effective (the "Appointed Day"). Pursuant to the Ordinance, the activities, assets and liabilities which constituted the retail banking business and private banking business of Bank of Communications Co., Ltd. Hong Kong Branch on the Appointed Day had been transferred to the Company in accordance with section 4(1) of the Ordinance. The total assets and total liabilities of the Company after the transfer were approximately amounted to HK\$198 billion and HK\$190 billion respectively.

Accordingly, the Company commenced its retail banking business and private banking business on the Appointed Day.

Permitted indemnity provisions

Pursuant to the Company's Articles of Association, a director or former director of the Company may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company in connection with any negligence, default, breach of duty or breach of trust in relation to the Company or associated company. The Company has arranged appropriate directors' and officers' liability insurance for the directors and officers of the Company during the financial year and up to the date of the Report of the Directors.

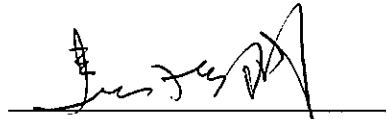
BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

REPORT OF THE DIRECTORS (CONTINUED)

Auditor

The financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board



Shou Fugang, Chairman
Hong Kong, 4 April 2018

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF COMMUNICATIONS (HONG KONG) LIMITED**
(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of Bank of Communications (Hong Kong) Limited (the "Company") set out on pages 7 to 23, which comprise

- the statement of financial position as at 31 December 2017;
- 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 a summary of significant accounting policies.

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 2017, 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 ("HSAs") 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 directors' report and unaudited supplementary financial information, but does not include the financial statements and our auditor's report thereon.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(CONTINUED)**

(Incorporated in Hong Kong with limited liability)

Other Information (Continued)

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.

Responsibilities of Directors and the Audit Committee 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.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

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 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(CONTINUED)**

(Incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with HKSAs, 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.

We communicate with the Audit Committee 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, 4 April 2018

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK\$	2016 HK\$
Interest income	5	29,925	45,212
Administrative expenses	6	(5,822,194)	(1,253,017)
Loss before tax		<u>(5,792,269)</u>	<u>(1,207,805)</u>
Income tax expense	7	-	-
Total comprehensive loss for the year		<u><u>(5,792,269)</u></u>	<u><u>(1,207,805)</u></u>


The notes on pages 11 to 23 are an integral part of these financial statements.

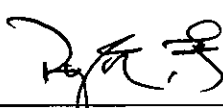
BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 HK\$	2016 HK\$
Non-current assets			
Other receivables		500,000	500,000
Intangible assets	9	1,875,000	1,875,000
		<u>2,375,000</u>	<u>2,375,000</u>
Current assets			
Prepayment		755,752	355,755
Cash and cash equivalents	10	300,089,602	300,059,678
		<u>300,845,354</u>	<u>300,415,433</u>
Current liabilities			
Amount due to the ultimate holding company	11	9,069,557	4,402,367
Other payables		1,663,100	108,100
		<u>10,732,657</u>	<u>4,510,467</u>
Net current assets		<u>290,112,697</u>	<u>295,904,966</u>
Total assets less total liabilities		<u>292,487,697</u>	<u>298,279,966</u>
Equity			
Share capital	12	300,000,000	300,000,000
Accumulated losses		(7,512,303)	(1,720,034)
Total equity		<u>292,487,697</u>	<u>298,279,966</u>

The financial statements on pages 7 to 23 were approved by the Board of Directors on 4 April 2018 and were signed on its behalf.


Shou Fugang, Chairman


Chan Ha Fong, Nancy, Chief Executive

The notes on pages 11 to 23 are an integral part of these financial statements.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital HK\$	Accumulated losses HK\$	Total equity HK\$
Balance at 1 January 2016	300,000,000	(512,229)	299,487,771
Total comprehensive loss for the year	-	(1,207,805)	(1,207,805)
Balance at 31 December 2016	<u>300,000,000</u>	<u>(1,720,034)</u>	<u>298,279,966</u>
Balance at 1 January 2017	300,000,000	(1,720,034)	298,279,966
Total comprehensive loss for the year	-	(5,792,269)	(5,792,269)
Balance at 31 December 2017	<u>300,000,000</u>	<u>(7,512,303)</u>	<u>292,487,697</u>

The notes on pages 11 to 23 are an integral part of these financial statements.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK\$	2016 HK\$
Cash flows from operating activities		
Loss before tax	(5,792,269)	(1,207,805)
Adjustments for:		
Interest income	(29,925)	(45,212)
Interest received	29,925	45,212
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(5,792,269)	(1,207,805)
Increase in amount due to the ultimate holding company	4,667,190	3,925,672
Increase in other payables	1,555,000	58,100
Increase in intangible assets	-	(1,875,000)
Increase in other receivables	-	(500,000)
Increase in prepayment	(399,997)	(355,755)
	<hr/>	<hr/>
Net cash generated from operating activities	29,924	45,212
	<hr/>	<hr/>
Net increase in cash and cash equivalents	29,924	45,212
Cash and cash equivalents at beginning of year	300,059,678	300,014,466
	<hr/>	<hr/>
Cash and cash equivalents at end of year	<u>300,089,602</u>	<u>300,059,678</u>

The notes on pages 11 to 23 are an integral part of these financial statements.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Bank of Communications (Hong Kong) Limited (“the Company”) is a private company incorporated and domiciled in Hong Kong. The address of its registered office is 20 Pedder Street, Central, Hong Kong and principal place of business is 1/F, Wheelock House, 20 Pedder Street, Central, Hong Kong. Its ultimate holding company is Bank of Communications Co., Ltd., which is incorporated in the People’s Republic of China.

On 29 September 2015, the Monetary Authority granted the Company a banking licence under the Banking Ordinance.

The Company had not yet commenced business as at 31 December 2017.

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.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company. The Company’s assessment of the impact of these new standards and interpretations is set out below.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(iii) *New standards and interpretations not yet adopted (Continued)*

HKFRS 9 *Financial Instruments*

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Company's financial assets which comprise "Cash and cash equivalents" and "Other receivables" in the statement of financial position are currently classified as loans and receivables will satisfy the conditions for classification as assets carried at amortised cost and hence there will be no change to the accounting of these assets.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

Date of adoption by the Company

It must be applied for financial years commencing on or after 1 January 2018. The Company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of hedging reserve.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(iii) *New standards and interpretations not yet adopted (Continued)*

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

The Company had not commencing business for the year ended 31 December 2017. Accordingly, management has assessed that applying the new standard will have no impact on the Company's financial statements as of 1 January 2018.

Date of adoption by the Company

Mandatory for financial years commencing on or after 1 January 2018. The Company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (Continued)

2.2 Revenue recognition

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in HK dollars ("HK\$"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Intangible assets

Intangible assets are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of an intangible asset with finite useful life is charged to profit or loss on a straight-line basis over its estimated useful life.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible asset with finite lives as set out above.

2.5 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (Continued)

2.6 Financial assets

2.6.1 Classification

The Company classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise "Cash and cash equivalents" and "Other receivables" in the statement of financial position.

2.6.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.7 Impairment of financial assets

Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (Continued)

2.7 Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2.8 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include deposits held at call with banks with original maturities of three months or less.

2.9 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.

2.10 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. 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.

(a) 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.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is 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 substantively 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 income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (Continued)

2.10 Current and deferred income tax (Continued)

(c) 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.

3. Financial risk management

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

	2017 HK\$	2016 HK\$
Financial assets		
Cash and cash equivalents	300,089,602	300,059,678
Other receivables	500,000	500,000
	<u>300,589,602</u>	<u>300,559,678</u>
Financial liabilities		
Amount due to the ultimate holding company	9,069,557	4,402,367
Other payables	1,663,100	108,100
	<u>10,732,657</u>	<u>4,510,467</u>

BANK OF COMMUNICATIONS (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, and other receivables.

The directors consider there is no significant credit risk as all counter-parties are group companies on the basis of their financial condition at the end of the reporting period. In the opinion of the directors, the probability of failure to discharge their obligation by group companies is remote.

Exposure to credit risk by class

The following tables disclose the carrying values of financial assets recorded in the financial statements and represent the Company's maximum exposure to credit risk without taking into account any other credit enhancements:

Financial assets	2017 HK\$	2016 HK\$
Cash and cash equivalents	300,089,602	300,059,678
Other receivables	500,000	500,000
	<u>300,589,602</u>	<u>300,559,678</u>

The following table shows the carrying values of financial assets grouped by credit ratings. The categories shown reflect our internally determined public rating agency equivalents.

Credit rating	2017 HK\$	2016 HK\$
A-	300,089,602	300,059,678
No Rating	500,000	500,000
	<u>300,589,602</u>	<u>300,559,678</u>

The Company had no financial assets that were either past due or impaired as at 31 December 2017 (2016: Nil).

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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) Foreign exchange risk

The majority of the Company's financial assets are denominated in Hong Kong Dollars and therefore it is not exposed to significant foreign exchange 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.

3.2 Capital management

The primary objective of the Company's capital management is 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.

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 fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask price respectively.

The fair values of other financial assets and liabilities are determined in accordance with generally accepted pricing models such as discounted cash flow analysis using observable and/or unobservable inputs.

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

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

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 which the ultimate 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.

5. Interest income

	2017 HK\$	2016 HK\$
Interest income from bank balances placed with the ultimate holding company	29,925	45,212

6. Administrative expenses

	2017 HK\$	2016 HK\$
Directors' remuneration (Note 8)	1,237,500	-
Legal and professional fees	2,322,313	16,200
Secretarial service fee	1,555,000	955,105
Auditor's remuneration	100,000	100,000
Other expenses	607,381	181,712
	<u>5,822,194</u>	<u>1,253,017</u>

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

7. Taxation

No provision for Hong Kong profits tax has been made as the Company has no assessable profit arising from Hong Kong for the years ended 31 December 2017 and 2016.

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the tax rate of 16.5% (2016: 16.5%) as follows:

	2017 HK\$	2016 HK\$
Loss before tax	(5,792,269)	(1,207,805)
Tax calculated at the Hong Kong Profits Tax rate of 16.5%	(955,724)	(199,288)
Tax effect of income not taxable for tax purpose	(4,938)	(7,460)
Tax loss for which no deferred income tax asset was recognised	960,662	206,748
Income tax expense	-	-

As at 31 December 2017, the Company had estimated unused tax losses available for offset against future profits of HK\$7,127,566 (2016: HK\$1,305,372). The unused tax losses can be carried forward indefinitely. No deferred tax asset has been recognized in respect of such losses due to unpredictability of future profit streams.

8. Benefits and interests of directors

(A) Directors' emoluments

The emoluments of the directors of the Company are disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G).

	2017 HK\$	2016 HK\$
Emoluments paid to or receivable by directors in respect of their services as directors of the Company	1,237,500	-

No other emoluments were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company for the year ended 31 December 2017 (2016: Nil).

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

8. Benefits and interests of directors (Continues)

(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 2017 and 2016, there had been:

- (a) no directors' retirement benefits;
- (b) 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;
- (c) 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
- (d) no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

9. Intangible assets

The Company holds the rights to connect its Automated Teller Machine (ATM) to the central data processing system of Joint Electronic Teller Services Limited (JETCO).

	2017 HK\$	2016 HK\$
At 31 December 2017		
Cost	1,875,000	1,875,000
Accumulated amortisation and impairment	-	-
Net book amount	<u>1,875,000</u>	<u>1,875,000</u>
	2017 HK\$	2016 HK\$
Year ended 31 December 2017		
Opening net book amount	1,875,000	-
Additions	-	1,875,000
Closing net book amount	<u>1,875,000</u>	<u>1,875,000</u>

The above intangible assets are considered by the directors as having an indefinite useful life because the rights to use JETCO's central data processing system are expected to contribute to net cash inflow indefinitely. The intangible assets will not be amortised until their useful lives are determined to be finite. Instead, the intangible assets will be tested for impairment annually.

For the purpose of impairment testing on the intangible assets held by the Company, the recoverable amount have been determined based on the fair value less costs of disposal. For the year ended 31 December 2017, no impairment loss for intangible asset was recognised.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

10. Cash and cash equivalents

Cash and cash equivalents represent savings and current deposits placed with Bank of Communications Co., Ltd. Hong Kong Branch, a branch of its ultimate holding company.

The effective interest rate for the year ended 31 December 2017 was less than or equal to 0.01% p.a. (2016: less than or equal to 0.02% p.a.).

11. Amount due to the ultimate holding company

The amount due to the ultimate holding company represents expense paid on behalf of the Company.

12. Share capital

	Number of shares	Share capital HK\$
As at 1 January 2016, 31 December 2016 and 31 December 2017	<u>300,000,000</u>	<u>300,000,000</u>

13. Related party transactions

The Company is controlled by Bank of Communications Co., Ltd., a state-owned enterprise incorporated in the PRC, which owns 100% of the Company's shares. Bank of Communications Co., Ltd is also the ultimate parent and controlling party of the Company.

	2017 HK\$	2016 HK\$
Interest income from bank balances placed with the ultimate holding company	29,925	45,212
Secretarial service fee to a fellow subsidiary	<u>(1,555,000)</u>	<u>(955,105)</u>

14. Subsequent events

The Company obtained a loan of HK\$2 billion, with drawdown date of 19 January 2018, from its ultimate holding company.

On 19 January 2018, the Company allotted and issued 7.6 billion ordinary shares to its ultimate holding company at a consideration of HK\$7.6 billion.

On 29 January 2018, the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the laws of Hong Kong) (the "Ordinance") has become effective (the "Appointed Day"). Pursuant to the Ordinance, the activities, assets and liabilities which constituted the retail banking business and private banking business of Bank of Communications Co., Ltd. Hong Kong Branch on the Appointed Day had been transferred to the Company in accordance with section 4(1) of the Ordinance. The total assets and total liabilities of the Company after the transfer were approximately amounted to HK\$198 billion and HK\$190 billion respectively.

Accordingly, the Company commenced its retail banking business and private banking business on the Appointed Day.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

The following information is disclosed as part of accompanying information to the financial statements and does not form part of the audited financial statements.

1 Corporate Governance

The Board of Directors (“The Board”) and the management of Bank of Communications (Hong Kong) Limited (“the Company”), a licensed bank, recognizes the importance of robust corporate governance to ensure an environment of effective oversight and strong accountability.

Sound corporate governance is the system guarantee for sustainable development and the key for prudent operation of a commercial bank. The Company was committed to improving a modern corporate governance mechanism by adhering to the requirements set out in CG-1 of the Supervisory Policy Manual entitled “Corporate Governance of Locally Incorporated Authorised Institutions” (“CG-1”) issued by the Hong Kong Monetary Authority (“HKMA”).

For the year ended 31 December 2017, the Company has complied with the requirements set out in CG-1.

The Board has set up four board committees, namely Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee in June 2017, which are delegated with different responsibilities to assist the Board in performing its duties. All of the board committees are composed of a majority of independent non-executive directors.

2 Board of Directors

The Board is at the core of the Company’s corporate governance framework and has the ultimate responsibilities to the shareholder, depositors, creditors, employees and other stakeholders, banking supervisors of the Company. In discharging its responsibilities, the Board strives to establish sound risk management and internal control systems for ensuring the business and operations are managed in a prudent, professional and competent manner and in conformity with relevant laws and regulations.

Generally, the main responsibilities of the Board are as follows:

- (1) To formulate the objectives and strategies as well as to monitor the implementation thereof;
- (2) To review and monitor the risk management and internal control systems;
- (3) To appoint senior management and monitor its performance;
- (4) To set corporate values and standards to promote ethical and responsible professional behavior amongst staff;
- (5) To oversee and monitor senior management’s implementation of remuneration system; and
- (6) To review and approve the annual business plans and financial budgets.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

2 Board of Directors (Continued)

During the year, the Board had held three meetings and major works performed by the Board include:

- (1) (a) To appoint 7 directors (including 3 INEDs) after having received the consent in writing from the HKMA; and (b) to approve the nomination of 2 NED candidates by the Nomination Committee. The appointment of the 2 NEDs is subject to the consent in writing of the HKMA. As at the date of this report, the Company has yet received the consent in writing to the application for the appointment of the 2 NEDs from the HKMA;
- (2) To approve the remuneration of three independent non-executive directors for 3 years commencing from the day of their appointments on 1 April 2017;
- (3) To set up four board committees, namely Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee and approve their terms of reference;
- (4) To decide on the Company's organisation structure and appoint senior/ middle management as well as the Chief Risk Officer;
- (5) To approve the Company to make application for registration as a Registered Institution under the Securities and Futures Ordinance (Cap. 571) to carry on Regulated Activities (Type 1, 4) ;
- (6) To approve the Company to make application for registration as an Insurance Agency with Insurance Agents Registration Board and registration as a Principal Intermediary with the Mandatory Provident Fund Schemes Authority;
- (7) To approve various transactions in relation to Jetco membership with the parent company; and
- (8) To approve the date of "29 January 2018" as the appointed day for the transfer of retail banking business and private banking business of the Hong Kong branch of the parent company to the Company in accordance with the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Cap.1182 of the laws of Hong Kong).

3 Audit Committee

The Audit Committee, established and authorized by the Board, is primarily responsible for monitoring the effectiveness of the Company's Internal Audit function and work performed by external auditors. The main duties of the Audit Committee are as follows:

- (1) To draw up, review and update periodically the Terms of Reference of the Audit Committee for the Board's approval;
- (2) To establish the responsibility and independence of the Internal Audit function, and to provide guidance to the Audit Department of the Company (the "Audit Department");
- (3) To approve the Audit Charter drawn up and updated periodically by the Audit Department;
- (4) To approve the annual Audit Plan and the related manpower and financial resources required after identifying the areas of risk within the Company's operations to be covered;
- (5) To assess all major aspects of the Internal Audit function periodically, and to make suggestions for improvement on its effectiveness;
- (6) To receive audit reports and review significant recommendations and implementation plans and furthermore, to ensure that the senior management has taken timely remedial actions as necessary to tackle the internal control weaknesses, the areas of non-compliance with the laws, regulations and policies and issues identified by external auditors;
- (7) To review ad-hoc non-compliance incident reports and HKMA on-site examination reports, etc.;
- (8) To recommend to the Board with regard to the appointment, remuneration and termination of external auditors, to consider their audit work plans, and to review their audit conclusions and significant recommendations;
- (9) To review accounting policies, financial conditions and financial reporting process; and
- (10) To provide opportunities for external and internal auditors to meet and discuss their respective findings.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

3 Audit Committee (Continued)

According to the Terms of Reference of the Audit Committee, the Audit Committee should consist of three members and all of whom should be Non-executive Directors appointed by the Board. Besides, the majority of whom (including the Chairman) should be Independent Non-executive Directors. All current members of the Audit Committee are Independent Non-executive Directors, namely Mr. Tang Kwai Chang (Chairman of the Audit Committee), Mr. Chan Ka Lok and Mrs. Lam Cheung Alexa.

During the year, the Audit Committee had held one meeting.

4 Nomination Committee

The main duties of the Nomination Committee are as follows:

- (1) To identify individuals suitably qualified to become Board members and Chief Executive, and to make recommendations to the Board on the selections;
- (2) To make recommendations to the Board on the appointment or re-appointment of Directors, and succession planning for Chairman of the Board and the Chief Executive;
- (3) To review the independence of the Independent Non-executive Directors; and
- (4) To report regularly to the Board on the matters relating to the duties of the Nomination Committee stated in the Terms of Reference.

Currently, the Nomination Committee comprises the Chairman of the Board and two Independent Non-executive Directors, namely Mr. Shou Fugang (Chairman of Nomination Committee), Mr. Chan Ka Lok and Mrs. Lam Cheung Alexa.

During the year, the Nomination Committee had held one meeting and major works performed by Nomination Committee were including consideration of the matters relating to the appointments of Directors.

5 Remuneration Committee

The main duties of the Remuneration Committee are as follows:

- (1) To make recommendations to the Board on the remuneration policies and the implementation of such policies;
- (2) To make recommendations to the Board on the remuneration packages for the Directors, Chief Executive and senior management;
- (3) To report regularly to the Board on major matters relating to the remuneration policies.

Currently, the Remuneration Committee comprises two Independent Non-executive Directors, namely Mr. Chan Ka Lok (Chairman of Remuneration Committee) and Mr. Tang Kwai Chang. Mr. Liu Yang, the previous Non-executive Director and the member of Remuneration Committee, had resigned as the Non-executive Director and the member of Remuneration Committee on 12 September 2017.

No Remuneration Committee meeting was held during the year.

BANK OF COMMUNICATIONS (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

6 Risk Management Committee

The main duties of the Risk Management Committee are as follows:

- (1) Establishes the Company's risk appetite and risk strategy, and assess the risk level of different risk of the Company;
- (2) Identify, access, and manage the risk faced by different units of the Company;
- (3) Access the adequacy of risk management policies, procedure, mechanism and internal control of the Company;
- (4) Access the compliance of risk management policies, procedure, mechanism and internal control of the Company; and
- (5) Review the Company's internal capital adequacy assessment report, ensure the Company have adequate capital to deal with all major risk after considering its business and risk strategy.

The Risk Management Committee comprises at least three members. Members of the Risk Management Committee are Mrs. Lam Cheung Alexa (Chairman), Mr. Tang Kwai Chang and Mr. Cheng Man Wang.

Three Risk Management Committee meetings were held during the year. Major works performed during the year include approval of risk management policies, review and recommend risk management policies for the Board's approval.

7 Main Features of Capital Instruments

A description of the main features and the full terms and conditions of the Company's capital instruments can be found in the Regulatory Disclosure section of our website www.hk.bankcomm.com.

8 Regulatory Disclosures

Under section 3(14A) of the Banking (Disclosure) Rules ("the Disclosure Rules"), the Company is exempted from the application of the Disclosure Rules as it has not yet commenced its banking business.