民銀資本
CMBC CAPITAL HOLDINGS LIMITED

Incorporated in Bermuda with limited liability
Stock Code: 1141

ANNUAL REPORT 2019

Contents

Abbreviations

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"Board"	the Board of Directors of the Company
"Brilliant Decent"	Brilliant Decent Limited
"China Minsheng Bank"	China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange (stock code: 1988) and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600016)
"China Minsheng Bank Group"	China Minsheng Bank and its subsidiaries (excluding the members of the Group)
"CMBC Asset Management"	CMBC Asset Management Company Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company
"CMBC HK Branch"	the Hong Kong branch of China Minsheng Bank
"CMBC Investment"	CMBC Investment (HK) Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company
"CMBCCF"	CMBC Capital Finance Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company
"CMBCI"	CMBC International Holdings Limited (民生商銀國際控股有限公司), a company incorporated in Hong Kong with limited liability and an indirect controlling shareholder of the Company
"CMBCIC"	CMBC International Capital Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company
"CMBC International Investment (HK)"	CMBC International Investment (HK) Limited, a company incorporated in Hong Kong with limited liability and an indirect controlling shareholder of the Company
"CMBC International Investment"	CMBC International Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a controlling shareholder of the Company
"CMBCI Group"	CMBCI and its subsidiaries, excluding the members of the Group

Abbreviations

"CMBC Securities"	CMBC Securities Company Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company
"Company"	CMBC Capital Holdings Limited
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Directors"	Directors of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Special Administrative Region of Hong Kong of the PRC
"HK$"	Hong Kong dollars and cents
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China, for the purpose of this report only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Previous Year"	the financial year ended 31 December 2018
"Reporting Year"	the financial year ended 31 December 2019
"SFC"	The Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shareholder"	holder(s) of the Share(s)
"Share"	ordinary shares of HK$0.01 each in the capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	The United States of America
"%"	per cent

Corporate Information

(as at the date of this report)

BOARD OF DIRECTORS

Executive Directors

Mr. Li Jinze *(Chairman)*
Mr. Ding Zhisuo *(General Manager)*
Mr. Ng Hoi Kam

Non-executive Directors

Mr. Ren Hailong
Mr. Liao Zhaohui

Independent Non-executive Directors

Mr. Lee, Cheuk Yin Dannis
Mr. Wu Bin
Mr. Wang Lihua

AUDIT COMMITTEE

Mr. Lee, Cheuk Yin Dannis *(Chairman)*
Mr. Wu Bin
Mr. Wang Lihua

REMUNERATION COMMITTEE

Mr. Wu Bin *(Chairman)*
Mr. Ren Hailong
Mr. Wang Lihua

NOMINATION COMMITTEE

Mr. Wu Bin *(Chairman)*
Mr. Ren Hailong
Mr. Wang Lihua

COMPANY SECRETARY

Mr. Ho Yau Cheung

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited (Stock Code: 1141)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

45/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

PRINCIPAL BANKERS

China Minsheng Banking Corp., Ltd
Industrial and Commercial Bank of China Limited
Shanghai Pudong Development Bank Co., Ltd
CMB Wing Lung Bank Limited

LEGAL ADVISER

Howse Williams

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

http://www.cmbccap.com

Chairman's Statement

ECONOMIC, MARKET

In 2019, in the context of Sino-US trade friction, the US continued to escalate the Sino-US trade friction, which affected the pace of global economic recovery. Given that Hong Kong has always been a business portal to enter the Chinese market, and also the trading route between the PRC and the US, Hong Kong was also adversely affected by the trade friction. In addition, Hong Kong's economy was further affected by its internal political climate and presents uncertainty, which resulted in a negative growth in the second half of the year. For the whole year of 2019, Hong Kong delivered an economic contraction of 1.2%, which is the first negative growth after 2009. Fortunately, under the complex international environment, the central government rolled out a significant economic policy of Six-stabilization (being, stabilizations of employment, finance, foreign trade, foreign capital, investment and expectation), and introduced a series of reform measures in relevant areas, which provided important support for the sustainable and sound economic development of the PRC, ensured a reasonable economic growth, and promoted its stable and high-quality development. Against this background, the PRC achieved gross domestic product growth of 6.1% for the year of 2019, which remained the top among the world's major economies. As demonstrated by all key indicators, the PRC has the capability to deal with all kinds of risk and challenges arising from the external environment such as the Sino-US trade friction.

In 2019, the global markets were unstable, and the Hong Kong stock market was also in a volatile fashion and fluctuated considerably in stages as it was fully exposed to the Sino-US trade friction, its internal social turmoil, and economic downturn. The Hang Seng Index continued its robust upturn for the first four months of the year which was driven by positive factors at home and abroad. Since the mid to late April, the Hang Seng Index began to pare its initial gains because of the escalating Sino-US trade friction and its expansion into the technology sector. Fortunately, the Sino-US trade negotiations saw dramatic breakthroughs by the end of 2019, and achieved a first phase of trade agreement between the US and the PRC. On the other hand, British's Conservative Party under the leadership of Prime Minister Boris Johnson won the election campaign in December 2019, which broke the deadlock in Brexit. The Hong Kong stock market went up by the year end with the help of the dual tailwinds. As of the end of 2019, the Hang Seng Index closed at 28,189, representing an increase of 2,344 points or 9.1% as compared with that at the end of 2018.

With respect to IPOs, there were 183 new companies listed on the Stock Exchange in 2019, representing a decrease of 16% as compared to the same period of last year, while the proceeds from the new issues increased to HK$312.9 billion or 9% year-on-year due to several large-scale IPOs. With the US's three interest-rate cuts in 2019, investors showed greater interests in USD high-yield bonds issued by Chinese companies, resulting in a better developmental momentum in USD bonds market. According to Bloomberg, the total issuing scale of G3-currency (USD, EUR and JPY) bonds in Asia (excluding Japan) amounted to US$338.6 billion, representing a year-on-year increase of 27%.

Chairman's Statement

BUSINESS REVIEW

The Group had built a cooperative development system with China Minsheng Bank in a regular and efficient manner, through which it can leverage the vast network and the enormous customer base of China Minsheng Bank to facilitate the comprehensive and rapid development of the Group in the areas of securities trading and brokerage, asset management, investment and financing, etc. The Group actively responded to the challenges brought about by the external environment such as the Sino-US trade war, adjusted its business development strategies in a timely manner, to ensure a balance between the development of various business segments, further strengthened its operational capabilities and paid close attention to its risk management, maintaining reasonable debt structure and abundant liquidity to deal with the global market uncertainty.

During the Reporting Year, the Group's total revenue (including net gains or losses from investment) was approximately HK$1,069.8 million, representing an increase of approximately 49.0% from approximately HK$718.0 million in the Previous Year. Net profit for the Reporting Year increased from approximately HK$245.2 million in the Previous Year to approximately HK$356.9 million, representing an increase of 45.5%. Total assets increased steadily from approximately HK$10.44 billion as at 31 December 2018 to approximately HK$11.64 billion as at 31 December 2019, representing an increase of 11.5%. During the Reporting Year, the Group actively seized the opportunities to strike a balance among the development of various business segments and continued to optimize its risk control and management. It recorded all-round profit growth including the securities business, investment and financing business, and asset management business.

During the Reporting Year, the segment profit of the securities business increased by 8.9% to approximately HK$89.1 million, as compared to HK$81.8 million in the Previous Year. During the Reporting Year, the Group completed 102 underwriting transactions of public offering bonds for 82 Chinese enterprises and financial institutions, among which, the Group acted as the global coordinator in 40 projects. On the other hand, the trade negotiations in 2019 between the US and the PRC, the world's two major economic systems, were uncertain, and the global economy therefore had entered a stalemate. The performance of the Hong Kong stock market had also fluctuated with the general environment. Under the huge market fluctuation, the Company adjusted the structure of its financing business in a timely manner and invested appropriately in bonds with stable returns and high ratings, so as to further reduce the risk of loss due to the market fluctuations, and can achieve profit growth by utilizing its funds efficiently.

Chairman's Statement

During the Reporting Year, the segment profit of the investment and financing increased by 205.9% to approximately HK$339.2 million, as compared to HK$110.9 million in the Previous Year. The Group's investment portfolio is robust which included but not limited to listed bonds, listed equities, unlisted equity interest, unlisted funds, unlisted debt investments as well as loans. In combination with the regulatory trend and the market features of Hong Kong and based on the strategic policy of "optimizing one body and emphasizing two wings", the Group, taking into account of both the direct and indirect benefits of investment and financing, significantly improved the level of synergy with its securities, corporate finance and advisory, and asset management businesses. The Group moderately controlled the pace of development of non-standardized financing business and promoted the development of standardized investment business, thereby reducing structured finance business significantly and increasing the overall scale of investment and financing business moderately.

During the Reporting Year, among the asset management, corporate finance and advisory segment, the asset management business saw a significant increase in revenue benefited from the growth of the size of the assets under management and good investment performance. The revenue increased by 208.4% to approximately HK$77.6 million, as compared to approximately HK$25.2 million in the Previous Year. The investment banking business continued to grow steadily. In respect of sponsorship projects, as of 31 December 2019, the Group secured a number of IPO sponsorship projects, and successfully submitted five applications for listing on the main board of the Stock Exchange, two of which were listed thereon. With regard to underwriting, the Group also participated in two listing projects as a joint bookrunner in addition to the sponsorship projects.

Chairman's Statement

FUTURE OUTLOOK

Currently, the world's economic growth continues to slow down and remains in a period of further adjustment after the international financial crisis. The characteristics of the accelerating evolution of the changing world is becoming increasingly prominent, and the sources of turbulence and risks worldwide increase significantly. Facing the downward risk of global economic growth, the monetary policies of the major central banks might well shift to easing. Although the downward cycle has been quite long, the global economy should or may be slightly stabilized later this year with the easing of trade risks between the PRC and the US and the adoption of loose monetary policies by major economies. However, the outbreak of the coronavirus in many countries has created uncertainties for the global economic growth. On 12 March 2020, the World Health Organization declared the global coronavirus disease outbreak as a pandemic. This outbreak endangered the health of many people residing in the affected areas and significantly disrupted travel and local economy. At the moment, there are no vaccines nor any effective treatments, with efforts typically confined to management of symptoms and supportive measures of coronavirus disease. An outbreak of coronavirus disease or the measures taken by the governments of affected countries against such potential outbreaks or the perception of an outbreak of coronavirus disease may have an adverse effect on economic conditions in the PRC, Asia and the rest of the world.

2020 marks the year in which the 13th five-year plan concludes, laying a solid foundation for the development of the 14th five-year plan. The central government has stated that it is necessary to improve and strengthen the "six-stabilization" measures, and improve the mechanism for the coordination, transmission and implementation of fiscal, monetary, employment and other policies in 2020. The central government will continue to pursue active fiscal policies and prudent monetary policies to reduce the cost of financing in the society. Fiscal policies and monetary policies should form a joint force along with consumption, investment, employment, industry, region and other policies to guide the flow of capital into such sectors as advanced manufacturing, people's livelihood and infrastructure shortage that benefit both supply and demand and have a multiplier effect, thereby promoting the "double upgrading" of industry and consumption and ensuring reasonable economic growth, steady improvement of high-quality development. Despite new issues and challenges ahead and the novel coronavirus outbreak which may leave a short-term impact on economic growth, it is believed that the PRC's economy will remain stable with a growing momentum in the long run.

Chairman's Statement

The future trend of Hong Kong's economy, being a highly externally oriented economic entity, will be largely dependent upon external economies, especially the economy in Mainland China. In addition, whether the political atmosphere in Hong Kong can return to normal and how the coronavirus outbreak develops will also determine whether Hong Kong's economy can bottom out this year. In the long run, Hong Kong is still able to benefit from the steady economic development of the motherland. Following the development of the "Guangdong-Hong Kong-Macao Greater Bay Area", the "stock connect" between Mainland China and Hong Kong becomes ever more mature, which shall attract more domestic and international investors to the Hong Kong market.

Besides, the U.S. saw inverted 10-year and two-year yield curves for the first time since 2007 due to the impact of the global economic slowdown, and the fact that the U.S. Manufacturing Purchasing Manager's Index has remained sluggish for long. As a result, the Federal Reserve implemented three interest-rate cuts in 2019. In addition, in order to deal with the impact of the coronavirus outbreak on the economy, the Federal Reserve made two further interest rate cuts in March 2020. At present, the target range of the federal funds rate has dropped to the range of 0%–0.25%. The Federal Reserve's interest-rate cuts mirror the existence of the downside risk in global economy, which, coupled with the uncertainties brought by the global international trade friction and the outbreak of the coronavirus disease, poses a major challenge to the global economic and financial entities. On the basis of strict risk management and compliance and with its existing business foundation, the Group will continue to expand and optimize its business structure and the cross-selling synergetic effects and scale effects from the respective segments so as to support its thriving existing business and maintain the Group's momentum of rapid development. Adhering to the principle of "Standardization, Efficiency, Innovation, Excellence", the Company will capitalize on the advantages of being a fully licensed broker and a member of China Minsheng Bank to provide efficient and high-quality professional services in the fields of cross-border merge and acquisition, listing, asset management, investment and financing for the emerging outstanding private enterprises in Mainland China. We will continue to create better and greater long-term return to our Shareholders and endeavor to establish the Company as a top comprehensive financial services institution by carrying out mergers and acquisitions which are beneficial to the Company's long-term development.

Management Discussion and Analysis

BUSINESS REVIEW

The Group is currently licensed to engage in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, as well as the licensed money lending business and has all material licenses required for services expected to be required by most of its existing and potential clients at current stage.

During the Reporting Year, the Group's profit attributable to the owners of the Company was approximately HK$356.9 million (Previous Year: profit of approximately HK$245.2 million), representing an increase of 45.5%. The Group's basic and diluted earnings per share were HK0.75 cents (31 December 2018: basic and diluted earnings per share of HK0.53 cents).

The Group's revenue increased by 23.7% to approximately HK$978.7 million during the Reporting Year, compared to approximately HK$791.2 million in the Previous Year. It was mainly due to the growth of the investment and financing segment.

The table below presents the breakdown of segment revenue (including net gains or losses from investment) and segment results:

	Segment Revenue		**Segment Results**	
	For the year ended 31 December 2019 HK$'000	For the year ended 31 December 2018 HK$'000	**For the year ended 31 December 2019 HK$'000**	For the year ended 31 December 2018 HK$'000
Securities	**129,013**	135,982	**89,055**	81,770
Investment and financing	**786,567**	392,122	**339,242**	110,900
Asset management, corporate finance and advisory	**154,231**	189,922	**100,412**	148,646
Others	**–**	–	**(103,469)**	(56,579)
Total	**1,069,811**	718,026	**425,240**	284,737

Management Discussion and Analysis

Securities

The Group's securities business mainly includes the provision of brokerage services, securities margin financing services, futures and options contracts dealing services and securities underwriting/placing services to clients. During the Reporting Year, the Group completed 102 bonds underwriting transactions for 82 Chinese enterprises and financial corporates. The Group acted as a global coordinator in 40 projects out of those transactions with the overall scale of underwriting exceeding US$30 billion. While actively enhancing growth in its bond underwriting business, the Group exercised strict control over its underwriting risk and continued to maintain a high-quality issuer base, which primarily covered industrial issuers, banks and non-banking financial institutions, urban investment enterprises with investment grade as well as high-quality real estate issuers, so as to safeguard the Group's reputation and image in the offshore capital market. The Group's debt capital market department also provides some significant bonds issuer clients with international rating advisory services.

During the Reporting Year, the revenue and profit contributed by the securities segment were approximately HK$129.0 million and HK$89.1 million, respectively, compared to the revenue and profit of approximately HK$136.0 million and HK$81.8 million, respectively in the Previous Year. The decrease of the segment revenue was due to the decrease of the arrangement fee from the margin financing clients. The increase of the profit in the segment was mainly attributed to the decrease in finance costs.

The Group continued to solidly develop securities brokerage business and margin financing business. Our securities brokerage business includes trading securities, bonds and other marketable securities of listed companies on behalf of clients. Margin financing business includes provision of stock secured financing for retail, corporate clients and high-net-worth clients who need finance for purchasing securities. The Group adopted a relatively cautious development strategy as to the securities brokerage business and margin financing business.

Management Discussion and Analysis

Investment and financing

During the Reporting Year, revenue from the investment and financing segment, which included but not limited to coupon, dividend and distribution income from listed bonds, listed equities, unlisted equity interests, unlisted funds, unlisted notes and debt investments, as well as interest income from loans, amounted to HK$786.6 million in aggregate as compared to HK$392.1 million in the Previous Year. The segment profit increased from HK$110.9 million in the Previous Year to HK$339.2 million in the Reporting Year. The increase in segment profit and revenue were mainly attributable to the improvement in market conditions and the enlargement of investment portfolio size.

The following table sets out the breakdown of investment and financing:

	31 December 2019 HK$'000	31 December 2018 HK$'000
Investment		
Listed equities	**25,454**	4,311
Unlisted equity interests	**290,790**	224,601
Listed bonds (measured at FVOCI)	**6,888,906**	3,006,050
Listed bonds (measured at FVTPL)	**94,071**	129,398
Listed bonds (measured at amortised cost)	**171,078**	–
Unlisted funds	**299,212**	193,135
Unlisted convertible notes	**–**	23,495
Unlisted convertible debt investments	**242,526**	482,039
Total	**8,012,037**	4,063,029
Financing		
Loans and advances	**2,210,711**	3,995,037

As at 31 December 2019, the Group's investment portfolio mainly included but not limited to listed bonds, listed equities, unlisted equity interests, unlisted funds, unlisted debt investments, covering a wide range of sectors such as industry, pharmaceuticals, technology, consumer goods, real estate and finance.

As at 31 December 2019, the assets of the proprietary investment of the Company amounted to approximately HK$8.0 billion (31 December 2018: approximately HK$4.1 billion), including bonds investment of approximately HK$7.2 billion (31 December 2018: approximately HK$3.1 billion). During the Reporting Year, the Group's total investment portfolio increased by approximately HK$3.9 billion. This was mainly due to the net purchase of listed bonds (measured at FVOCI, FVTPL and amortised cost) and unlisted funds and the fair value gain recognized in the Reporting Year. Benefited from the favorable performance of the bond market, such portfolio delivered excellent results during the Reporting Year and achieved significant capital return and interest income. The future performance of such portfolio will depend on many factors, including uncertainties around the current financial markets, development trends and investor sentiment in the economic development in both Hong Kong and Mainland China.

During the Reporting Year, the investment portfolio generated income in an aggregate amount of approximately HK$424.8 million, including interest income from debt securities investments of approximately HK$335.5 million, interest income from FVTPL investments of approximately HK$45.3 million and dividend income and other investment income of approximately HK$44.0 million.

For investments classified as financial assets measured at FVOCI and FVTPL, the Group recorded a net gain during the Reporting Year which mainly comprised; (i) net gains/(losses) recognized in the consolidated statement of profit or loss, and (ii) net losses not recycled through profit or loss upon disposal of financial assets measured at FVOCI.

The Company maintains a solid proprietary bonds investment approach and is committed to a revenue-based (including charging fixed contractual interest income and receiving gains on disposal) trading strategy. Adopting a consistent top-down/bottom-up approach in its investment analysis, the Company pursues investment with high-level and sustainable revenue with limited volatility. It implements a prudent risk management strategy to strike a balance between risk management and revenue generation and diversify investment to various opportunities. Position in any single bond shall not account for more than 5% of the overall position and the portfolio is diversified by investing in various issuers in a wide range of sectors, thereby avoiding the risk of substantial market adjustment.

At the same time, the unlisted direct investment business of the Group, including investment in equity interests and funds investments projects, mainly focused on trending industries, such as high-end technology, great healthcare and artificial intelligence, and the value of the investment projects held recorded an overall stable growth during the Reporting Year.

Management Discussion and Analysis

The loan business of the Group maintained the liquidity of the Group's assets through the selection of quality clients and projects with a focus on short-to-mid term financing. The loans were granted to market players in various industries, such as finance, technology, healthcare, sports, education and real estate, which created a diversified loan portfolio. Concentration, maturity profile and risk-to-revenue ratio of the asset portfolio were under constant monitoring. Thorough pre-, peri- and post-investment management were implemented and practicable and effective risk control measures were put in place to manage the credit risk of the Group.

Asset management, corporate finance and advisory

The Group's asset management, corporate finance and advisory segment represents the provision of asset management services, corporate finance services and financial advisory services to clients. During the Reporting Year, revenue of approximately HK$154.2 million and profit of approximately HK$100.4 million were recorded for this segment, as compared to revenue of approximately HK$189.9 million and profit of approximately HK$148.6 million in the Previous Year. The segment revenue and profit decreased due to the decrease in the number of advisory projects as compared to the Previous Year. However, the expansion of the asset management business and the corporate finance service had brought to the segment a more diversified source of income.

(I) Asset management

During the Reporting Year, the funds managed by the Group benefited from the active subscription by external clients and good investment performance, which contributed to a significant increase in management fee income. During the Reporting Year, the asset management segment recorded a revenue of approximately HK$77.6 million (Previous Year: approximately HK$25.2 million).

2019 witnessed a complex and changeable capital market in Hong Kong. While putting more efforts in the research of fundamentals, the Group's asset management team paid closer attention to the development and improvement of its investing and trading ability. The asset management team managed to make investments while being "sensitive to market, loyal to trends, skilled at trading, ready to assume responsibility and strictly self-disciplined" throughout the year, thereby achieving good investment performance. One of its fixed-income fund outperformed index and most of the similar products. In the assessment conducted by Barclay Hedge, a well-known global fund research institution, the fund was awarded the honor of the global "Top 10 long-short fixed-income strategy fund", which is assessed based on the rate of net investment return, ranking second among Chinese institutions. Steady progress was made in the unlisted equity investment business, and sci-tech funds saw a prominent growth in size after new investors made subscriptions. The Group will keep seeking for investment opportunities in sci-tech and medical sectors in the future.

(II) *Corporate finance and advisory*

In 2019, the overall situation was not optimistic due to the large market volatility, sensitive investor sentiment and tighter regulation. Nonetheless, under the leadership of the Group, the corporate financial segment managed to sign with a number of clients the letter of appointment as listing sponsor and submitted five applications for listing on the main board of the Stock Exchange, two of which ended up in a successful public offering in the same year. Such projects covered a wide range of traditional and emerging industries, including finance, manufacturing, healthcare and Internet. It is worth mentioning that in the Reporting Year, one of the main board projects we sponsored was oversubscribed by more than 1,400 times in the public offering, being the only IPO oversubscribed by more than 1,000 times in Hong Kong in 2019 and the share saw an excellent post-listing performance, which marked a successful end to the Group's sponsorship business in the Reporting Year. In addition to the sponsorship projects, we also participated in two listing projects as a joint bookrunner. As far as project execution is concerned, we were not at all inferior to any of the strong traditional Chinese securities companies.

Administrative expenses and finance costs

Administrative expenses and finance costs for the year ended 31 December 2019 amounted to HK$532.9 million in aggregate (for the year ended 31 December 2018: HK$406.9 million). The analysis is set out below:

	For the year ended 31 December 2019 HK$'000	For the year ended 31 December 2018 HK$'000
Staff costs	**119,644**	71,775
Depreciation and amortization	**29,704**	6,280
Other administrative expenses	**60,494**	66,800
Finance costs	**323,011**	262,029
Total	**532,853**	406,884

The increase in staff costs was mainly due to more investment in human resources to support the Group's business expansion.

The increase in depreciation and amortisation was mainly due to recognition of depreciation for right-of-use asset during the Reporting Year with the adoption of HKFRS 16.

The increase in finance costs was mainly due to the expansion of the size of investment portfolio, which resulted in the increase in borrowings (including bank and other borrowings and financial assets sold under repurchase agreements).

Management Discussion and Analysis

FINAL DIVIDEND

The Board has recommended a final dividend of HK0.33 cents per share to the Shareholders on or before Friday, 24 July 2020, for the year ended 31 December 2019 (31 December 2018: HK0.2 cents per share), subject to the approval by the Shareholders at the forthcoming annual general meeting (the "**AGM**"). A circular containing, among other things, further details and information required by the Listing Rules, together with a notice of AGM, will be despatched to the Shareholders.

BOOK CLOSURE AND RECORD DATE

For determining the entitlement to the proposed final dividend for the year ended 31 December 2019, the register of members of the Company will be closed from Wednesday, 8 July 2020 to Friday, 10 July 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for entitlement to the proposed final dividend, unregistered holders of shares should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 7 July 2020.

FINANCIAL REVIEWS

Capital structure

As at 31 December 2019, the total number of the issued share capital with the par value of HK$0.01 each was 47,679,217,729 and total equity attributable to Shareholders was approximately HK$2,222.2 million (31 December 2018: HK$1,876.1 million).

During the Reporting Year, no Shares had been purchased or granted to the selected persons of the Group under the share award scheme which was adopted in February 2016 (the "**Share Award Scheme**").

Liquidity and financial resources

The Group primarily financed its operations with internally-generated cash flows, borrowings, its internal resources and Shareholder's equity.

As at 31 December 2019, the Group had current assets of approximately HK$11,032.1 million (31 December 2018: HK$9,526.0 million) and liquid assets comprising cash (excluding cash held on behalf of customers), investment in listed equity securities and listed debt investments totaling approximately HK$7,409.1 million (31 December 2018: HK$4,027.3 million). The Group's current ratio, calculated based on current assets of approximately HK$11,032.1 million (31 December 2018: HK$9,526.0 million) over current liabilities of approximately HK$9,301.1 million (31 December 2018: HK$8,507.7 million), was approximately 1.2 at the end of the Reporting Year (31 December 2018: 1.1).

The Group's finance costs for the Reporting Year mainly represented the effective interest on notes payable of approximately HK$7.9 million (Previous Year: HK$8.3 million), interest on bank borrowings of approximately HK$2.0 million (Previous Year: HK$19.7 million), interest on loans from an intermediate holding company of approximately HK$242.7 million (Previous Year: HK$207.3 million), interest on financial assets sold under repurchase agreements of approximately HK$64.3 million (Previous Year: HK$26.7 million), and interest on lease liabilities of approximately HK$6.1 million (Previous Year: Nil).

As at 31 December 2019, the Group's indebtedness comprised loans from an intermediate holding company, notes payable and financial assets sold under repurchase agreements of approximately HK$8,887.1 million (31 December 2018: HK$7,869.3 million). The loans principal from an intermediate holding company of approximately HK$5,656.7 million (31 December 2018: HK$6,314.4 million) were denominated in Hong Kong dollars and United States dollars and borne interests at 4% to 4.24% per annum and were repayable within one year. The notes payable in the aggregate principal amount of HK$50 million (31 December 2018: HK$150 million) was denominated in Hong Kong dollars, due on the seventh anniversary from the respective issue dates of the notes, and borne interest at 5% fixed rate per annum.

The Group's gearing ratio, calculated on the basis of total indebtedness divided by the sum of total indebtedness and equity attributable to the Company's owners, was approximately 80.0% (31 December 2018: 80.7%).

With the amount of liquid assets on hand, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Use of proceeds from the subscription of new shares completed on 31 May 2017

On 7 March 2017, the Company entered into a subscription agreement with CMBC International Investment and Brilliant Decent, regarding the subscription for a total of 26,950,000,000 new shares by CMBC International Investment and Brilliant Decent at a consideration of HK$862.4 million (the "**2017 New Share Subscription**"). The 2017 New Share Subscription was completed on 31 May 2017.

Management Discussion and Analysis

The use of proceeds from the 2017 New Share Subscription as at 31 December 2019 was as follows:

(a) Actual Use of Proceeds

Set out below is the detailed breakdown of the use of the proceeds as of 31 December 2019:

	Original intended use of the proceeds as disclosed	Actual use of the proceeds up to 31 December 2019	Balance of the proceeds as at 31 December 2019
1.	Approximately 40% of the proceeds (approximately HK$340 million) was used to support and develop the securities business (including brokerage and margin financing)	Approximately HK$340 million	Nil
2.	Approximately 10% of the proceeds (approximately HK$85 million) was used to develop proprietary trading business	Approximately HK$85 million	Nil
3.	Approximately 10% of the proceeds (approximately HK$85 million) was used to develop and expand the capital-based intermediary business	Approximately HK$69.5 million	Approximately HK$15.5 million
4.	Approximately 25% of the proceeds (approximately HK$212.5 million) was used to further develop the Group's asset management business	Approximately HK$212.5 million	Nil
5.	Approximately 10% of the proceeds (approximately HK$85 million) was used to finance the required working capital needed for underwriting	Approximately HK$85 million	Nil
6.	Approximately 5% of the proceeds (approximately HK$42.5 million) was used for general working capital	Approximately HK$42.5 million	Nil

As at 31 December 2019, except for item 3 in the above table, the proceeds have been fully utilized in accordance with the original purposes.

Management Discussion and Analysis

(b) *Unutilized Proceeds*

As set out in the above table (i.e. item 3), approximately HK$15.5 million of the proceeds has not been utilized.

As at the date of this annual report, all unutilized proceeds are intended to be used for the same specific purposes as disclosed. The actual timing of utilization is subject to the market environment and the pace of our business development. The Company has been closely monitoring the market conditions and its business development and is expected to make use of the unutilized amount at or before the end of 2020.

Use of proceeds from the completion of the placing and the allotment and issue of new shares under a special mandate on 20 July 2018 and 15 October 2018 respectively

On 3 July 2018, the Company entered into a placing agreement with the placing agents regarding the placing of 830,000,000 new shares at a total consideration of HK$295 million (the "**Placing**"), and a subscription agreement with CMBC International Investment regarding the issuance of 1,350,000,000 new shares at a total consideration of approximately HK$490 million (the "**2018 Subscription**").

The Placing was completed on 20 July 2018.

The 2018 Subscription was completed on 15 October 2018.

Management Discussion and Analysis

As at 31 December 2019, the proceeds from the Placing and the 2018 Subscription had been utilized as follows:

(a) Actual Use of Proceeds

Set out below is the detailed breakdown of the use of the proceeds as of 31 December 2019:

	Original intended use of the proceeds as disclosed	Actual use of the proceeds up to 31 December 2019	Balance of the proceeds as at 31 December 2019
1.	60% of the proceeds from the Placing and the 2018 Subscription (approximately HK$417 million) was used to expand the loan and financing business of the Group	Approximately HK$417 million	Nil
2.	10% of the proceeds from the Placing and the 2018 Subscription (approximately HK$69.5 million) was used to further strengthen the Group's brokerage service capability	Approximately HK$69.5 million	Nil
3.	10% of the proceeds from the Placing and the 2018 Subscription (approximately HK$69.5 million) was used to expand the Group's corporate finance and advisory business	Approximately HK$52.4 million	Approximately HK$17.1 million
4.	10% of the proceeds from the Placing and the 2018 Subscription (approximately HK$69.5 million) was used to develop the asset management business	Approximately HK$69.5 million	Nil
5.	10% of the proceeds from the Placing and the 2018 Subscription (approximately HK$69.5 million) was used as the general working capital of the Group	Approximately HK$62.0 million	Approximately HK$7.5 million

(b) Unutilized Proceeds

As shown in the table above (i.e. items 3 and 5), approximately HK$24.6 million has not been utilized.

As at the date of this annual report, all unutilized proceeds are intended to be used for the same specific purposes as disclosed. The actual timing of utilization is subject to the market environment and the pace of our business development. The Company has been closely monitoring the market conditions and its business development and is expected to make use of the unutilized amount at or around the end of 2020.

Pledge of asset

Except as otherwise disclosed, as at 31 December 2019, the Group did not have other pledge or charge on asset (31 December 2018: Nil).

Contingent liability

Except as otherwise disclosed, as at 31 December 2019, the Group did not have other significant contingent liability (31 December 2018: Nil).

Capital commitment

As at 31 December 2019, the Group did not have any significant capital commitment (31 December 2018: HK$5.2 million).

Significant investments held

During the Reporting Year, the Group did not hold any single significant investment which accounted for over 5% of the total assets.

Material acquisitions and disposals of subsidiaries and associates

For the year ended 31 December 2019, the Group had no material acquisitions or disposals of subsidiaries and associates.

FOREIGN CURRENCY RISK MANAGEMENT

The Group's revenue is mainly denominated in United States dollars and Hong Kong dollars while its expenditure is mainly denominated in Hong Kong dollars. The Group's foreign exchange exposure is mainly from the translation of assets and liabilities denominated in United States dollars. As Hong Kong dollars are pegged to United States dollars, the Directors believe that the Group's foreign exchange exposure is manageable and the Group will closely monitor this risk exposure from time to time.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 90 (31 December 2018: about 80) employees including the Directors. For the Reporting Year, the total staff costs, including the Directors' remuneration, was approximately HK$119.6 million (Previous Year: HK$71.8 million). Remuneration packages for the employees and the Directors are structured by reference to market terms, individual competence, performance and experience. Benefits plans maintained by the Group include mandatory provident fund scheme, subsidized training program, share option scheme, share award scheme and discretionary bonuses.

OUTLOOK

Prospect

The trade dispute between the PRC and the US has had a profound impact on the economies of both countries. Since Hong Kong has long been the gateway into the PRC for businesses and a trade conduit between the two countries, Hong Kong is also adversely affected by the trade dispute. In addition, the future of the Hong Kong economy, dependent upon whether the political unrest can be resolved and the impact of the coronavirus disease outbreak, has become increasingly uncertain, and the Hong Kong government has recently lowered its forecast for the economic growth of this year.

Since the outbreak of coronavirus disease in December 2019, it has spread to many countries and has seriously interrupted the financial market, the economic activity and the demand for goods, resulting in widespread fear. An outbreak of coronavirus disease or the measures taken by the governments of affected countries against such outbreaks or the perception of an outbreak of coronavirus disease may have an adverse effect on economic conditions in the PRC, Asia and the rest of the world.

Although the Group has achieved satisfactory results for the Reporting Year and is optimistic about the long-term continuous growth of both Hong Kong and Mainland China's economies, and even though the Group strives to further develop its business, it is believed that the Group should act cautiously and be mindful about the risks which the Group may face in 2020. Hence, the Group will adopt the following development strategy.

Management Discussion and Analysis

Development strategy

The Company will continue to enhance its profitability by developing the investment and financing business, the corporate finance and advisory and asset management business. In particular, the Group will adopt the following measures, inter alia:

(1) Highlighting the main business of investment banking. The Group will continue to expand client resources, including continuous use of China Minsheng Bank's client resources, to strengthen and refine the business of sponsorship, underwriting and advisory;

(2) Optimizing the structure of investment and financing business. The Group will continue to improve client strategy and expand high-quality clients in accordance with economic development, changes in market environment and regulatory trends;

(3) Optimizing and improving the organizational structure, product system and marketing system of asset management and building an one-stop integrated platform for global asset management service. The Group will set up a client-centered asset management service system for the enhancement of client experience of asset management and wealth management, make a list of key clients of asset management, and create key and core products of asset management;

(4) Improving the ability to synergise and serve the Group. The Group will pay close attention to potential investment targets or strategic clients of China Minsheng Bank that can create synergy with the Group. The Company intends to provide a full range of financial services support for its cross-border activities by the establishment of a close relationship with such targets or partners; and

(5) Strengthening risk management. In strict compliance with regulatory requirements and in combination with the market and regulatory trends as well as the actual situation of the Company, the Group will pay close attention to the development of "three abilities" (i.e. marketing and communication, investment and trading, compliance and risk control) and the promotion of "three bottom lines" awareness (i.e. legal compliance, risk prevention and control, company interest), actively strengthen the corporate governance, compliance management and internal control system, and comprehensively improve its risk prevention and control ability, so as to achieve sustainable development. In light of the coronavirus disease outbreak, the Group will closely monitor the development of the situation and will duly strengthen the risk management in order to minimize its impact on the Group.

Furthermore, the Group adheres to the upgraded basic strategy of "one body and two wings", with "one body" optimized, which is to further optimize the products and client structure of investment and financing business, and "two wings" emphasized, which is to fully commit to improving the income and market position of its investment banking and asset management business.

RISK MANAGEMENT CAPABILITIES

The Board recognizes risk management as one of the key elements to the success of the Company. The Group constantly enhances its overall risk management capabilities and endeavors to improve risk management system to establish a risk management framework in line with its business development strategy. The Group takes a pragmatic approach to manage different risks primarily including credit risks, market risks, risks of legal compliance and liquidity risks. As at the date of this report, the Group has implemented various risk management policies and procedures, covering different business sectors. The Group has also established centralized internal control and compliance management system to effectively monitor the Group's operation and transactions. The Board has established the risk management and internal control committee to oversee the overall risk management framework of the Group. The Group will continue to enhance the risk management practices and internal control system and adopt a stringent governance framework with reference to the best practices in the market.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Jinze ("**Mr. Li**"), aged 50, was appointed as an executive Director of the Company on 7 June 2017 and is the chairman of the Board. Mr. Li is also the chairman of each of the Executive Committee and the Development Strategy Committee of the Company. In addition, Mr. Li is the current chief executive officer of CMBCI. Mr. Li has obtained a doctorate in international law from Wuhan University, and a postdoctor certificate in international finance from Nankai University. Since then, Mr. Li passed Papers 1 and 2 of the Licensing Examination for Securities and Futures Intermediaries, and is a licensed fund practitioner and has a certificate for qualified lawyer in the PRC. Mr. Li previously worked at Industrial and Commercial Bank of China Limited ("**ICBC**"), serving as the deputy general manager of its legal department, the vice president of its Shanxi branch, and the deputy general manager of the international business department of its head office. In addition, Mr. Li was previously employed as the head of the preparatory group for the incorporation of the Singapore branch of China Minsheng Bank. The major projects that Mr. Li was involved in include the reorganization of ICBC and the introduction of strategic investors in relation to its domestic and foreign listing, the reorganisation of the business of a Hong Kong investment bank, the establishment of a domestic trust involving the securitisation of non-performing assets, and the cases that involved oil proceeds which were subject to the sanction imposed by the Office of Foreign Assets Control of the United States government. Mr. Li has also published nearly 100 legal and financial articles in various publications including the People's Daily, China Legal Science and Studies of International Finance.

Mr. Ding Zhisuo ("**Mr. Ding**"), aged 54, was appointed as an executive Director and the general manager of the Company on 26 October and 7 November 2017, respectively. Mr. Ding is also a member of each of the Executive Committee, the Risk Management and Internal Control Committee and the Development Strategy Committee of the Company. Mr. Ding graduated from the Graduate School of the Chinese Academy of Social Sciences and holds a doctorate degree in economic and political science. Mr. Ding has extensive experience in investment banking industry. From July 1994 to January 2001, Mr. Ding had served as a senior staff, deputy director and director of the management information department of ICBC. From January 2001 to September 2007 and from December 2011 to July 2017, Mr. Ding had worked for China Huarong Asset Management Co. Ltd., a company whose shares are listed on the Stock Exchange (Stock Code: 2799), where he had served as the deputy general manager and the general manager at the research and development department, assessment consulting department, the Shanghai office, the securities business department, the development and planning department and the operations evaluation department. From September 2007 to December 2011, Mr. Ding had served as the general manager of Huarong Securities Co., Ltd. (華融證券股份有限公司), a subsidiary of China Huarong Asset Management Co. Ltd. and principally engaged in the securities business. Mr. Ding joined China Minsheng Bank in July 2017.

Directors and Senior Management

Mr. Ng Hoi Kam ("**Mr. Ng**"), aged 46, joined the Company as the deputy general manager in September 2017 and was appointed as an executive Director on 26 October 2017. Mr. Ng is also a member of each of the Executive Committee and the Development Strategy Committee of the Company. Mr. Ng has over 20 years of experience in the investment banking and financial industry focusing on the areas of initial public offerings, mergers and acquisitions, corporate restructuring and other financial advisory services to listed companies and listing applicants in Hong Kong. He has led a number of capital markets deals in various sectors including healthcare, technology, utilities and financial, as well as large-scale and complicated merger and acquisition deals including those involving state-owned enterprises of the PRC. Mr. Ng served as the managing director of corporate finance in Haitong International Capital Limited before joining the Group. From July 1997 to December 2000, he worked in Arthur Anderson & Co (now known as PricewaterhouseCoopers). Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants. He received his Master of Economics from the University of Hong Kong and Bachelor of Business Administration from the Chinese University of Hong Kong.

Mr. Ng is a Responsible Officer of each of CMBCIC and CMBC Securities, both of which are direct wholly-owned subsidiaries of the Company. CMBCIC is licensed by the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, and CMBC Securities is licensed by the SFC to carry out type 1 (dealing in securities) and type 4 (advising on securities)

NON-EXECUTIVE DIRECTORS

Mr. Ren Hailong ("**Mr. Ren**"), aged 55, was appointed as a non-executive Director on 7 June 2017. Mr. Ren is also the a member of each of the Nomination Committee, the Remuneration Committee and the Development Strategy Committee of the Company. Mr. Ren is the current general manager of the transaction banking department of China Minsheng Bank. Mr. Ren holds a master's degree from the Graduate School of People's Bank of China. He previously served as the cadre of the State Administration of Foreign Exchange, the deputy director and director of Guangxi Beihai Industrial Development Zone Credit Cooperatives; the president of China Minsheng Bank's Beijing Wanshoulu Subbranch; the director of the management department and the business department of China Minsheng Bank's Beijing office; the vice president, vice president (being in charge of work), deputy party secretary (being in charge of work) and party secretary of China Minsheng Bank's Hangzhou branch; and the general manager of e-banking department and e-finance department of China Minsheng Bank.

Mr. Liao Zhaohui ("**Mr. Liao**"), aged 52, was appointed as a non-executive Director on 7 June 2017. Mr. Liao is also the chairman of the Risk Management and Internal Control Committee of the Company. Mr. Liao is the current deputy general manager of financial market department of China Minsheng Bank. Mr. Liao holds a doctor's degree from the Graduate School of People's Bank of China. He has nearly 30 years of working experience in banking. Mr. Liao previously worked for the Bank of Communications Beijing Branch and the People's Bank of China Jiangxi Branch. He has held various positions at the international business, risk management and financial market departments of China Minsheng Bank since 1996. He was conferred the title of "Advanced Worker (Producer)" by China Minsheng Bank, and won the third prize granted by China Foundation for Development of Financial Education in 2000.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee, Cheuk Yin Dannis ("**Mr. Lee**"), aged 49, was appointed as an independent non-executive Director on 7 June 2017. Mr. Lee is also the chairman of the Audit Committee of the Company and a member of Risk Management and Internal Control Committee. Mr. Lee is a first class honor graduate with a bachelor's degree in Business Administration from Texas A&M University, and a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants (AICPA). He currently holds the positions of managing director of DLK Advisory Limited, independent non-executive director and the chairman of the audit committee of each of Geely Automobile Holdings Limited (Stock Code: 175) and Tiangong International Company Limited (Stock Code: 826). Mr. Lee is also an independent non-executive director of Beijing Gridsum Technology Co. Ltd. (a company listed on NASDAQ (Symbol: GSUM)). Mr. Lee has over 20 years of experience in business operations and expansion, operations in the capital market and accounting, and successfully planned and completed many important initial public offerings and corporate financing projects.

Mr. Wu Bin ("**Mr. Wu**"), aged 47, was appointed as an independent non-executive Director on 7 June 2017. Mr. Wu is also the chairman of each of the Nomination Committee and the Remuneration Committee of the Company and a member of each of the Audit Committee and the Development Strategy Committee. Mr. Wu is the current president and partner of Zhongping Capital and an equity investment and insurance private equity evaluation expert at Insurance Asset Management Association of China. Mr. Wu holds a doctor's degree in Economics from Fudan University. From September 1998 to February 2014, Mr. Wu served as the deputy general manager of Haitong Securities Co. Ltd. (Stock Code: 600837.SH, 6837.HK), the chairman of Haitong UniTrust International Leasing Corporation, the chairman of Haitong Asset Management Corporation and the director of Haitong International Finance Holdings Limited. He also successively served as the vice president of Shanghai Media Group (SMG), the vice chairman of Shanghai Oriental Pearl Group Co., Ltd., the chairman of Shanghai Media Development Corporation, the chairman of Shanghai EPIC Music, a director of Shanghai Shendi (Group) Co., Ltd. (Shanghai Disney Holdings Limited) and a director of China Business News (CBN). Mr. Wu was named as the Shanghai Financial Industry Leader, and was the former vice chairman of compliance committee of Securities Association of China, a member of asset management committee of Securities Association of China and an expert consultant of China Securities Investor Protection Fund.

Directors and Senior Management

Mr. Wang Lihua ("**Mr. Wang**"), aged 57, was appointed as an independent non-executive Director on 7 June 2017. Mr. Wang is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Wang is the current managing partner of Tian Yuan Law Firm. Mr. Wang holds a master's degree in Economic Law from Peking University. He previously served as the president of the 1st Beijing Xicheng Lawyers Association, a standing member of the All China Lawyers Association, a member of the Experts Panel of the Beijing Municipal Government, an expert of the International Chamber of Commerce China, a member of the Review Committee for Mergers and Acquisitions and Restructurings of Listed Companies of China Securities Regulatory Commission (CSRC) for the 1st session (original) and the 1st, 2nd and 3rd sessions (current), and the independent director of Shandong Xingmin Wheel Co., Ltd., China Minsheng Banking Corp., Ltd. and Xinjiang Chalkis Co., Ltd. Mr. Wang was previously an assistant to the director of law department of Peking University, the vice president of the 7th Council of Beijing Lawyers Association, and a member of the Public Offering Review Committee of CSRC for the 7th and 8th sessions. He serves as the independent director of Shandong Buchang Pharmaceuticals Co., Ltd. (山東步長製藥股份有限公司) and Hainan Mining Co., Ltd. (海南礦業股份有限公司).

SENIOR MANAGEMENT

Mr. Li Jianyang ("**Mr. Li Jianyang**"), aged 44, is the head of securities department of the Group. Mr. Li Jianyang joined the Group in July 2017. Mr. Li Jianyang is mainly responsible for the Group's securities business. Mr. Li Jianyang has 10-year experience in Hong Kong capital market. Prior to joining the Group, Mr. Li Jianyang worked in a subsidiary of the investment bank of ICBC group in Hong Kong and the headquarter of ICBC. Mr. Li Jianyang graduated from University of International Business and Economics (UIBE) with Master of Finance.

Mr. Chen Yi ("**Mr. Chen**"), aged 38, is the deputy general manager of the Group. Mr. Chen joined the Group in May 2017. Mr. Chen is mainly responsible for investment business, the communication with the financial institutions and market development of the Group's business. Mr. Chen has more than 10-year experience in financial industry. Since April 2006, Mr. Chen has worked in China Minsheng Bank and served as deputy head and head of secretary department of general office and head of investor relationship management department. Mr. Chen graduated from the University of Wales Swansea with Master of Science in Mathematics and Computing for Finance.

Report of the Directors

The Directors present their report and the audited consolidated financial statements of the Group for the Reporting Year.

EVENT AFTER THE REPORTING PERIOD

The coronavirus disease outbreak since early 2020 has brought about uncertainties to the Group's business environment and its impact is expected to gradually unfold. The Group has been closely monitoring the impact of the developments on the Group's businesses and has introduced corresponding contingency and additional risk management measures for its principal risks. In addition, the Group's management has worked vigilantly to implement a number of health and safety measures to protect staff members.

The Group will continue to closely monitor the coronavirus situation and assess the impact to the Group's financial position and performance regularly. The Group will keep its contingency and additional risk management measures under on-going review as the situation evolves. Timely actions will be undertaken to mitigate potential impact and strengthen its risk management measures as necessary. While the circumstances of the coronavirus disease outbreak has now become pandemic and is evolving rapidly around the world, an estimate of its financial impact to the Group at this stage may not be appropriate as it will be subject to material uncertainties under the current financial market conditions.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding. Details of principal activities of its principal subsidiaries are set out in note 44 to the consolidated financial statements.

During the Reporting Year and up to the date of this report, the Group expanded its businesses and operations by fully utilizing its licenses issued under the SFO (Types 1, 2, 4, 6 and 9 licences) as well as the money lender's license.

RESULTS AND DIVIDENDS

The Group's profit for the Reporting Year and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 86 to 200.

The Board has recommended a payment of final dividend of HK0.33 cents per share, with a total of approximately HK$157.3 million (31 December 2018: HK0.2 cents per share).

BUSINESS REVIEW

The business review of the Group for the Reporting Year is set out in the section headed "Management Discussion and Analysis" on pages 10 to 24 of this annual report, the discussion thereof form part of the Report of the Directors.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial period/years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on pages 201 to 202 of this annual report. The summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Year are set out in note 35 to the consolidated financial statements.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company (the "**Bye-laws**") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to Shareholders by reason of their holding of the Company's securities. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2019, the Board recognized that the redemption of Shares could increase the net asset value and/or earnings per share, so the Company redeemed a total of 28,700,000 Shares on the Stock Exchange, with the total consideration of approximately HK$4 million. As at the date of this report, all redeemed Shares have been cancelled.

Details of redemption are as follows:

Month of redemption	Total shares redeemed	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Total consideration paid (HK$'000)
June 2019	2,300,000	0.217	0.207	491
November 2019	5,110,000	0.126	0.116	621
December 2019	21,290,000	0.148	0.124	2,888
Total:	28,700,000	–	–	4,000

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Company and of the Group during the Reporting Year are set out in note 46 to the consolidated financial statements and in the consolidated statement of changes in equity on pages 91 and 92, respectively.

DISTRIBUTABLE RESERVES

As of 31 December 2019, the Company's distributable reserves to the Shareholders included a contributed surplus of HK$2,223.4 million (2018: HK$2,318.8 million). Pursuant to the provisions of the Companies Act 1981 of Bermuda, contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Year, the total revenue attributable to the Group's five largest customers represented 19.8% of the Group's total revenue (Previous Year: 18.7%) and the revenue attributable to the largest customer included therein amounted to 6.7% (Previous Year: 4.5%).

None of the Directors of the Company or any of their close associates or any Shareholders (who, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers. The Group is engaged in the provision of financial services. In the opinion of the Directors, it is of no value to disclose details of the Group's suppliers.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors are of the view that the business operations of the Group are highly dependent on various internal or external factors, including the economic and market environment in China and Hong Kong. The principal risks and uncertainties faced by the Group include but not limited to:

(i) credit risk that may arise from default of the Group's business counterparties, including borrowers, trading counterparties and bonds/note issuers;

(ii) market risk that may arise in the value of unlisted and listed securities invested by the Group, including when there is fluctuation of the equity and bond price;

(iii) operation risk that may arise from oversight of internal process management or misconduct of personnel;

(iv) legal and compliance risk that may arise when the Group fails to comply with changes in laws, regulations and rules of regulatory authorities that are applicable to it and its business on a timely manner due to the Group's business development; and

(v) liquidity risk that may arise when the funding requirements are not effectively assessed and predicted and when the Group fails to pay the debts in time as they fall due, fulfil the payment obligations and meet the funding requirements.

ENVIRONMENTAL POLICIES

The Board and the management of the Company are committed to better protect the environment by encouraging its employees to reduce consumption of electricity and paper, reduce waste, and use environmental friendly products whenever possible. Details of the relevant policies are set out in the Environmental, Social and Governance Report on pages 63 to 77 of this annual report.

Report of the Directors

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's legal department and compliance department had established and implemented compliance policies for the Group. The Group has taken various measures to ensure that each potential business transaction engaged by the relevant business teams is in compliance with the applicable laws, regulations and rules, including but not limited to the SFO, the Listing Rules, Anti-Money Laundering and Counter-Terrorist Financing Ordinance and the relevant laws.

RELATIONSHIP WITH EMPLOYEES

The Group recognises the unique position and value of its employees. In addition to the offering of market competitive remuneration, the Group also provides positive working environment and organises leisure activities such as birthday parties to build up strong connection with the employees. Details of the policies in relation to employment are set out in the Environmental, Social and Governance Report on pages 63 to 77 of this annual report.

RELATIONSHIP WITH CUSTOMERS

The Group is committed to provide excellent services to our customers with a view to maintaining steady business and asset growth as well as long term profitability.

DIRECTORS

The Directors who held office during the Reporting Year and up to the date of this report are:

Executive Directors

Mr. Li Jinze *(Chairman)*
Mr. Ding Zhisuo *(General Manager)*
Mr. Ng Hoi Kam

Non-executive Directors

Mr. Ren Hailong
Mr. Liao Zhaohui

Independent Non-executive Directors

Mr. Lee, Cheuk Yin Dannis
Mr. Wu Bin
Mr. Wang Lihua

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in note 11 to the consolidated financial statements.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions that took place during the Reporting Year which do not fall under the Rule 14A.76(1) of the Listing Rules are summarized as follows:

For details, please refer to the Company's announcements in relation to the continuing connected transactions dated 3 October 2017, 30 July 2018, 4 April 2019, 29 May 2019, 31 May 2019, 23 July 2019 and 31 December 2019, the circulars dated 28 August 2018 and 30 August 2019, and announcements in relation to the poll results of the special general meeting dated 20 September 2018 and 23 September 2019.

(I) Deposit Services

The Company (for itself and on behalf of other members of the Group) and CMBC HK Branch entered into the deposit services agreement dated 30 July 2018 ("**Deposit Services Agreement**"), pursuant to which, among other things, CMBC HK Branch agreed to provide the Group with the deposit services ("**Deposit Services**") subject to the terms and conditions provided in the Deposit Services Agreement.

Pursuant to the Deposit Services Agreement, the annual cap for the daily balance of the Group's deposits (including any interest accrued therefrom) with CMBC HK Branch for the financial year ended 31 December 2019 is as follows:

	For the year ended 31 December 2019 (HK$ million)
Daily deposit balance	1,900

CMBC HK Branch is the Hong Kong branch of China Minsheng Bank. China Minsheng Bank is an indirect controlling shareholder and a connected person of the Company. Therefore, CMBC HK Branch is a connected person of the Company. Accordingly, the Deposit Services under the Deposit Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Deposit Services under the Deposit Services Agreement exceeds 25% but is less than 100% as defined by the Listing Rules, the Deposit Services constitute (i) a major transaction of the Company subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules; and (ii) continuing connected transactions of the Company subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For more details, please refer to the announcement dated 30 July 2018, the circular dated 28 August 2018 and the announcement in relation to the poll results of the special general meeting dated 20 September 2018 made by the Company.

As the Deposit Services Agreement expires on 31 December 2019, and the Directors expect that the Group will continue to use the Deposit Services provided by CMBC HK Branch from time to time, the Company entered into the renewed deposit services agreement ("**Renewed Deposit Services Agreement**") with CMBC HK Branch on 31 December 2019 to renew the Deposit Services Agreement.

The Renewed Deposit Services Agreement is for a term commencing from the effective date and ending on 31 December 2022.

Pursuant to the Renewed Deposit Services Agreement, the annual cap for the three years ending 31 December 2022 are as follows:

	Year ending 31 December		
	2020 (HK$ million)	2021 (HK$ million)	2022 (HK$ million)
Daily deposit balance	**300**	300	300

As mentioned above with respect to the connected relationship between CMBC HK Branch and the Company, the Renewed Deposit Services Agreement also constitutes continuing connected transactions of the Company.

Since the applicable percentage ratios (other than the profits ratio) pursuant to Rule 14.07 of the Listing Rules in respect of the annual caps under the Renewed Deposit Services Agreement exceed 0.1% but are less than 5%, the Deposit Services to be provided under the Renewed Desposit Services Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details, please refer the Company's announcement dated 31 December 2019.

(II) CMBCI AM Service, CMBCI Distribution Service, CMBCI Underwriting Referral Service and CMBCI Underwriting Service

During the Reporting Year, the Company (for itself and on behalf of other members of the Group) and CMBCI (for itself and on behalf of other members of CMBCI Group) entered into the service agreement dated 4 April 2019 ("**CMBCI Service Agreement**"), with retrospective effect from 1 January 2019 for a term of one year, pursuant to which, among other things:

(i) the Group provided the asset management services ("**CMBCI AM Service**") to CMBCI, its associates or any third parties who are deemed to be connected with the Company under the Listing Rules;

(ii) CMBCI Group provided the distribution services to the Group ("**CMBCI Distribution Service**");

(iii) CMBCI Group provided the underwriting referral services ("**CMBCI Underwriting Referral Service**") to the Group;

(iv) the Group provided the underwriting services ("**CMBCI Underwriting Service**") to CMBCI, its associates or any third parties who are deemed to be connected with the Company under the Listing Rules.

Pursuant to the CMBCI Service Agreement, the annual caps for the transactions under the CMBCI Service Agreement for the financial year ended 31 December 2019 are as follows:

	For the year ended 31 December 2019 (HK$ million)
CMBCI Underwriting Referral Services*	9.99
CMBCI AM Services	9.99
– Distribution fees*	0.09
– Management fees	9.00
– Performance fees	0.90
CMBCI Underwriting Services	9.99

* Fees to be payable by the Group to CMBCI Group

CMBCI is an indirect controlling shareholder of the Company. Therefore, CMBCI is a connected person of the Company. Accordingly, the transactions above constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios (other than the profits ratio) pursuant to Rule 14.07 of the Listing Rules in respect of the annual caps under the CMBCI Service Agreement exceed 0.1% but are less than 5%, the services to be provided under the CMBCI Service Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcement dated 4 April 2019.

Report of the Directors

Due to the improving market condition, there has been an increase in demand for the CMBCI AM Service under the CMBCI Service Agreement. On 29 May 2019, the Company and CMBCI entered into a supplemental agreement ("**Supplemental Agreement**") to revise the annual cap for the CMBCI AM Service under the CMBCI Service Agreement for the year ended 31 December 2019 from HK$9.99 million to HK$39.5 million. The revised annual caps (the "**Revised Annual Caps**") for the year ended 31 December 2019 are as follows:

	For the year ended 31 December 2019 (HK$ million)
CMBCI AM Services	**39.5**
– Distribution fees*	**0.5**
– Management fees	**30**
– Performance fees	**9**

* Fees to be payable by the Group to CMBCI Group

Since the applicable percentage ratios (other than the profits ratio) pursuant to Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps exceed 0.1% but are less than 5%, the CMBCI AM Services to be provided under the CMBCI Service Agreement (and the Supplemental Agreement) are subject to the reporting, announcement and annual review requirements, but are exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcement dated 29 May 2019.

The Company entered into a termination agreement with CMBCI on 23 July 2019 (the "**Termination Agreement**") and agreed to terminate the CMBCI Service Agreement. The Termination Agreement became effective on 23 September 2019. For details, please refer to the Company's announcement dated 23 July 2019, the circular dated 30 August 2019 and the announcement in relation to the poll results of the special general meeting dated 23 September 2019.

(III) China Minsheng AM Service, China Minsheng Distribution Service, China Minsheng Underwriting Referral Service and China Minsheng Underwriting Service

During the Reporting Year, the Company (for itself and on behalf of other members of the Group) entered into the service agreement ("**China Minsheng Service Agreement**") dated 23 July 2019 with China Minsheng Bank (for itself and on behalf of other members of China Minsheng Group) for, among other things, the following continuing connected transactions:

(i) the Group provided the asset management services, investment advisory services and ancillary services ("**China Minsheng AM Service**") to China Minsheng Bank, its associates or any third parties who are deemed to be connected with the Company under the Listing Rules;

(ii) China Minsheng Bank Group provided the distribution services to the Group ("**China Minsheng Distribution Service**");

(iii) China Minsheng Bank Group provided the underwriting referral services ("**China Minsheng Underwriting Referral Service**") to the Group;

(iv) the Group provided the underwriting services ("**China Minsheng Underwriting Service**") to China Minsheng Bank, its associates or any third parties who are deemed to be connected with the Company under the Listing Rules.

The China Minsheng Service Agreement shall take effect from the date of approval of the China Minsheng Service Agreement and the services to be provided thereunder (including the annual caps) by the independent Shareholders at the special general meeting to 31 December 2021 (both days inclusive).

Pursuant to the China Minsheng Service Agreement, the annual caps under the China Minsheng Service Agreement for the three years ending 31 December 2021 are as follows:

	Year ended/ending 31 December		
	2019 (HK$ million)	2020 (HK$ million)	2021 (HK$ million)
China Minsheng Underwriting Referral Services*	**12**	12	12
China Minsheng AM Services	**141**	141	141
– Distribution fees*	**5**	5	5
– Management fees and advisory fees	**94**	94	94
– Performance fees	**42**	42	42
China Minsheng Underwriting Services	**11**	11	11

* Fees to be payable by the Group to China Minsheng Bank Group

China Minsheng Bank is an indirect controlling shareholder of the Company. Therefore, each member of China Minsheng Bank Group is a connected person of the Company. Accordingly, the transactions above constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios (other than the profits ratio) pursuant to Rule 14.07 of the Listing Rules in respect of the annual caps under the China Minsheng Service Agreement exceed 5%, the services to be provided under the China Minsheng Service Agreement are subject to the reporting, announcement, circular, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details, please refer to the Company's announcement dated 23 July 2019, the circular dated 30 August 2019 and announcement in relation to the poll results of the special general meeting dated 23 September 2019.

(IV) Office Sharing

On 31 May 2019, the Company entered into an office sharing agreement with CMBCI (the "**Office Sharing Agreement**"), pursuant to which the Company agreed to grant CMBCI a non-exclusive right to use the Company's certain office space ("**Office Sharing**"), with the consideration being the sharing fee payable by CMBCI to the Company of HK$740,000 per month (the "**Sharing Fees**").

The Office Sharing Agreement is for a term commencing from its effective date and ended on 31 December 2019.

The annual cap for the Sharing Fees for the year ended 31 December 2019 pursuant to the Office Sharing Agreement is as follows:

	For the year ended 31 December 2019 (HK$ million)
Sharing Fees	5.2

CMBCI is an indirect controlling shareholder of the Company. Therefore, CMBCI is a connected person of the Company. Accordingly, the transactions above constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the relevant percentage ratios (other than the profits ratio) in respect of the annual cap for the amounts payable by CMBCI to the Company under the Office Sharing Agreement exceed 0.1% but less than 5%, the transaction under the Office Sharing Agreement and the relevant annual cap are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempt from the circular and the independent Shareholders' approval requirements.

For details, please refer to the Company's announcement dated 31 May 2019.

As the Office Sharing Agreement expires on 31 December 2019, and the Directors expect that the Group will continue to share the office space with CMBCI, the Company entered into a renewed office sharing agreement ("**Renewed Office Sharing Agreement**") with CMBCI on 31 December 2019 to renew the Office Sharing Agreement.

The Renewed Office Sharing Agreement is for a term commencing from the effective date and ending on 31 December 2022.

Pursuant to the Renewed Office Sharing Agreement, the annual caps relating to the Renewed Office Sharing Agreement for the three years ending on 31 December 2022 are as follows:

	Year ending 31 December		
	2020 (HK$ million)	2021 (HK$ million)	2022 (HK$ million)
Sharing Fees	**8.88**	8.88	8.88

As mentioned above with respect to the connected relationship between CMBCI and the Company, the Renewed Office Sharing Agreement also constitutes continuing connected transactions of the Company.

As the relevant percentage ratios (other than the profits ratio) pursuant to Rule 14.07 of the Listing Rules in respect of the annual cap under the Renewed Office Sharing Agreement exceed 0.1% but less than 5%, the transaction under the Renewed Office Sharing Agreement and the relevant annual cap are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but are exempt from the circular and the independent Shareholders' approval requirements.

For details, please refer to the Company's announcement dated 31 December 2019.

Report of the Directors

Annual Actual Amount

Set out below are the actual amount received/paid for the year ended 31 December 2019 in relation to the continuing connected transactions contemplated under the Deposit Services Agreement, CMBCI Service Agreement, China Minsheng Service Agreement and Office Sharing Agreement:

Continuing Connected Transactions	Payor	Payee	Actual Amount for the year ended 31 December 2019 (HK$ million)
Deposit Services (Daily Deposit Balance)	The Group	CMBC HK Branch	not exceeding the annual cap
CMBCI Underwriting Referral Services	The Group	CMBCI	–
CMBCI AM Services			
– Distribution fees	The Group	CMBCI	–
– Management fees	CMBCI	The Group	28.4
– Performance fees	CMBCI	The Group	–
CMBCI Underwriting Services	CMBCI	The Group	–
China Minsheng Underwriting Referral Services	The Group	China Minsheng Bank Group	–
China Minsheng AM Services			
– Distribution fees	The Group	China Minsheng Bank Group	–
– Management fees and advisory fees	China Minsheng Bank Group	The Group	48.6
– Performance fees	China Minsheng Bank Group	The Group	–
China Minsheng Underwriting Services	China Minsheng Bank Group	The Group	–
Office Sharing	CMBCI	The Group	5.2

Annual Review

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favorable to the Group than terms available to/from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in interests of the Shareholders and the Company as a whole.

In accordance with Rule 14A.56 of the Listing Rules, the Directors engaged the auditor of the Company to report on the above mentioned continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("**HKSAE 3000**") and with reference to Practice Note 740 "Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules" ("**PN740**") issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has reported to the Directors in accordance with HKSAE 3000 and with reference to PN740 that the transactions:

(i) have been approved by the Board;

(ii) are in accordance with the pricing policies of the Company;

(iii) have been entered into in accordance with the relevant agreements governing such transactions; and

(iv) have not exceeded the relevant annual caps approved by the independent Shareholders at the special general meeting of the Company.

The auditors have issued an unqualified letter in relation to the continuing connected transactions according to Rule14A.56 of the Listing Rules, which contains their findings and conclusion. The auditors have reported their findings and conclusion to the Board. The Company has submitted a copy of the auditors' letter to the Stock Exchange.

Regarding the related party transactions as set out in note 43 to the consolidated financial statements, the loans from the intermediate holding company and the corresponding interest are connected transactions exempted from announcement, reporting and independent Shareholders' approval requirements under the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the Reporting Year.

Report of the Directors

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly with the business of the Group.

REMUNERATION POLICY

The Group remunerates its employees based on their competence, performance, experience and prevailing market terms. Other employee benefits included provident fund scheme, medical insurance, share option scheme, share award scheme as well as discretionary bonuses.

The Directors' remuneration is determined by taking into consideration of their respective responsibilities and contributions to the Company with reference to market terms.

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 subsisted during the Reporting Year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2019, none of the Directors nor chief executive of the Company or their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and the "Share Option Scheme", at no time during the Reporting Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the Reporting Year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to the said persons. Save as disclosed herein, the Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the Reporting Year and up to the date of this annual report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 31 December 2019, save as disclosed below, according to the list of substantial shareholders extracted from the website of the Stock Exchange and the announcement of the Company, the following companies or persons had an interest or short position in the Shares and the register of interests kept by the Company under section 336 of the SFO and as far as is known to the Directors, no person had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any option in respect of such capital:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the issued share capital of the Company	Long position/ Short position
China Minsheng Bank	Interest of controlled corporation	29,360,599,093 (Note 1)	61.58%	Long position
CMBCI	Interest of Controlled corporation	29,360,599,093 (Note 1)	61.58%	Long position
CMBC International Investment (HK)	Interest of Controlled corporation	29,360,599,093 (Note 1)	61.58%	Long position
CMBC International Investment	Beneficial Owner	29,360,599,093 (Note 1)	61.58%	Long position
China Soft Power Technology Holdings Limited	Interest of controlled corporation	3,794,375,829 (Note 2)	7.95%	Long position

Note:

1. CMBC International Investment was beneficially and wholly-owned by CMBC International Investment (HK), which was in turn beneficially and wholly-owned by CMBCI. CMBCI was beneficially and wholly owned by China Minsheng Bank. As such, each of CMBC International Investment (HK), CMBCI and China Minsheng Bank was deemed to be interested in the Shares held by CMBC International Investment.

2. China Soft Power Technology Holdings Limited beneficially and wholly held the entire issued share capital of Hoshing Limited, which in turn beneficially and wholly held the entire issued share capital of Main Purpose Investments Limited and Desert Gold Limited. Main Purpose Investments Limited and Desert Gold Limited held 1,804,725,829 Shares and 1,989,650,000 Shares, respectively. As such, China Soft Power Technology Holdings Limited was deemed to be interested in the Shares held by Main Purpose Investments Limited and Desert Gold Limited.

Report of the Directors

CONFIRMATION OF INDEPENDENCE

The Company has received the confirmation of independence from each of the independent non-executive Directors as required under Rule 3.13 of the Listing Rules. The Company considered all independent non-executive Directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2019 have been reviewed by the Audit Committee of the Company before they are duly approved by the Board under the recommendation of the Audit Committee.

INDEPENDENT AUDITOR

KPMG had been appointed as the Company's auditor since 8 September 2017 and retired as the external auditor of the Company upon the expiry of the appointment, with effect from the conclusion of the annual general meeting of the Company held on 28 June 2019.

On 28 May 2019, the Board resolved to propose the appointment of PricewaterhouseCoopers as the auditor of the Company for the Reporting Year in order to align the audit work of the Group and China Minsheng Bank and thereby enhancing the efficiency of the audit services to be provided to the Group and its controlling shareholder. The appointment of PricewaterhouseCoopers as the Company's auditor was approved at the annual general meeting held on 28 June 2019.

The financial statements for the Reporting Year have been audited by PricewaterhouseCoopers.

On behalf of the Board

Li Jinze
Chairman

Hong Kong, 23 March 2020

Corporate Governance Report

The Group has made continued efforts to incorporate the key elements of good corporate governance into its management structure and internal procedures. The Board is committed to maintaining a high level of corporate governance practices in accordance with applicable regulations.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the CG Code as set out in Appendix 14 to the Listing Rules throughout the Reporting Year except for the following deviation with reasons as explained:

ATTENDANCE OF THE ANNUAL GENERAL MEETING

Code Provision E.1.2

Code Provision E.1.2 stipulates that the chairman of the Board should invite the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairmen of such committees, another member of the committee (or failing this his duly appointed delegate), to be available to answer questions at the annual general meeting of the Company.

It further stipulates that the chairman of the independent board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent Shareholders' approval.

Deviation

The chairmen and members of the nomination committee and the remuneration committee were unable to attend the annual general meeting of the Company held on 28 June 2019 (the "**2018 AGM**") due to their other business engagement. However, the chairman of the Board had chaired the 2018 AGM and answered questions from the Shareholders. The 2018 AGM has provided a channel for communication between the Board and the Shareholders.

The chairman of the independent board committee did not attend the special general meetings of the Company held on 23 September 2019 due to other important business engagement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors. In response to specific enquiries made by the Company, all Directors confirmed that they have fully complied with the required standards as set out in the Model Code throughout the Reporting Year.

Corporate Governance Report

THE BOARD

The Board of Directors is currently composed of eight Directors, comprising three executive Directors, two non-executive Directors, and three independent non-executive Directors, whose names and offices are listed on page 4 of this annual report.

During the Reporting Year, the Directors had devoted sufficient time and attention to the Company's affairs. An updated list of the Directors identifying their roles and functions is maintained on the websites of the Company and the Stock Exchange. Independent non-executive Directors are identified as such in all corporate communications containing the name of the Directors.

For biographical details of all current Directors and senior management of the Group, please see "Directors and Senior Management" of this report. To the best knowledge of the Directors, save as disclosed in the biographies of the Directors, there is no financial, business, family, or other material or relevant relationships among the members of the Board during the Reporting Year.

Functions of the Board and Delegation of Powers

The principal function of the Board is to, among others, consider and approve the Group's overall business plans and strategies, develop and implement the corporate governance function, and supervise the implementation of these policies and strategies and the overall management of the Group. The Board, while reserving certain key matters when making decisions for its approval, has delegated the day-to-day operation of the Group to the executive Directors and the management team, which is led by a team of senior management with substantial experience and expertise in the Group's business.

Board and General Meetings

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Bye-laws. All materials of the Board meetings were recorded in sufficient details of the matters considered by the Board and the decisions made.

Pursuant to the Code Provisions A.1.1, the Board should meet regularly and board meetings should be held at least four times a year. During the Reporting Year, the Board held 5 meetings. The attendance record of each Director at the Board meetings, the Audit Committee meetings, the Remuneration Committee meetings, the Nomination Committee meetings, Risk Management and Internal Control Committee meetings, the Executive Committee meetings and Development Strategy Committee meetings of the Company held during the Reporting Year is as follows. The figures in the denominators indicate the total number of meetings held in the period in which the individual was a Director.

THE BOARD (continued)

Board and General Meetings (continued)

Name of Directors	Board Meeting	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Risk Management and Internal Control Committee	Development Strategy Committee	Executive Committee
Executive Directors							
Mr. Li Jinze *(Chairman)*	4/4*	N/A	N/A	N/A	N/A	1/1	3/3
Mr. Ding Zhisuo *(General Manager)*	4/4*	N/A	N/A	N/A	2/2	1/1	3/3
Mr. Ng Hoi Kam	4/4*	N/A	N/A	N/A	N/A	1/1	3/3
Non-executive Directors							
Mr. Ren Hailong	4/4*	N/A	1/1	1/1	N/A	1/1	N/A
Mr. Liao Zhaohui	4/4*	N/A	N/A	N/A	2/2	N/A	N/A
Independent Non-executive Directors							
Mr. Lee, Cheuk Yin Dannis	5/5	3/3	N/A	N/A	2/2	N/A	N/A
Mr. Wu Bin	5/5	3/3	1/1	1/1	N/A	1/1	N/A
Mr. Wang Lihua	5/5	3/3	1/1	1/1	N/A	N/A	N/A

* The executive Directors and the non-executive Directors were required to abstain from attending and voting in the board meetings which were held for the approval of the Group's connected transactions.

Independent Non-executive Directors

The Company has three independent non-executive Directors which complies with Rules 3.10(1) and 3.10A of the Listing Rules. Furthermore, among these three independent non-executive Directors, Mr. Lee, Cheuk Yin Dannis has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. In accordance with Rule 3.13 of the Listing Rules, the Company has received from each of its independent non-executive Directors a written confirmation of his independence. The Company, based on such confirmations, considers each of Mr. Lee, Cheuk Yin Dannis, Mr. Wu Bin, and Mr. Wang Lihua continues to be independent.

Chairman and General Manager

The chairman of the Board is responsible for overseeing all Board functions, while the executive Directors and senior management are under the leadership of the general manager to oversee the day-to-day operations of the Group and implement the strategies and policies approved by the Board.

The positions of the chairman of the Board and the general manager are currently held by Mr. Li Jinze and Mr. Ding Zhisuo, respectively.

THE BOARD (continued)

Directors' and Officers' Liabilities

The Company has arranged for appropriate insurance covering the liabilities in respect of legal action against the Directors and officers that may arise out of its corporate activities. The insurance coverage is reviewed on an annual basis.

Continuing Professional Development

The Company will provide a comprehensive, formal, and tailored induction to each newly appointed director on his or her first appointment in order to enable him or her to have appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Moreover, all directors are provided with periodic up-to-date information on the Company's performance, position, and prospects to enable the Board as a whole and each Director to discharge their duties.

According to the training records maintained by the Company, the training received by each of the existing Directors during the year ended 31 December 2019 is summarised as follows:

	Training related to regulatory development and/or other relevant topics
Executive directors	
Mr. Li Jinze *(Chairman)*	✔
Mr. Ding Zhisuo	✔
Mr. Ng Hoi Kam	✔
Non-executive directors	
Mr. Ren Hailong	✔
Mr. Liao Zhaohui	✔
Independent non-executive directors	
Mr. Lee, Cheuk Yin Dannis	✔
Mr. Wu Bin	✔
Mr. Wang Lihua	✔

BOARD COMMITTEES

The Company currently has six Board committees, namely the Audit Committee, Remuneration Committee, Nomination Committee, Executive Committee, Risk Management and Internal Control Committee, and Development Strategy Committee for overseeing particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Audit Committee

Terms of reference of the Audit Committee are in compliance with the CG Code and are available on the websites of the Stock Exchange and the Company. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of the external auditor, review the financial statements, provide advice in respect of financial reporting, and review the risk management and internal control systems.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Lee, Cheuk Yin Dannis (the chairman of the Audit Committee), Mr. Wu Bin, and Mr. Wang Lihua.

The Audit Committee has reviewed, inter alia, the annual results during the Reporting Year of the Group. During the Reporting Year, the Audit Committee held three meetings, with all members present.

Remuneration Committee

Terms of reference of the Remuneration Committee are in compliance with the CG Code and are available on the websites of the Stock Exchange and the Company. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance based remuneration, and ensure none of the Directors determine their own remuneration.

The Remuneration Committee comprises two independent non-executive Directors, namely, Mr. Wu Bin (the chairman of the Remuneration Committee) and Mr. Wang Lihua, and one non-executive Director, namely, Mr. Ren Hailong.

BOARD COMMITTEES (CONTINUED)

Remuneration Committee (Continued)

The Remuneration Committee has performed the following works during the Reporting Year and up to the date of this report:

(i) to review, inter alia, the performance and remuneration package of the Directors; and

(ii) to review the Company's policy and structure for remuneration of all members of senior management of the Group.

During the Reporting Year, the Remuneration Committee held one meeting, with all members present.

According to Code Provision B.1.5, the remuneration of the members of the senior management (other than Directors) by band for the Reporting Year is set out below:

Remuneration bands (HK$)	Number of individual(s)
Up to 1,000,000	–
1,000,001 to up to 2,000,000	1
Above 2,000,000	1

Remuneration Policy for Directors and Senior Management

The remuneration payable to the employees includes salaries and allowances. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the executive Directors is to enable the Group to retain and motivate the executive Directors by linking their compensation with performance as measured against corporate objectives achieved. Each of the executive Directors is entitled to the remuneration packages including basic salaries and discretionary bonuses.

Nomination Committee

Terms of reference of the Nomination Committee are in compliance with the CG Code and are available on the websites of the Stock Exchange and the Company. The primary duties of the Nomination Committee include reviewing the structure, size, and composition of the Board, assessing the independence of independent non-executive Directors, and making recommendations to the Board on matters relating to the appointment of Directors.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (Continued)

The Board is empowered under the Bye-Law of the Company to appoint any person as a Director to fill a casual vacancy or, as an additional member of the Board. Qualified candidates will be proposed by the Nomination Committee to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship to the Shareholders having regards to the balance of skills and experience appropriate to the Group's business.

The Nomination Committee comprises two independent non-executive Directors, namely, Mr. Wu Bin (the chairman of the Nomination Committee) and Mr. Wang Lihua, and one non-executive Directors, namely Mr. Ren Hailong.

The Nomination Committee has performed, inter alia, the following works during the Reporting Year and up to the date of this report:

(i) to review the structure, size, and composition (including the skills, knowledge, and experience) of the Board as well as the policy concerning the diversity of the members of Board; and

(ii) to assess the independence of the independent non-executive Directors.

During the Reporting Year, the Nomination Committee held one meeting, with all members present.

Executive Committee

The Executive Committee was established in July 2017. The Executive Committee consists of all executive Directors and is chaired by the chairman of the Board.

The roles and functions of the Executive Committee includes, amongst others, (1) to make investment decision delegated to the Executive Committee; (2) to monitor day-to-day operation of the Group on behalf of the Board; (3) to handle relevant matters that shall not be necessarily dealt with through regular Board meetings or too late to be dealt with through provisional Board meetings as considered by the chairman of the Board; and (4) to handle any other matters authorised by the Board to the Executive Committee.

During the Reporting Year, the Executive Committee held three meetings with all members present, and considered and approved investment projects under their delegated authority and other day-to-day operations as assigned by the Board.

BOARD COMMITTEES (CONTINUED)

Risk Management and Internal Control Committee

The Risk Management and Internal Control Committee was established in November 2017. The Risk Management and Internal Control Committee consists of Mr. Liao Zhaohui, Mr. Ding Zhisuo, and Mr. Lee, Cheuk Yin Dannis and is chaired by Mr. Liao Zhaohui.

The roles and functions of the Risk Management and Internal Control Committee includes, amongst others, (1) to consider and make the Group's risk management and internal control strategies; (2) to make, review, and approve the Group's risk management and internal control policies and guidance; (3) to assess and decide the risk appetite and tolerance of the Group and the relevant resource allocation; (4) to review and monitor the Group's risk management and internal control system, and evaluate its sufficiency; and (5) to handle any other matters authorised by the Board.

During the Reporting Year, the Risk Management and Internal Control Committee has fulfilled the above duties and confirmed that the Company's risk management and internal control systems and settings were adequate and effective.

During the Reporting Year, the Risk Management and Internal Control Committee held two meetings, with all members present.

Development Strategy Committee

The Development Strategy Committee was established in November 2017. The Development Strategy Committee consists of Mr. Li Jinze, Mr. Ding Zhisuo, Mr. Ng Hoi Kam, Mr. Wu Bin, and Mr. Ren Hailong and is chaired by the chairman of the Board.

The roles and functions of the Development Strategy Committee includes, amongst others, (1) to conduct research on and advise the mid-to-long term development strategy of the Company; (2) to conduct research on and advise the material investment plans; and (3) to handle any other matters authorised by the Board.

During the Reporting Year, the Development Strategy Committee held one meeting, with all members present.

Corporate Governance Report

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Policy**") in September 2013 which sets out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board. Selection of candidates will be based on range of diversity perspectives, which would include but not limited to educational background, ethnicity, professional experience, skills, knowledge, and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will monitor the implementation of the Policy and will from time to time review the Policy, as appropriate, to ensure the effectiveness of the Policy. The attendance record of each member at the Nomination Committee meetings is set out in the sub-section of the Board and General Meetings of the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's Responsibilities for the Consolidated Financial Statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements for each financial year to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the Reporting Year, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair, and reasonable, and prepared the consolidated financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. A statement by auditor about their reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

External Auditors

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers.

For the Reporting Year, the total fee charged by PricewaterhouseCoopers for audit services was HK$2,750,000 and non-audit services was HK$475,000 for the review of the interim financial statements and other services.

ACCOUNTABILITY AND AUDIT (continued)

Corporate Governance Functions

The Board has performed the following corporate governance duties of the Company in accordance with the written terms of reference adopted by the Board during the Reporting Year and up to the date of this report:

(i) to develop and review the policies and practices on corporate governance of the Company and make recommendations;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review, and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

(v) to review the Company's compliance with the CG Code and the disclosure in the corporate governance report of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group has established mature corporate governance and has set up comprehensive risk and management and internal control procedures to monitor, assess, and manage the major risks that may occur in the process of business operation. The Group conducted annual review on these management and internal control procedures. The Group has established a multi-level structure of risk management and internal control, including: (1) the Risk Management and Internal Control Committee established by the Board, with its main duties being considering, reviewing, and approving the risk management and internal control policies and guidelines; review and monitor the system of risk management and internal control and assess the effectiveness of its implementation; (2) decision-making committees that operate at the management level, which is responsible for performing daily management and control duties and deciding and approving matters within its permission; (3) relevant departments which execute risk management works, including each of the business line department, legal, compliance, risk management and internal audit departments, regulating business operations at the front, the middle, and the back.

The Group attaches great importance to corporate governance effectiveness, legal compliance management, and comprehensive risk management. To ensure the healthy and sustainable development of the business, the risk management in all business segments is implemented through a clear governance structure, policy procedures, and reporting mechanism.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

During the Reporting Year, with multidimensional prospective regarding products, processes, internal fine management, etc., the Group supplemented and improved a series of systematic measures to effectively control credit risk and market risks, and prevent major operational risks and legal compliance risks. Hence, the Group can meet the overall liquidity management requirements and improve the overall risk management level of the Company while providing effective solutions for identification, assessment, and treatment of risks to enhance the risk management and internal control systems.

As for credit risk, the Group attaches great importance to the development and continual management of businesses that have exposures to credit risks. During the Reporting Year, the Group continuously improved the relevant systems and process management rules for various businesses, optimized the credit risk management system, and raised the overall awareness and efficiency of credit risk management. This provided institutional guidance and policy basis for business development. In addition, the Group optimized and improved its capabilities of analytic study and management of portfolio investment while keeping strengthening the post-investment tracking management of investment and financing projects.

As for market risk, a market risk management framework was gradually improved during the Reporting Year. The Group made continuous improvements to the market risk management system and to the indicator management under the market risk framework. The Group kept optimizing the market risk management and control process mechanism from pre-investment analysis to post-investment tracking, and further refined the tools for analyzing market risk management indicators. In addition, the Group established a permanent mechanism for making dynamic follow-up analysis of the global financial market, and collected, made prompts, and responded in a timely manner to various factors affecting the stability of the financial market.

As for operational risk, during the Reporting Year, the Group kept improving various management rules regarding process management and internal management mechanisms of each business segment, emphasizing the risk management awareness and effective execution of each department from the front desk to the back office in the entire business process, and urged all the employees to implement the management rules diligently and provided them with guidance as necessary. The Group sorted through the key elements in its core business regarding risk prevention and control, and identified the basic operations sequence and the main risk control elements for each of these sequences while emphasizing the standardized and transparent management of the process. The information security policies and information system security were enhanced. Through improvement of information security policies and standard operating procedures, upgrading new software and hardware, improvement of network structure, and implementation of defensive, detection, and monitoring measures, the Group is able to safeguard its trading systems and data.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

As for legal compliance risk, the Group's legal department and compliance department always pay attention to the developments of applicable laws, regulations, and rules. They develop, improve, and implement compliance policies for the Group and provide the management team and relevant business teams with advice on compliance matters. By highlighting our legal compliance management philosophy and safeguard mechanisms, and updating and compiling a series of system rules on conflicts of interest, prevention of money laundering, connected transactions, and information disclosure, we have ensured the legal compliance of the Group's operations and business, and standardized the Company's connected transactions and information disclosure requirements. Also, with persistent compliance monitoring and ethics training for employees, we have strengthened the Company's legal compliance awareness and operational practices. The Group has also engaged external legal counsel to advise on the laws, regulations, and rules applicable to the Group and its business.

As for liquidity risk, the Group monitors liquidity risk and assesses funding needs through internal measures, to ensure that a certain number of the Group's subsidiaries subject to SFO are always in compliance with relevant rules and regulations. All kinds of liquidity indicators are monitored, measured, and effectively managed in aspects including centralized management, financing structure, stress testing, early warning mechanism, and contingency planning.

PROCEDURES AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with requirements of SFO and the Listing Rules. The Group has established a *Guidelines on the Management of Disclosure of Inside Information* to ascertain the Company's responsibilities and work processes in relation to the disclosure of inside information, prevent the risk of inside information not being disclosed in a timely manner and safeguard the interests of all Shareholders. The Group has established the inside information team, which includes at least an executive Director. The inside information team is responsible for the following matters: ensuring that appropriate systems and controls are in place to collect, review, and verify potential inside information, reviewing potential inside information and determining whether disclosure is required, advising the Board on the same, examining the contents of such public disclosure; deciding whether to take other actions to clarify the uncertainties, proposing to appoint consultant on such matter and from time to time review the Group's compliance with the Guidelines on the Management of Disclosure of Inside Information.

The Group discloses inside information to the public according to the guidelines as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential according to the guidelines.

COMMUNICATIONS WITH SHAREHOLDERS

The Company values communication with the Shareholders. The Company uses two-way communication channels to account to Shareholders for the performance of the Company. Enquiries and suggestions from Shareholders are welcomed, and enquiries may be sent to the Company Secretary either by mail or telephone, who would relay the enquiries to the Board:

(i) By mail to the Company's principal place of business at 45/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong; or

(ii) By telephone number 3728 8000.

The Company uses a number of formal communication channels to account to the Shareholders for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or special general meeting providing a forum for the Shareholders to raise comments and exchange views with the Board; (iii) updated key information of the Group available on the websites of the Stock Exchange and the Company; (iv) the Company's website offering communication channel between the Company and its Shareholders; and (v) the Company's branch share registrar in Hong Kong serving the Shareholders in respect of all share registration matters.

The Company aims to provide its Shareholders with high standards of disclosure and financial transparency. The Board is committed to providing clear, detailed, timely manner, and on-a-regular-basis information of the Group through the publication of interim and annual reports and/or despatching circulars, notices, and other announcements.

The Company strives to take into consideration its Shareholders' views and inputs, and address Shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice shall be given.

PROCEDURES FOR SHAREHOLDERS TO CONVENE A SPECIAL GENERAL MEETING

According to the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda (the "**Companies Act**").

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT GENERAL MEETINGS

Pursuant to the Companies Act, any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates or not less than one hundred shareholders, can request the Company in writing to: (a) give to Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting send to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition must be deposited to the Company not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of any other requisition.

CONSTITUTIONAL DOCUMENTS

There were no changes to the memorandum of association and the bye-laws (the "**Bye-laws**") of the Company during the Reporting Year. The latest version of the Bye-laws is posted on the Company's website and the Stock Exchange's website.

COMPANY SECRETARY

Mr. Ho Yau Cheung ("**Mr. Ho**") was appointed as the Company Secretary since December 2018. Mr. Ho reports to Mr. Ding Zhisuo directly and is responsible to the Board for ensuring that the Board procedures, applicable laws, rules and regulations are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraising the relevant corporate governance developments relating to the Group and facilitating the induction and professional development of the Directors.

According to the Rule 3.29 of the Listing Rules, Mr. Ho has taken no less than 15 hours of relevant professional training for the Reporting Year.

PROCEEDINGS IN THE HONG KONG MARKET MISCONDUCT TRIBUNAL

On 18 December 2018, the SFC commenced proceedings against the Company and six of its former directors ("**Former Directors**") in the Market Misconduct Tribunal ("**Proceedings**") for failing to disclose inside information as soon as reasonably practicable as required under Sections 307B and 307G of Part XIVA of the Securities and Futures Ordinance in 2014 ("**Relevant Event**").

The Relevant Event took place in 2014, that is, three years prior to CMBCI becoming the controlling shareholder of the Company in 2017, and none of the current Directors was the "specified persons" of the Proceedings.

For details, please refer to the Company's announcement dated 18 December 2018.

The Company will make further announcement on the development of the Proceedings as and when appropriate.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This Environmental, Social and Governance Report (the "**ESG Report**") aims to provide stakeholders with an overview of the Group's efforts regarding the environmental, social and governance ("**ESG**") aspects of our business.

Scope of the Report

This ESG Report provides a description of the Group's environmental and social policies and performance. Unless otherwise stated, the ESG Report covers the Reporting Year. For corporate governance, please refer to the section headed "Corporate Governance Report" on pages 48 to 62 of this annual report.

Reporting Guide

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**Guide**") under Appendix 27 to the Listing Rules and has complied with the "Comply or Explain" Provisions of the Guide.

Communication with Stakeholders

The Group is aware of the important role of stakeholders in sustainable development, thus the Group has set up different communication channels for shareholders, customers, employees, suppliers and other stakeholders. The Group also strives to provide stakeholders with updated information in relation to its business operation through these channels, which includes but is not limited to announcements, circulars, financial reports, general meetings, company websites and electronic communication.

OPERATION PRACTICES

Strict Compliance with Laws and Regulations

The Group greatly emphasizes the importance of business ethics and strictly abides by laws, regulations and regulatory requirements (such as Securities and Futures Ordinance and its subsidiary legislations, Prevention of Bribery Ordinance and Codes and Guidelines issued by the Securities and Futures Commission) in its daily operations. The Group requires the management to ensure that the business is conducted in accordance with applicable laws and regulations. The legal department together with the compliance department are required to review and monitor the business operations of the Group to ensure compliance with relevant laws and regulations which have significant impacts on the Group, and arrange internal trainings for the relevant personnel from time to time in order to ensure every department across all operations is kept abreast of the development of all applicable laws, regulations and rules.

The Group holds all material licenses required for the provision of services expected or required by most of its clients, such as dealing in securities and futures contracts, advising on securities, and advising on corporate finance and asset management, etc.

Moreover, the Group manages the protection of its intellectual property rights by constantly monitoring domain names and renewing upon their expiration in a timely manner.

Anti-corruption/Anti-money Laundering

To strengthen the Group's compliance culture and combat money laundering and financial crimes effectively, the Group has established policies and procedures for anti-corruption and anti-money laundering. Our approach includes customer screening and monitoring requirements, "know your customer" policy, record keeping requirements, and procedures for reporting suspicious circumstances in accordance with the relevant laws, regulations and guidelines issued by the regulatory authorities (such as the Guideline on Prevention of Money Laundering). The Group requires that every new customer, upon account opening, shall be subject to a name search in an anti-money laundering database provided by an independent third party vendor, in order to ascertain whether the new customer is included in the current terrorist or sanction list, and to check whether the customer is a Politically Exposed Person ("**PEP**"). New account applications lodged by terrorists or sanctioned entities would be rejected. The Group conducts regular reviews on the transactions carried out by high-risk customers to identify suspicious transactions. Any suspicious transaction, if noted, will be reported to the Joint Financial Intelligence Unit in due course.

The Group has set up a whistle-blowing policy to allow whistle-blowers to report any irregularities, such as unlawful conduct, incidents of corruption and circumvention of internal controls, under protection. The whistle-blowing and disciplinary policies stipulate that any employee which has committed serious irregularities or misconduct will be subject to disciplinary actions, including immediate dismissal. During the Reporting Year, none of the members of the Group nor its employees were engaged in any litigation regarding corruption, extortion, fraud or money laundering, nor was there any report of criminal offences or misconduct.

Case: Anti-money laundering training conducted by the Company

With the aim of further facilitating anti-money laundering work of all employees, assuring the compliance and effectiveness of anti-money laundering work and improving the anti-money laundering monitoring system mechanism, the Group arranged for an anti-money laundering training for its senior management, department heads and employees on 17 October 2019. Through the training, participants improved their knowledge of compliance requirements and familiarized with the latest anti-money laundering measures.

The Group also conducted on-boarding training for its newcomers on a regular basis which covers topics including the Group's policy on anti-money laundering to ensure that they are made aware of the Group's anti-money laundering work and related compliance requirements.

Supplier Management

As a vital component of the Group's development, the Group is committed to maintaining mutually beneficial long term cooperation with its suppliers who comply with our quality, environmental, health and safety standards. Major suppliers of the Group include law firms, accounting firms, professional consulting companies and financial advisory solution suppliers.

The Group sets out various evaluation standards, such as pricing, stability of the trading platform, response speed, experience and reputation, to enable the Group to effectively carry out selection and assessment of suppliers. In addition, to encourage suppliers to fulfil their social responsibility, the Group will take into account the measures taken by the counterparty with respect to environmental protection during the selection process. When practicable, the Group will give priority to the ones who have adopted environmental protection measures.

The Group has put in place the "Administrative Measures for Bulk Purchase", which requires certain contracts to be submitted to the procurement committee for review and approval. During the Reporting Year, the Group updated the measure and lowered the threshold from a contract valued at HK$100,000 or above to contracts valued at HK$50,000 or above. This helps to ensure the Group will only engage with approved supplies and would encourage supplier competition for contracts with a lower value.

Customer Oriented

Professional Services

Customers are the foundation of the Group's sustainable development. As a comprehensive financial services provider, the Group utilizes its profound experience, expertise, internal resources and platforms to create value for its customers and achieve service excellence in a consistent manner, thereby earning the trust of domestic and international customers.

The Group comprises teams of professionals with diversified backgrounds including major investment banks, regulatory institutions, lawyers and accountants. With its expertise, experience and extensive network, the Group provides flexible, diversified and comprehensive investment banking services for customers. As at 31 December 2019, approximately 43 employees of the Group were licensed with the SFC in various regulated activities: dealing in securities (Type 1), dealing in futures contracts (Type 2), advising on securities (Type 4), advising on corporate finance (Type 6) and asset management (Type 9).

Along with continuous enhancement of its professional services, the Group is keen on innovation and has carried out an extensive upgrade in various aspects, including business development, management and operation, risk control, market monitoring, product services, etc. It endeavors to establish a leading international financial investment service platform.

Smooth Communication

Understanding the demands of clients can help improve the Group's business and services, thus the Group listens carefully to its clients' feedback and tries to improve its services. To maintain communication with its clients in a more effective and systematic way, the Group sets out internal procedures and staff duties to ensure that the clients' feedback, advice and recommendations are received and handled in a timely manner.

The Group has established designated channels, including hotline, fax and e-mail for clients' complaints. All complaints received will be forwarded to supervisors for handling. The supervisors will investigate in a timely manner and report the investigation results to the senior management. The senior management will then review the complaints and decide whether any internal control and procedures shall be strengthened, or whether any other appropriate actions shall be taken.

During the Reporting Year, the Group implemented a program for strengthening the marketing and communication ability of its employees, particularly the frontline staffs who require to communicate with clients during the course of their work.

Information Security

The Group regards the protection of clients' privacy with the utmost importance. Pursuant to the relevant laws and regulations including the Personal Data (Privacy) Ordinance, the Group has adopted a series of technical and management measures to safeguard clients' privacy.

In terms of management, the Group provides relevant training to its staff to enable them to understand the importance of protecting clients' privacy. Additionally, the Group prevents the staff from carrying out unauthorised operations or leaking clients' information. The Group reminds its clients to manage their account passwords with caution, avoid logging into their accounts on public computers and networks, change their passwords regularly and contact the Group's staff for consultation when necessary. During the Reporting Year, there was no non-compliance with the relevant laws and regulations as to clients' privacy and information security in the Group.

Employee Care

Employment and Labour Practices

Our employees play a very important part in the Group's continuous success. To recruit different talents, the Group actively expands its recruitment channels and formulates procedures to ensure that the recruitment process is done in an orderly fashion.

The Group complies with relevant rules and regulations, such as the Employment Ordinance. We endeavor to establish a fair, active and highly efficient work environment and provide all employees with equal opportunities with respect to recruitment, remuneration and benefits, training, promotion and various subsidies.

The basic remuneration of employees includes salary, bonuses and subsidies (such as meal allowance). Other benefits include medical insurance, provident funds and other competitive fringe benefits. Salary is determined with reference to the market rate, and the bonus is determined with reference to factors including position, individual performance and department performance. Employees are entitled to all public holidays announced by the Government of the Hong Kong Special Administrative Region. They are also entitled to paid annual leave, sick leave, maternity leave, etc. To maintain a balance between work and personal life, the Group adopts a five-day work week policy.

Our employees comprise of different age groups and have a diverse cultural background that brings individual traits as well as diversity to facilitate business development. The Group adheres to the principle of equality and does not tolerate discrimination based on gender, pregnancy, race, marital status, family status or disability, and strives to provide employees with a working environment free of discrimination and harassment. If any employee is discriminated against or suffers from harassment, he/she can file a protected complaint through a designated channel.

The Group prohibits the employment of child labour and forced labour and strictly abides by the relevant labour laws and regulations, including the Employment of Children Regulations. The Group takes measures (such as review of applicant's background information during the recruitment process) to prevent the employment of child labour and forced labour. During the Reporting Year, the Group did not have any non-compliance with relevant laws and regulations regarding employment.

Health and safety

The Group complies with the Occupational Safety and Health Ordinance. The Group is committed to maintaining a safe working environment for the health and well-being of our employees. The Group has formulated policies regarding employees' work environment and protection, which stipulate the reporting procedure for industrial accidents and various measures to ensure the safety of employees, such as providing safety medical kits in case of injuries and posting the Work Safety and Health Guidelines to inform employees of the importance of workplace safety.

The Group has arranged for staff to learn relevant safety information and emergency measures which can help increase their alertness and ability to prevent possible accidents, creating a healthy and safe work environment for all employees.

During the Reporting Year, there were no work-related casualty or loss of working day arising therefrom.

Development and Training

The Group believes that professional skills and knowledge are crucial for employee development as well as the Group's long-term success. Therefore, the Group continually provides its employees with training, which cover topics including anti-money laundering, updates on laws, codes, rules and regulations, and other relevant topics, thereby allowing its employees to maintain the highest professional conduct and ethical standard in the course of business operation. Where the training is related to laws or compliance, the attendees will be required to complete a test to ensure that the attendees are familiar with what is covered in the training.

During the Reporting Year, the Group organised a variety of seminars and training programs in relation to the latest developments in the market for its employees which include marketing and communication ability, margin financing, anti-money laundering, market misconduct under the SFO, SFC cases update, financing business, funds regulatory, and the Listing Rules' amendments.

Leading Employees to Colourful Life

The Group believes that maintaining a healthy work-life balance is essential for employee well-being. To this end, the Group provides a variety of activities for its employees, such as celebrations for international Women's Day and Dragon Boat Festival. The Group also organises a birthday celebration for its staff every month. These activities not only strengthen relationships between employees, but also help them to relieve stress.

Facilitating Employee Development

The Group believes that career development is important to its employees. Therefore, the Group provides its employees with a nurturing environment. By providing trainings, the Group hopes that it would enable its employees to acquire the necessary skills and knowledge thereby enabling them to progress with their career development. In addition, the Group conducts ongoing performance assessments and/or formal annual reviews. Where an employee achieves an appropriate level of competency/excellence, he/she will be considered for promotion. The Group strives to ensure that hard work does not go unnoticed and actively recognises its employees' performance by prudently planning their career path.

Case: The Company held marketing and communication ability training seminar

As part of an on-going program for strengthening frontline staffs' marketing and communication ability, the Group held a full day training seminar in November 2019. During the training, the speaker, who has many years of experience in marketing and training and works as a guest lecturer for a number of well-known universities in the PRC, shared his experience and skills with the participants.

Community Investment

The Group is passionate about participating in public activities and is committed to contributing to the creation of a harmonious community. A harmonious and stable community is important for sustainable corporate development. The Group places great importance on community investment and is committed to the mission of "From the Community, To the Community", with a focus on sharing the fruits of corporate development with society and contributing to social harmony.

The Group's management team plays an important role in mobilising staff to join community activities. The Group encourages staff to participate in a wide range of charitable events as a way to boost their compassion for the communities we operate, and inspire more people to take part in community services.

We actively encourage staff members to take part in social welfare activities and urge young volunteers to contribute their positive energy to society.

Environmental Responsibility

Green Office[1][2]

The Group strictly complies with the laws and regulations in relation to the environment, such as the Air Pollution Control Ordinance, the Motor Vehicle Idling (Fixed Penalty) Ordinance, and the Building Energy Efficiency Ordinance. The Group has made continuous efforts on leading its staff to pursue a low carbon lifestyle. We actively respond to the call for environmental protection, and promote the idea of a low carbon environment and resource conservation, through the perspective of advancing the development of public welfare. As the Group's operations are office-based, its environmental impacts from daily operations only involve vehicle emissions, office electricity and paper consumption. The Group strives to implement energy-saving and other environmental friendly measures in the course of business operations to minimize carbon emissions.

Greenhouse gas emissions of the head office in Hong Kong

Vehicle emissions (Scope 1 emissions)	approx. 8.69 metric tonne
Electricity consumption emissions (Scope 2 emissions)	approx. 83.17 metric tonne
Total volume of greenhouse gas emissions	approx. 91.86 metric tonne
Total intensity of greenhouse gas emissions	approx. 0.006metric tonne/ sq.ft. office area

Air pollutants from vehicle emissions

CO emissions	approx. 19.33 kg
NO_X emissions	approx. 1.11 kg
SO_X emissions	approx. 0.05 kg
$PM_{2.5}$ emissions	approx. 0.08 kg

1 The Group primarily sourced water from the water supply system of building and has encountered no difficulty in water sourcing. There was no individual water meter due to its minimal water consumption. Thus, data of water consumption is not available.

2 Packaging material is not applicable to the business of the Group.

Environmental, Social and Governance Report

The Group believes that green buildings play a vital role in the implementation of a sustainable development strategy. The core feature of green buildings is to minimise the consumption of energy and resources and reduce negative impacts to the environment while maximising the application of new technologies and new materials conducive to better living quality. At the stage of site selection and planning, green buildings are required to make the utmost effort to protect the existing ecosystem and reduce impact to its surroundings, while assessing factors like natural wind ventilation, sunlight and transportation. During the Reporting Year, the Group's principal places of business were at International Commerce Centre and One Exchange Square in Hong Kong, which have both achieved a top platinum BEAM[3] rating by BEAM Society Limited. The Company has actively participated in various environmental activities held by the property management company. In addition, the Company has initiated a number of internal environmental measures, some of which are listed below:

- Adjust air conditioning temperature to 25°C
- Switch off unused appliances, lightings and office equipment
- Place a notice of water preservation in the pantry
- Use energy-saving appliances with Grade 1 Energy Efficiency Label
- Utilise natural sunlight in office
- Encourage the use of electronic mail and digital file management system
- Reuse and recycle paper and encourage double-sided printing
- Upgrade to LED lighting systems with automatic timers to reduce energy consumption
- Equip energy saving switches with lighting timers

[3] Building Environmental Assessment Method ("**BEAM**") assessment and certification provides building users with a single performance label that demonstrates the overall quality of a building..

Amount of resource consumption in the head office in Hong Kong in 2019:

Office electricity consumption	approx. 114,833 Kwh
Office electricity consumption intensity	approx. 8.34 Kwh/ft^2

Waste Management [4]

Due to the characteristics of its business, the Group does not produce any hazardous waste, while the non-hazardous waste generated during operations mainly consists of paper and general domestic waste. The Group actively participates in various recycling campaigns and also encourages its staff to reduce the use of plastics and disposable products.

The Group plays an active role in promoting paper-free operation to reduce the use of paper in the office. Usage data from printers in the office are collected and assessed on a regular basis in order to monitor the effectiveness of the paper-free environment. All staff are also encouraged to reuse paper whenever possible.

The Group is keen on promoting environmental awareness not only within the organisation, but also through customer engagement, encouraging a co-operative approach to minimise its environmental impact. Given that the formalities for opening a securities account involve a considerable amount of paperwork, the Group improved the account opening form to minimise paper usage. The advancement of information technology has led to the increasing popularity of e-commerce and paperless office. An online electronic system provides customers with a convenient, reliable and robust trading platform and enables the Group to achieve paperless operations. As part of the paperless operation initiative, the Group offers free electronic billing to our customers to encourage customers to adopt electronic billing.

Volume of resources recycled in the head office in Hong Kong in 2019:

Paper consumption	approx. 4,130 kg
Paper consumption intensity	approx. 0.3kg/ft^2
Paper recycled	approx. 1,580 kg
Paper recycled intensity	approx. 0.11 kg/ft^2

4 As the domestic waste of the Company is subject to centralised processing by property management of building, such statistics are not available.

ESG Reporting Guide Content Index

The Group has complied with the "Comply or Explain" provisions of the Guide. The table below provides a summary of the ESG Report's compliance.

Aspect	HKEx KPI	Description	Disclosures	Pages/ Remarks
Environmental				
	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	✓	71
A1: Emissions	A1.1	The types of emissions and respective emissions data	✓	71
	A1.2	Greenhouse gas emissions in total and intensity	✓	71
	A1.3	Total hazardous waste produced and intensity	N/A, the business of the Group does not involve hazardous waste discharge.	
	A1.4	Total non-hazardous waste produced and intensity	✓	73
	A1.5	Description of measures to mitigate emissions and results achieved	✓	72
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	✓	The Group has not produced any hazardous waste during the reporting period.

Aspect	HKEx KPI	Description	Disclosures	Pages/ Remarks
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	✓	71
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	✓	73
	A2.2	Water consumption in total and intensity	No data was collected due to low water consumption and no individual water meter	
	A2.3	Description of energy use efficiency initiatives and results achieved	✓	73
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	✓	71
	A2.5	Total packaging material used for finished products	Packaging material not applicable to the Group's business.	
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	✓	73
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	✓	73

Environmental, Social and Governance Report

Aspect	HKEx KPI	Description	Disclosures	Pages/ Remarks
Social				
Employment and Labour Practices				
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	✓	68
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	✓	69
	B2.1	Number and rate of work-related fatalities	✓	69
	B2.2	Lost days due to work injury	✓	69
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	✓	69
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	✓	69-70
B4:Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	✓	69

Aspect	HKEx KPI	Description	Disclosures	Pages/ Remarks
Operating Practices				
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	✓	65-66
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	✓	64
	B6.3	Description of practices relating to observing and protecting intellectual property rights	✓	64
	B6.4	Description of quality assurance process	✓	66
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored	✓	67
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	✓	64-65
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	✓	65
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored	✓	65
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	✓	70

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CMBC CAPITAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of CMBC Capital Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 86 to 200, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated 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 disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated 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 Group 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Allowance for Expected Credit Loss of Financing Assets and Debt Investment Securities
- Valuation of Level 3 Financial Assets

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Allowance for Expected Credit Loss of Financing Assets and Debt Investment Securities	
Refer to notes 20, 21, 22 and 25 to the consolidated financial statements. The balances of allowance for Expected Credit Loss ("**ECL**") represent the management's estimates of ECL under Hong Kong Financial Reporting Standard 9 at the end of the reporting date. As at 31 December 2019, the Group's financial assets arising from financing businesses which included loans and advances and accounts receivable from margin clients ("**Financing Assets**"), totalled HK$2,802 million with an allowance for ECL of HK$8.3 million.	We performed the following audit procedures over the ECL allowance: • We evaluated and tested controls over the approval and application of ECL models, including ongoing model monitoring and ECL calculation and review; • We evaluated and tested controls over the accuracy and completeness of key data inputs adopted by the ECL models; • We evaluated and tested controls over ongoing monitoring processes, including: (i) the margin call procedures for margin shortfall and risk mitigating actions taken by management for accounts receivable from margin clients

Key Audit Matter	How our audit addressed the Key Audit Matter
Also, the Group held debt investments measured at fair value through other comprehensive income and at amortised cost ("**Debt Investment Securities**") totalling HK$6,010 million with an allowance for ECL of HK$129.8 million. The Group calculates the allowance for ECL of stage 1 and 2 Financing Assets and Debt Investment Securities using ECL models that involve various risk parameters. The allowance for ECL of stage 3 Financing Assets and Debt Investment Securities is calculated by using the discounted cash flow method. The determination of allowance for ECL using the ECL models is subject to management judgements and assumptions, primarily including: (1) Selection of the appropriate methodologies and assumptions; (2) Determination of the criteria for significant increase in credit risk ("**SICR**"), and definition of credit-impaired; (3) Exercising judgements in estimating future cash flows; and (4) Adjustments for forward-looking information.	(ii) the periodic reviews for identification of any delinquency in principal or interest repayment for Financing Assets and Debt Investment Securities • With the assistance of our internal specialists, we examined the ECL modelling methodologies, key inputs and assumptions and assessed their reasonableness; • We assessed the reasonableness of the management judgement in determining the criteria for SICR, and definition of credit-impaired. We further tested, on a sample basis, the application of such criteria to Financing Assets and Debt Investment Securities; • For forward-looking economic scenarios, we assessed the basis of determining the economic variables, number of scenarios and relative weightings, and the reasonableness of the management judgements applied; • We tested the accuracy and completeness of key data sources applied in the ECL computation on a sample basis by checking to the Group's supporting information and external data sources, as applicable;

Key Audit Matter	How our audit addressed the Key Audit Matter
Allowance for ECL of Financing Assets and Debt Investment Securities was considered to be a key area of audit focus due to the size of the balance and the significance of management judgements and estimates involved.	• For the credit-impaired assets classified at Stage 3, we tested the computations of the expected future cash flows and the fair value of collateral (if any) for the impaired amounts. We also examined the underlying documentation supporting the management's key estimations used in the individual ECL assessment. We corroborated and challenged management's assessment and expectation of reasonably possible outcomes on the recoverability of these impaired assets, and where applicable, the estimated fair value and expected future cash flows from the pledged collateral against externally available information. Based on the procedures we performed, we considered the ECL modelling methodologies, key inputs, key judgements and assumptions made by management to be acceptable.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of Level 3 Financial Assets Refer to notes 26 and 37(e) to the consolidated financial statements. As at 31 December 2019, the Group held unlisted financial assets amounting to HK$833 million which are measured at fair value through profit or loss and classified as Level 3 financial assets under the fair value hierarchy ("**Level 3 Financial Assets**"), representing approximately 7.2% of the Group's total assets. Management selected and adopted specific valuation models that required a considerable number of inputs and judgements. Where observable data is not readily available, estimates of inputs need to be developed by management which will involve significant judgements. Valuation of Level 3 Financial Assets was considered to be a key area of audit focus due to the size of the balance and the significance of management judgements involved.	We performed the following audit procedures over valuation of Level 3 Financial Assets: • We evaluated and tested the control in relation to the management's review on the valuation of Level 3 Financial Assets; • We inspected the relevant terms and conditions of the underlying investment agreements to evaluate the impact on valuation; and • We engaged our internal valuation specialists to perform independent assessments of the Group's valuation of Level 3 Financial Assets. Our independent valuation assessments included evaluating the appropriateness of valuation models, assumptions and the key inputs used in the valuation models with reference to industry practice and relevant available market data. Based on the result of our procedures, we found the valuation models, assumptions and the key inputs adopted by management to be acceptable.

OTHER INFORMATION

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

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tam Man Kit James.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
23 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	4	**978,683**	791,190
Net gains/(losses) on financial assets at fair value through profit or loss		**123,760**	(57,365)
Net losses on financial assets at fair value through other comprehensive income		**(32,632)**	(15,799)
Other income	6	**10,608**	7,947
Other gains and losses	7	**(6,315)**	(389)
Impairment losses	8	**(116,011)**	(33,963)
Staff costs		**(119,644)**	(71,775)
Depreciation and amortisation		**(29,704)**	(6,280)
Other operating expenses		**(60,494)**	(66,800)
Finance costs	9	**(323,011)**	(262,029)
Profit before taxation	10	**425,240**	284,737
Taxation	13	**(68,377)**	(39,541)
Profit for the year attributable to owners of the Company		**356,863**	245,196

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Profit for the year attributable to owners of the Company		**356,863**	245,196
Other comprehensive income/(loss)			
Item that will not be reclassified to profit or loss:			
– Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		**56,387**	(57,555)
Item that may be reclassified subsequently to profit or loss:			
– Financial assets at fair value through other comprehensive income – net movement in fair value reserve (recycling)		**32,314**	(275,804)
Other comprehensive income/(loss) for the year, net of tax	25	**88,701**	(333,359)
Total comprehensive income/(loss) for the year attributable to owners of the Company		**445,564**	(88,163)
Earnings per share attributable to owners of the Company (HK cents)	15		
– Basic		**0.75**	0.53
– Diluted		**0.75**	0.53

The notes on pages 95 to 200 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Non-current assets			
Property, plant and equipment	16	**11,926**	3,130
Right-of-use asset	17(a)	**116,785**	–
Goodwill	18	**16,391**	16,391
Intangible assets	19	**3,474**	4,845
Loans and advances	20	**357,822**	880,260
Financial assets at amortised cost	21	**77,574**	–
Deferred tax assets	32	**13,520**	922
Other assets		**10,184**	10,183
		607,676	915,731
Current assets			
Accounts receivable	22	**601,243**	1,228,278
Prepayments, deposits and other receivables	23	**55,773**	30,383
Interests receivable		**147,676**	67,648
Amount due from an intermediate holding company	24	**4,109**	243
Loans and advances	20	**1,852,889**	3,114,777
Financial assets at fair value through other comprehensive income	25	**6,888,906**	3,006,050
Financial assets at amortised cost	21	**93,504**	–
Financial assets at fair value through profit or loss	26	**952,053**	1,056,979
Cash held on behalf of customers	27(a)	**35,279**	134,047
Cash and cash equivalents	27(b)	**400,708**	887,579
		11,032,140	9,525,984

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Current liabilities			
Accounts payable	28	**38,958**	369,693
Other payables and accruals	29	**145,329**	58,683
Bank and other borrowings	30	**5,748,468**	6,653,340
Notes payable	31	**50,000**	99,216
Tax payable		**82,510**	25,925
Financial assets sold under repurchase agreements	33	**3,180,420**	1,170,680
Financial liabilities at fair value through profit or loss	34	**27,977**	130,149
Lease liabilities	17(a)	**27,388**	–
		9,301,050	8,507,686
Net current assets		**1,731,090**	1,018,298
Total assets less current liabilities		**2,338,766**	1,934,029
Non-current liabilities			
Notes payable	31	**–**	50,000
Lease liabilities	17(a)	**91,012**	–
Deferred tax liabilities	32	**25,511**	7,953
		116,523	57,953
NET ASSETS		**2,222,243**	1,876,076

Consolidated Statement of Financial Position

At 31 December 2019

	Note	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
CAPITAL AND RESERVES			
Share capital	35	**476,792**	477,059
Reserves		**1,745,451**	1,399,017
TOTAL EQUITY		**2,222,243**	1,876,076

Approved and authorised for issue by the board of directors on 23 March 2020.

Li Jinze
DIRECTOR

Ding Zhisuo
DIRECTOR

The notes on pages 95 to 200 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	Share capital HK$'000	Share premium HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Fair value reserve (recycling) HK$'000	Fair value reserve (non-recycling) HK$'000	Other reserve HK$'000 (Note c)	Accumulated profit/ (losses) HK$'000	Total HK$'000
		Attributable to owners of the Company							
At 1 January 2019		477,059	1,769,659	2,318,758	(261,862)	(57,555)	761	(2,370,744)	1,876,076
Changes in equity for 2019:									
Profit for the year		–	–	–	–	–	–	356,863	356,863
Other comprehensive income		–	–	–	32,314	56,387	–	–	88,701
Total comprehensive income		–	–	–	32,314	56,387	–	356,863	445,564
Disposal of equity investments at fair value through other comprehensive income		–	–	–	–	4,382*	–	(4,382)*	–
Shares repurchased and cancelled	35(iii)	(267)	(3,441)	–	–	–	–	–	(3,708)
Shares repurchased but not yet cancelled		–	–	–	–	–	(282)	–	(282)
Dividend approved in respect of the previous year		–	–	(95,407)	–	–	–	–	(95,407)
Balance at 31 December 2019		476,792	1,766,218	2,223,351	(229,548)	3,214	479	(2,018,263)	2,222,243

* Amounts reclassified to accumulated profit/(losses) upon disposal of equity investments at fair value through other comprehensive income.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

		Attributable to owners of the Company							
	Notes	Share capital HK$'000	Share premium HK$'000 (Note a)	Contributed surplus HK$'000 (Note b)	Fair value reserve (recycling) HK$'000	Fair value reserve (non-recycling) HK$'000	Other reserve HK$'000 (Note c)	Accumulated profit/ (losses) HK$'000	Total HK$'000
At 1 January 2018		457,787	1,089,404	2,318,758	(60)	–	761	(2,586,464)	1,280,186
Impact on initial application of HKFRS 9		–	–	–	14,002	–	–	(20,262)	(6,260)
Impact on initial application of HKFRS 15		–	–	–	–	–	–	(9,214)	(9,214)
Adjusted balance at 1 January 2018		457,787	1,089,404	2,318,758	13,942	–	761	(2,615,940)	1,264,712
Changes in equity for 2018:									
Profit for the year		–	–	–	–	–	–	245,196	245,196
Other comprehensive income		–	–	–	(275,804)	(57,555)	–	–	(333,359)
Total comprehensive income		–	–	–	(275,804)	(57,555)	–	245,196	(88,163)
Issue of shares	35(i)	13,500	476,550	–	–	–	–	–	490,050
Placing of shares	35(ii)	5,772	203,705	–	–	–	–	–	209,477
Balance at 31 December 2018		477,059	1,769,659	2,318,758	(261,862)	(57,555)	761	(2,370,744)	1,876,076

Notes:

a. Share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

b. Amounts represent credits arisen from the capital reduction and share premium cancellation transferred to the contributed surplus account, which had been partially utilised to eliminate the accumulated losses of the Group.

c. The other reserve of the Group represents the difference between the proportionate share of net assets attributable to additional interest in a subsidiary and the consideration paid, and treasury shares of the Company held as at 31 December 2019.

The notes on pages 95 to 200 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 (Re-presented) HK$'000
Operating activities			
Cash from/(used in) operations	27(c)	346,452	(3,331,364)
Hong Kong Profits Tax paid		(6,832)	(13,200)
Interest received		550,856	347,179
Dividend received		39,856	17,634
Interest paid		(299,080)	(168,756)
Net cash generated from/(used in) operating activities		631,252	(3,148,507)
Investing activity			
Purchases of property, plant and equipment		(13,906)	(443)
Net cash used in investing activity		(13,906)	(443)
Financing activities			
Proceeds from issue of new shares in share subscription and placing		–	699,527
Repurchase of shares		(3,990)	–
New bank and other borrowings raised		2,550,462	6,125,108
Repayment of notes		(100,000)	–
Repayment of bank and other borrowings		(3,422,608)	(2,912,038)
Dividend paid		(95,407)	–
Principal and interest elements of lease payments		(22,824)	–
Net cash (used in)/generated from financing activities		(1,094,367)	3,912,597

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 (Re-presented) HK$'000
Net (decrease)/increase in cash and cash equivalents		**(477,021)**	763,647
Cash and cash equivalents at the beginning of year		**887,579**	126,761
Effect of foreign exchange rate changes, net		**(9,850)**	(2,829)
Cash and cash equivalents at the end of year		**400,708**	887,579
Analyses of cash and cash equivalents at end of year:			
Bank balances – house accounts	27(b)	**400,708**	887,579

The notes on pages 95 to 200 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1 GENERAL INFORMATION

CMBC Capital Holdings Limited ("**the Company**") is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The addresses of registered office and the principal place of business of the Company are disclosed in the corporate information section to the annual report.

At 31 December 2019, the directors consider the immediate parent and ultimate controlling party to be CMBC International Investment Limited, which is incorporated in British Virgin Islands and China Minsheng Banking Corp., Ltd. which is incorporated in People's Republic of China, respectively. The ultimate controlling entity produces financial statements available for public use and can be obtained at the website of The Stock Exchange of Hong Kong.

The principal activities of the Company are investment holding and provision of loan financing services. The activities of its principal subsidiaries are set out in note 44 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "**Group**").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as financial assets at fair value through other comprehensive income (see note 2(r)); and

– financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (see note 2(r)).

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 2(c) below. The other amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.5%.

(i) *Adjustments recognized on adoption of HKFRS 16*

The measurement of lease liabilities is as follows:

	HK$'000
Operating lease commitments disclosed as at 31 December 2018 (note 40)	163,522
Discounted using the lessee's incremental borrowing rate at the date of initial application	140,925
Less: short-term leases recognised on a straight-line basis as expense	(5,783)
Lease liabilities recognised as at 1 January 2019	135,142
Of which are:	
Current lease liabilities	21,840
Non-current lease liabilities	113,302
	135,142

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- right-of-use asset – increase by HK$140,142,000
- lease liabilities – increase by HK$135,142,000
- other payables and accruals – increase by HK$5,000,000

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

(ii) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 3 to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property was classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group:

HKFRS 17	Insurance Contracts[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of a Business[1]
Revision from HKICPA	Conceptual Framework for Financial Reporting[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]

1 Effective for annual periods beginning on or after 1 January 2020.
2 Effective for annual periods beginning on or after 1 January 2021.

There are no other HKFRSs or interpretations that are effective from 1 January 2019 or not yet effective that would be expected to have a material impact on the Group.

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Basis of consolidation (continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

(g) Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment at the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(i) Revenue recognition

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

Revenue is recognised when service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. The Group applied the optional practical expedient to immediately expense cost to obtain a contract if the amortisation period of the asset that would have recognised is one year or less.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Revenue recognition (continued)

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

(i) Revenue arising from financial services is recognised on the following basis:

- Commission income for brokerage business and future and options contracts dealing services are recognised on execution of purchase, sales or other transactions or services by the Group on behalf of its clients;

- Underwriting, sub-underwriting, placing and sub-placing commissions are recognised as income in accordance with the terms of underlying agreement or deal mandate when the relevant significant act has completed;

- Financial advisory, sponsorship, arrangement fee and other service income are recognised over time according to performance obligation and transaction prices of the contracts. It is recognised when the Group has an enforceable right to payment for performance completed to date at all times throughout the duration of the contract; and

- Asset management fee income are recognised over time as those services are provided continuously over the contract period. Invoices for these services income are issued on a regular basis based on the terms stated in the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Revenue recognition (continued)

(ii) Interest income from a financial asset is recognized as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(iii) Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

(iv) The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below (see note 2(k)).

(j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. The consolidated financial statements are presented in HK dollars ("**HK$**"), which is the Company's functional and presentation currency. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items are recognised in profit or loss in the period in which they arise.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Leases

(i) Policy applicable from 1 January 2019

As explained in note 2(c) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2(c).

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases (note 17). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Leases (continued)

(i) Policy applicable from 1 January 2019 (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contacts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(ii) Policy applicable prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payment are recognised as an expense on a straight-line basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits

(i) Retirement benefit costs

Payment to Hong Kong Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

(ii) Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

(m) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit or loss before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Taxation (continued)

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(o) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and impairment losses, on the same basis as intangible assets that acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

(q) Impairment of tangible and intangible assets other than goodwill and financial assets

At the end of each reporting period, the Group reviews the carrying amount of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment of tangible and intangible assets other than goodwill and financial assets (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to other assets on a pro-rata basis based on the carrying amount of each asset in unit. The carrying amount of an asset is not reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the assets is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(r) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

A financial asset and a financial liability is offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Financial instruments (continued)

(i) Financial assets

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest ("**SPPI**"). Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses ("**ECLs**"), interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Financial instruments (continued)

(i) Financial assets (continued)

Investments other than equity investments (continued)

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment the Group considers:

– Contingent events that would change the amount and timing of cash flows;

– Leverage features;

– Prepayment and extension terms;

– Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and

– Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI (non-recycling), are recognised in profit or loss as revenue.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Financial instruments (continued)

(ii) Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including accounts payable, other payables, bank and other borrowings, bank overdrafts, notes payable and financial assets sold under repurchase agreements) are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss, except for changes in fair value attributable to changes in own credit risk which are presented in other comprehensive income.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Financial instruments (continued)

(ii) Financial liabilities and equity instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(s) Credit losses and impairment of financial assets

The Group recognises a loss allowance for ECLs on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, accounts receivable and loans and advances);

– contract assets as defined in HKFRS 15;

– debt securities measured at FVOCI (recycling); and

– loan commitments issued, which are not measured at FVTPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVTPL, and equity securities designated at FVOCI (non-recycling), are not subject to the expected credit loss ("**ECL**") assessment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Credit losses and impairment of financial assets (continued)

Measurement of ECLs

The Group established ECL model by using a statistical approach for financial instruments. This approach involves estimation of four risk parameters, i.e. Probability of Default ("**PD**"), Loss Given Default ("**LGD**"), Exposure at Default ("**EAD**") and expected life, as well as the use of effective interest rate and forward-looking information.

In calculating the expected credit loss rates, forward looking macroeconomic information, such as unemployment rate or gross domestic product ("**GDP**"), is incorporated as part of risk parameters estimation.

Various economic scenarios are considered such that a probability-weighted average ECL can be estimated. Three scenarios are proposed, i.e. good scenario, neutral scenario and bad scenario. By considering the corresponding probabilities of the scenarios, the probability-weighted average ECL can be estimated.

Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and accounts receivable: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Credit losses and impairment of financial assets (continued)

Measurement of ECLs (continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

For financial instruments including financial assets measured at amortised cost, contract assets, debt securities measured at FVOCI, loan commitments issued, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Credit losses and impairment of financial assets (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Credit losses and impairment of financial assets (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Credit losses and impairment of financial assets (continued)

Basis of calculation of interest income (continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(t) Share-based payment transactions

(i) Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 38 to the Group's consolidation financial statements.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss, with a corresponding increase in equity (share option reserve).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Share-based payment transactions (continued)

(ii) Share options granted to agents and consultants/vendors

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings/accumulated losses.

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(s).

Segregated accounts maintained by the Group to hold clients' monies are recognised as an asset in financial statements and are disclosed in note 27 to the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(x) Financial assets sold under repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as financial assets at FVOCI/AFS financial assets and financial assets at FVTPL. Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented as "financial assets sold under repurchase agreements". Financial assets sold under repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost.

(y) Comparative figures

The presentation of "Cash and cash equivalents – segregated accounts" in the previous year's consolidated statement of financial position is now presented as "Cash held on behalf of customers" as at 31 December 2019. Also, "Impairment losses", "Staff costs" and "Depreciation and amortisation" are separately disclosed in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019. Comparative figures have been re-presented correspondingly to conform with the current year's presentation.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

An annual assessment is made, as set out in note 18, as to whether the current carrying value of goodwill is impaired.

Fair value of level 3 financial instruments

Notes 2(r) and 37(e) provide further information on the Group's fair value accounting policy and how the fair values of financial instruments are determined.

Impairment of financial assets

Policies on impairment of financial assets are set out in note 2(s).

4 REVENUE

An analysis of the Group's revenue for the year is as follows:

	2019 HK$'000	2018 HK$'000
Commission income from brokerage and related services	**1,299**	2,412
Commission income from underwriting, sub-underwriting, placing and sub-placing	**73,979**	58,353
Interest income from debt securities investments	**335,532**	178,354
Interest income from FVTPL investments	**45,250**	25,460
Interest income from provision of finance and securities margin financing	**334,602**	279,185
Dividend income and other investment income	**44,029**	44,244
Financial advisory, sponsorship, arrangement fee and other service income	**66,410**	178,026
Asset management fee income	**77,582**	25,156
	978,683	791,190

5 SEGMENT INFORMATION

In a manner consistent with the way in which information is reported internally to the Group's management, being the chief operating decision makers, for the purpose of resources allocation and assessment of segment performance focusing on types of services provided. In 2019, "Others" is now presented as a separate segment to align with the Group's internal reporting information. Comparatives have been re-presented accordingly.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

- the securities segment representing the business line of provision of brokerage services, securities margin financing services to clients and securities underwriting/placing;
- the investment and financing segment representing investment and trading activities in equity securities, bonds, funds and provision of loan financing services;
- the asset management, corporate finance and advisory segment representing provision of asset management services, sponsorship, financial advisory and financial arrangement services to clients; and
- the 'Others' segment primarily includes head office operations as well as interest income and interest expense incurred for generating working capital for general operations.

5 SEGMENT INFORMATION (continued)

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by service lines is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by service lines		
– Commission income from brokerage and related services	1,299	2,412
– Commission income from underwriting, sub-underwriting, placing and sub-placing	73,979	58,353
– Financial advisory, sponsorship, arrangement fee and other service income	66,410	178,026
– Asset management fee income	77,582	25,156
	219,270	263,947
Revenue from other sources		
Loan and financing		
– Interest income from provision of finance and securities margin financing	334,602	279,185
Financial investments		
– Interest income from debt securities investments	335,532	178,354
– Interest income from FVTPL investments	45,250	25,460
– Dividend income and other investment income	44,029	44,244
	424,811	248,058
	978,683	791,190

5 SEGMENT INFORMATION (continued)

(i) Disaggregation of revenue (continued)

Disaggregation of revenue is set out below:

	Securities		Investment and financing		Asset management, corporate finance and advisory		Total	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15	65,039	74,025	–	–	154,231	189,922	219,270	263,947
Revenue from other sources								
Loan and financing								
– Interest income from provision of finance and securities margin financing	63,974	61,957	270,628	217,228	–	–	334,602	279,185
Financial investments								
– Interest income from debt securities investments	–	–	335,532	178,354	–	–	335,532	178,354
– Interest income from FVTPL investments	–	–	45,250	25,460	–	–	45,250	25,460
– Dividend income and other investment income	–	–	44,029	44,244	–	–	44,029	44,244
	–	–	424,811	248,058	–	–	424,811	248,058
Reportable segment revenue	129,013	135,982	695,439	465,286	154,231	189,922	978,683	791,190

5 SEGMENT INFORMATION (continued)

(ii) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	For the year ended 31 December 2019				
	Securities HK$'000	Investment and financing HK$'000	Asset management, corporate finance and advisory HK$'000	Others HK$'000	Total HK$'000
Segment revenue and investment gains/(losses)					
– Reportable segment revenue	129,013	695,439	154,231	–	978,683
– Net gains on financial assets at fair value through profit or loss	–	123,760	–	–	123,760
– Net losses on financial assets at fair value through other comprehensive income	–	(32,632)	–	–	(32,632)
	129,013	786,567	154,231	–	1,069,811
Other income	2,565	1,299	978	5,766	10,608
Other gains and losses	(655)	4,218	–	(9,878)	(6,315)
Segment expenses	(41,868)	(452,842)	(54,797)	(99,357)	(648,864)
Segment results	89,055	339,242	100,412	(103,469)	425,240

5 SEGMENT INFORMATION (continued)

(ii) Segment revenue and results (continued)

	For the year ended 31 December 2018				
	Securities HK$'000	Investment and financing HK$'000	Asset management, corporate finance and advisory HK$'000	Others HK$'000	Total HK$'000
Segment revenue and investment gains/(losses)					
– Reportable segment revenue	135,982	465,286	189,922	–	791,190
– Net losses on financial assets at fair value through profit or loss	–	(57,365)	–	–	(57,365)
– Net losses on financial assets at fair value through other comprehensive income	–	(15,799)	–	–	(15,799)
	135,982	392,122	189,922	–	718,026
Other income	5,089	1,214	319	1,325	7,947
Other gains and losses	(1,611)	(1,759)	20	2,961	(389)
Segment expenses	(57,690)	(280,677)	(41,615)	(60,865)	(440,847)
Segment results	81,770	110,900	148,646	(56,579)	284,737

5 SEGMENT INFORMATION (continued)

(iii) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

	As at 31 December 2019				
	Securities HK$'000	Investment and financing HK$'000	Asset management, corporate finance and advisory HK$'000	Others HK$'000	Total HK$'000
Assets					
Segment assets	749,591	10,553,869	57,580	278,776	11,639,816
Liabilities					
Segment liabilities	545,222	8,625,644	15,587	231,120	9,417,573

	As at 31 December 2018				
	Securities HK$'000	Investment and financing HK$'000	Asset management, corporate finance and advisory HK$'000	Others HK$'000	Total HK$'000
Assets					
Segment assets	1,744,932	8,396,156	62,630	237,997	10,441,715
Liabilities					
Segment liabilities	861,710	7,519,121	13,971	170,837	8,565,639

5 SEGMENT INFORMATION (continued)

(iii) Segment assets and liabilities (continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment results represent the profit earned by/(loss from) each segment without allocation of central administrative costs, directors' emoluments, certain other income, certain other gains and losses and finance costs. This is the measure reported to the chief operating decision makers for the purpose of resources allocation and performance assessment.

Assets and liabilities, excluding intragroup receivables and payables, are allocated to reportable and operating segments.

(iv) Other segment information

	For the year ended 31 December 2019				
	Securities HK$'000	Investment and financing HK$'000	Asset management, corporate finance and advisory HK$'000	Others HK$'000	Total HK$'000
Depreciation of property, plant and equipment	116	–	–	4,860	4,976
Depreciation of right-of-use asset	–	–	–	23,357	23,357
Addition of property, plant and equipment	–	–	–	13,906	13,906
Amortisation of intangible asset	1,371	–	–	–	1,371
Impairment loss in respect of loans and advances	–	10,203	–	–	10,203
Impairment loss in respect of accounts receivable	1,516	–	–	–	1,516
Impairment loss in respect of financial assets at fair value through other comprehensive income	–	80,570	–	–	80,570
Impairment loss in respect of financial assets at amortised cost	–	23,722	–	–	23,722
Finance costs	–	306,998	–	16,013	323,011

5 SEGMENT INFORMATION (continued)

(iv) Other segment information (continued)

	For the year ended 31 December 2018				
	Securities HK$'000	Investment and financing HK$'000	Asset management, corporate finance and advisory HK$'000	Others HK$'000	Total HK$'000
Depreciation of property, plant and equipment	174	–	–	4,735	4,909
Addition of property, plant and equipment	–	–	–	3,443	3,443
Amortisation of intangible asset	1,371	–	–	–	1,371
Impairment loss in respect of loans and advances	–	20,735	–	–	20,735
Impairment loss in respect of accounts receivable	1,709	–	–	–	1,709
Impairment loss in respect of financial assets at fair value through other comprehensive income	–	11,519	–	–	11,519
Impairment loss in respect of financial assets at amortised cost	–	–	–	–	–
Finance costs	13,465	220,554	–	28,010	262,029

(v) Geographical information

The Group's operations are carried out in Hong Kong.

The Group's revenue from external customers and its non-current assets are located in Hong Kong.

(vi) Information about major customers

No customer contributed over 10% of the total revenue of the Group for the year ended 31 December 2019 and 2018.

6 OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	**1,970**	2,070
Office sharing fee income	**5,180**	–
Other income	**3,458**	5,877
	10,608	7,947

7 OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Loss on disposal of property, plant and equipment	**134**	–
Net exchange loss	**6,181**	389
	6,315	389

8 IMPAIRMENT LOSSES

	2019 HK$'000	2018 HK$'000
Impairment losses		
– Loans and advances (note 20)	**10,203**	20,735
– Accounts receivable (note 22)	**1,516**	1,709
– Financial assets at fair value through other comprehensive income (note 25)	**80,570**	11,519
– Financial assets at amortised cost (note 21)	**23,722**	–
	116,011	33,963

9 FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expense on:		
Notes payable (note 31)	**7,904**	8,316
Bank borrowings	**2,027**	19,694
Financial assets sold under repurchase agreements	**64,348**	26,714
Loans from an intermediate holding company	**242,650**	207,305
Lease liabilities (note 17(b))	**6,082**	–
	323,011	262,029

10 PROFIT BEFORE TAXATION

	2019 HK$'000	2018 HK$'000
Profit before taxation is arrived at after charging:		
Staff costs (including directors' remuneration):		
Wages and salaries	**118,225**	70,583
Retirement benefits contributions	**1,419**	1,192
Total staff costs	**119,644**	71,775
Auditor's remuneration	**3,225**	3,298
Depreciation of property, plant and equipment	**4,976**	4,909
Depreciation of right-of-use asset (note 17(b))	**23,357**	–
Amortisation of intangible assets (note 19)	**1,371**	1,371
Lease payments in respect of short-term leases (2018: land and buildings)	**6,043**	12,087

11 DIRECTORS' REMUNERATION

The remuneration paid or payable to the executive directors, non-executive directors and independent non-executive directors of the Company is disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, as follows:

	For the year ended 31 December 2019								
	Executive directors			Non-executive directors		Independent non-executive directors			
	Mr. Li Jinze HK$'000	Mr. Ding Zhisuo HK$'000	Mr. Ng Hoi Kam HK$'000	Mr. Ren Hailong HK$'000	Mr. Liao Zhaohui HK$'000	Mr. Lee, Cheuk Yin Dannis HK$'000	Mr. Wu Bin HK$'000	Mr. Wang Lihua HK$'000	Total HK$'000
Fees	–	–	–	300	300	300	300	300	1,500
Other emoluments:									
Salaries and other allowances	4,800	3,900	3,090	–	–	–	–	–	11,790
Discretionary bonuses	–	–	594	–	–	–	–	–	594
Retirement benefits contribution	18	17	18	–	–	–	–	–	53
	4,818	3,917	3,702	300	300	300	300	300	13,937

	For the year ended 31 December 2018								
	Executive directors			Non-executive directors		Independent non-executive directors			
	Mr. Li Jinze HK$'000	Mr. Ding Zhisuo HK$'000	Mr. Ng Hoi Kam HK$'000	Mr. Ren Hailong HK$'000	Mr. Liao Zhaohui HK$'000	Mr. Lee, Cheuk Yin Dannis HK$'000	Mr. Wu Bin HK$'000	Mr. Wang Lihua HK$'000	Total HK$'000
Fees	–	–	–	300	300	300	300	300	1,500
Other emoluments:									
Salaries and other allowances	4,800	3,900	3,000	–	–	–	–	–	11,700
Discretionary bonuses	–	–	440	–	–	–	–	–	440
Retirement benefits contribution	17	–	18	–	–	–	–	–	35
	4,817	3,900	3,458	300	300	300	300	300	13,675

11 DIRECTORS' REMUNERATION (continued)

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments in the Group, three (2018: three) were directors of the Company whose remuneration are set out in note 11 above. Details of the remuneration of the remaining two (2018: two) non-director, highest paid employees for the year are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other allowances	**4,283**	4,423
Discretionary bonuses	**–**	–
Retirement benefits contributions	**36**	21
	4,319	4,444

The emoluments of the five highest paid employees, including directors, for the year fell within the following bands:

	Number of individuals	
	2019	2018
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**2**	2
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**2**	1
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**1**	1
	5	5

No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office in both the year ended 31 December 2019 and 2018.

13 TAXATION

(a) Taxation in the consolidated statement of profit or loss represents:

	2019 HK$'000	2018 HK$'000
Current tax:		
Hong Kong Profits Tax	**67,990**	37,270
Over-provision in prior years	**(4,573)**	(5,747)
	63,417	31,523
Deferred tax (note 32):		
Origination and reversal of temporary differences	**4,960**	8,018
	68,377	39,541

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both the year ended 31 December 2019 and 2018.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 HK$'000	2018 HK$'000
Profit before taxation	**425,240**	284,737
Notional tax at the profit tax rate of Hong Kong of 16.5% (2018: 16.5%)	**70,165**	46,982
Tax effect of income not taxable for tax purpose	**(8,198)**	(30,043)
Tax effect of expenses not deductible for tax purpose	**11,176**	32,364
Tax effect of tax losses not recognised	**4,649**	3,097
Tax losses utilised from previous periods	**(4,842)**	(7,112)
Over-provision in prior years	**(4,573)**	(5,747)
Income tax expense	**68,377**	39,541

14 DIVIDENDS

	2019 HK$'000	2018 HK$'000
Proposed: Final – HK0.33 cents (2018: HK0.2 cents) per ordinary share	**157,335**	95,412

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend of HK0.2 cents per share for the year ended 31 December 2018 had been approved by the shareholders of the Company on 28 June 2019 and was paid on 26 July 2019 in an aggregated amount of approximately HK$95,407,000.

15 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2019 HK$'000	2018 HK$'000
Earnings Profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	**356,863**	245,196

	2019 '000	2018 '000
Number of shares Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**47,704,762**	46,322,906

The denominators used are the same as those detailed above for the basic and diluted earnings per share.

There was no dilutive items during the year ended 31 December 2019 and 2018.

16 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost			
At 1 January 2018	4,156	2,218	6,374
Additions	3,286	157	3,443
At 31 December 2018	7,442	2,375	9,817
Additions	10,354	3,552	13,906
Disposal	(8,310)	(474)	(8,784)
At 31 December 2019	9,486	5,453	14,939
Accumulated depreciation and impairment			
At 1 January 2018	967	811	1,778
Provided for the year	4,450	459	4,909
At 31 December 2018	5,417	1,270	6,687
Provided for the year	4,157	819	4,976
Eliminated on disposal	(8,310)	(340)	(8,650)
At 31 December 2019	1,264	1,749	3,013
Carrying values			
At 31 December 2019	8,222	3,704	11,926
At 31 December 2018	2,025	1,105	3,130

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum.

Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	20%

17 LEASES

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Right-of-use asset		
Office	116,785	–
Lease liabilities		
Current	27,388	–
Non-current	91,012	–
	118,400	–

On adoption of HKFRS 16, the Group recognized right-of-use asset of HK$140,142,000 and lease liabilities of HK$135,142,000 on 1 January 2019. For details, please refer to Note 2(c).

There was no addition to the right-of-use assets during the year ended 31 December 2019.

17 LEASES (continued)

(b) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	2019 HK$'000	2018 HK$'000
Depreciation of right-of-use asset		
Office	23,357	–
Interest expenses (included in finance cost) (note 9)	6,082	–

The total cash outflow for leases in 2019 was HK$22,824,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices and office rental contracts are typically made for fixed periods of 3 to 6 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

18 GOODWILL

	HK$'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	551,445
Impairment	
At 1 January 2018, 31 December 2018 and 31 December 2019	535,054
Carrying values	
At 31 December 2018 and 31 December 2019	16,391

18 GOODWILL (continued)

For the purposes of impairment testing, the management considered there are two CGUs in relation to goodwill allocation, including the first CGU from "Securities segment" and the second CGU from "Asset management, corporate finance and advisory segment". After considering the scale of operation of these CGUs, all goodwill is allocated to the first CGU.

The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below.

The recoverable amount of the CGU has been determined by the value-in-use in respect of the above entities comprising the CGU. The value-in-use was assessed by the management based on a business valuation performed by an independent professional qualified valuer using the income approach which uses cash flow projections covering a 5-year period and discount rate of 8.62% (2018: 9.31%).

The cash flow projections at 31 December 2019 has taken into account the expansion of business. The cash flows beyond the 5-year period are extrapolated assuming 2% growth rate (2018: 2%). This growth rate is based on the expectation of long-term inflation in Hong Kong. Other key assumptions for the cash flow projections relate to the estimation of cash inflows/outflows which include estimated income generated from the CGU, such estimation is based on the past performance of the CGU and the expectation on the market development.

For the purpose of impairment assessment, the value-in-use of the CGU amounting to HK$1,443,488,000 (2018: HK$1,525,104,000). By comparing the aforesaid aggregate carrying amount of the CGU with the value-in-use of the CGU, the management determined that the recoverable amount of the CGU is estimated to be more than the aggregate carrying amounts of net assets directly attributable to the CGU, goodwill, trading rights and customers' relationship and no impairment losses in respect of goodwill (2018: Nil) is recognised in profit or loss during the year ended 31 December 2019.

19 INTANGIBLE ASSETS

	Trading rights HK$'000	Customers' relationship HK$'000	Total HK$'000
Cost			
At 1 January 2018, 31 December 2018 and 31 December 2019	960	144,799	145,759
Amortisation and impairment			
At 1 January 2018	–	139,543	139,543
Charge for the year	–	1,371	1,371
At 31 December 2018	–	140,914	140,914
Charge for the year	–	1,371	1,371
At 31 December 2019	–	142,285	142,285
Carrying values			
At 31 December 2019	960	2,514	3,474
At 31 December 2018	960	3,885	4,845

Trading rights represents rights that confer eligibility of the Group to trade on the Stock Exchange and the Hong Kong Futures Exchange Limited ("**HKFE**"). The trading rights have no foreseeable limit to period that the Group can use to generate net cash flows, accordingly, the trading rights are considered as having indefinite useful lives.

Customers' relationship represents the customers' networks of brokerage and related business. Amortisation for customers' relationship with finite useful lives is recognised on a straight-line basis over its estimated useful lives of 6 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

19 INTANGIBLE ASSETS (continued)

No impairment of customers' relationship was identified based on the valuation performed by an independent professional qualified valuer using the income approach at a discount rate of 8.62% at 31 December 2019 (2018: 9.31%).

The trading rights and customers' relationship also formed part of the assets included in the CGU for which goodwill impairment is assessed and details are set out in note 18.

20 LOANS AND ADVANCES

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Loans and advances	**2,217,812**	4,023,226
Less: Allowance for expected credit losses	**(7,101)**	(28,189)
	2,210,711	3,995,037
Less: Amount due within one year presented under current assets	**(1,852,889)**	(3,114,777)
Amount presented under non-current assets	**357,822**	880,260
Loans and advances (non-current)	**359,384**	883,044
Less: Allowance for expected credit losses	**(1,562)**	(2,784)
	357,822	880,260
Loans and advances (current)	**1,858,428**	3,140,182
Less: Allowance for expected credit losses	**(5,539)**	(25,405)
	1,852,889	3,114,777

20 LOANS AND ADVANCES (continued)

At 31 December 2019, loans and advances included loans to independent third parties with effective interest rates ranging from 5% to 14% (2018: 5% to 13%) per annum.

During the year, allowance for expected credit losses of HK$10,203,000 was recognised (2018: HK$20,735,000) in the statement of profit or loss. One of the borrowers has been assessed by management to be credit impaired and an allowance for expected credit losses of approximately HK$31,291,000 has been provided at 31 December 2019 (2018: HK$24,187,000). Management considered the loan to the individually impaired borrower is irrecoverable and the loan amount was fully provided and subsequently written off at 31 December 2019.

Movement in expected credit losses is as follows:

	2019 Expected credit losses				2018 Expected credit losses			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2019/2018	4,002	–	24,187	28,189	–	–	–	–
Additional credit loss recognised at 1 January 2018 for adoption of HKFRS 9	–	–	–	–	7,454	–	–	7,454
Impairment losses charged/(released) to profit or loss (note 8)	3,099	–	7,104	10,203	(3,452)	–	24,187	20,735
Write-off	–	–	(31,291)	(31,291)	–	–	–	–
At 31 December 2019/2018	7,101	–	–	7,101	4,002	–	24,187	28,189

Analysis of the gross carrying amount for which an expected credit loss allowance is recognised is as follows according to the stage of expected credit losses:

	Stage of assets			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (Credit-impaired) HK$'000	Total HK$'000
As at 31 December 2019	2,217,812	–	–	2,217,812
As at 31 December 2018	3,991,935	–	31,291	4,023,226

21 FINANCIAL ASSETS AT AMORTISED COST

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Listed debt investments	194,800	–
Less: Allowance for expected credit losses	(23,722)	–
	171,078	–
Less: Amount due within one year presented under current assets	(93,504)	–
Amount presented under non-current assets	77,574	–
Analysed as:		
Financial assets at amortised cost (non-current)	77,920	–
Less: Allowance for expected credit losses	(346)	–
	77,574	–
Financial assets at amortised cost (current)	116,880	–
Less: Allowance for expected credit losses	(23,376)	–
	93,504	–

During the year ended 31 December 2019, the Group recognised expected credit losses amounted to HK$23,722,000 in the statement of profit or loss (2018: Nil).

21 FINANCIAL ASSETS AT AMORTISED COST (continued)

Movement in expected credit losses is as follows:

	2019 Expected credit losses				2018 Expected credit losses			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2019/2018	–	–	–	–	–	–	–	–
Impairment losses charged to profit or loss (note 8)	346	23,376	–	23,722	–	–	–	–
At 31 December 2019/2018	346	23,376	–	23,722	–	–	–	–

Analysis of the gross carrying amount for which an expected credit loss allowance is recognised is as follows according to the stage of expected credit losses:

	Stage of assets			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (Credit-impaired) HK$'000	Total HK$'000
As at 31 December 2019	77,920	116,880	–	194,800
As at 31 December 2018	–	–	–	–

22 ACCOUNTS RECEIVABLE

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Accounts receivable arising from the ordinary course of business of securities brokerage, futures and options dealing services:		
– Clearing houses	**770**	119
– Cash clients	**5**	235,100
– Margin clients	**584,642**	971,772
	585,417	1,206,991
Accounts receivable arising from the ordinary course of business of securities underwriting	**11,988**	20,915
Accounts receivable arising from the ordinary course of business of advisory services	**5,000**	2,417
	602,405	1,230,323
Less: Allowance for expected credit losses	**(1,162)**	(2,045)
	601,243	1,228,278

22 ACCOUNTS RECEIVABLE (continued)

Movement in expected credit losses is as follows:

	2019 Expected credit losses Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000	2018 Expected credit losses Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2019/2018	37	–	2,008	2,045	–	–	300	300
Additional credit loss recognised at 1 January 2018 for adoption of HKFRS 9	–	–	–	–	36	–	–	36
Transfers between stages	(1)	–	1	–	–	–	–	–
Impairment losses charged to profit or loss (note 8)	38	–	1,478	1,516	1	–	1,708	1,709
Write-off	–	–	(2,399)	(2,399)	–	–	–	–
At 31 December 2019/2018	74	–	1,088	1,162	37	–	2,008	2,045

Analysis of the gross carrying amount for which an expected credit loss allowance is recognised is as follows according to the stage of expected credit losses:

	Stage of assets Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (Credit-impaired) HK$'000	Total HK$'000
As at 31 December 2019	601,317	–	1,088	602,405
As at 31 December 2018	1,228,071	–	2,252	1,230,323

Accounts receivable arising from the business of dealing in securities

The Group seeks to maintain tight control over its outstanding accounts receivable and has procedures and policies to assess its clients' credit quality and defines credit limits for each client. All client acceptances and credit limit are approved by designated approvers according to the clients' credit worthiness.

The normal settlement terms of accounts receivable from clients and clearing house, except for accounts receivable due from margin clients, arising from the ordinary course of business of securities brokerage services are two trading days after the trade date.

22 ACCOUNTS RECEIVABLE (continued)

Accounts receivable arising from the business of dealing in securities (continued)

Accounts receivable due from margin clients

Accounts receivable due from margin clients are repayable on demand and carry interest at Hong Kong Prime Rate to Hong Kong Prime Rate plus 12.75% per annum during the year ended 31 December 2019 (2018: Hong Kong Prime Rate to Hong Kong Prime Rate plus 12.75% per annum). The fair values of the pledged securities as at 31 December 2019 approximate HK$936,840,000 (2018: HK$3,477,924,000). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the eligible margin value of securities deposited.

As at 31 December 2019, approximately 99% (2018: 100%) of the balance were secured by sufficient collateral on an individual basis. The corresponding collaterals held could be sold at the Group's discretion to settle any outstanding amounts owed by the margin clients. The Group did not repledge collaterals held for financing as at 31 December 2018 and 2019.

No ageing analysis in respect of accounts receivable from margin clients is disclosed as, in the opinion of directors of the Company, an ageing analysis does not give additional value in view of the nature of this business.

22 ACCOUNTS RECEIVABLE (continued)

Accounts receivable arising from the business of dealing in securities (continued)

Accounts receivable due from margin clients (continued)

Accounts receivable are assessed for ECLs in accordance with the policy set out in note 2(s). During the year, allowance for expected credit losses of HK$ 1,516,000 was recognised (2018: HK$1,709,000) in the statement of profit or loss and the amount was mainly attributable to one of the margin clients who had collateral value fallen significantly below the required margin ratio. Management considered the loan to the margin client is irrecoverable and the loan amount was fully provided and subsequently written off at 31 December 2019.

Movement in the allowances for expected credit losses on accounts receivable are as follows:

	Cash clients HK$'000	Margin clients HK$'000	Total HK$'000
Balance at 1 January 2018	300	–	300
Additional credit loss recognised at 1 January 2018 for adoption of HKFRS 9	–	36	36
Impairment loss (reversed)/ recognised during the year (note 8)	(300)	2,009	1,709
Balance at 31 December 2018	–	2,045	2,045
Impairment loss recognised during the year (note 8)	–	1,516	1,516
Write-off	–	(2,399)	(2,399)
Balance at 31 December 2019	–	1,162	1,162

The Group offset certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances, and intends to settle on a net basis or to realise the balances simultaneously. Details are set out in note 42.

22 ACCOUNTS RECEIVABLE (continued)

Accounts receivable arising from the businesses of securities underwriting and advisory services

Ageing of accounts receivable arising from the ordinary course of businesses of securities underwriting and advisory services, based on the due date, is as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Neither past due nor impaired	11,471	21,530
Less than 31 days past due	117	–
31–60 days past due	2,077	1,802
61–90 days past due	1,403	–
Over 90 days past due	1,920	–
	16,988	23,332
Allowance for expected credit losses	–	–
Total	16,988	23,332

The Group applies HKFRS 9 simplified approach to measure the expected credit losses for accounts receivable arising from the business of securities underwriting and advisory services. The management assessed the loss allowance was insignificant.

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Prepayments and deposits	4,598	14,806
Other receivables	29,832	11,881
Contract assets	21,343	3,696
	55,773	30,383

24 AMOUNT DUE FROM AN INTERMEDIATE HOLDING COMPANY

Amount due from an intermediate holding company is unsecured, interest-free and repayable on demand.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Listed debt investments, at fair value (Note)	5,814,815	2,570,780
Listed equity instruments, at fair value	1,074,091	435,270
	6,888,906	3,006,050

Note: During the year ended 31 December 2019, the Group recognised expected credit losses amounted to HK$80,570,000 in the statement of profit or loss (2018: HK$11,519,000). As at 31 December 2019, allowance for expected credit losses amounted HK$106,091,000 (2018: HK$25,521,000) has been included in fair value reserve (recycling).

During the year, the gain in respect of changes in fair value of the Group's financial assets at fair value through other comprehensive income recognised in other comprehensive income amounted to approximately HK$88,701,000 (2018: loss of HK$333,359,000).

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Movement in expected credit losses is as follows:

	2019 Expected credit losses				2018 Expected credit losses			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January 2019/2018	25,521	–	–	25,521	–	–	–	–
Additional credit loss recognised at 1 January 2018 for adoption of HKFRS 9	–	–	–	–	14,002	–	–	14,002
Transfers between stages	(3,721)	3,061	660	–	–	–	–	–
Impairment losses charged to profit or loss (note 8)	13,944	38,659	27,967	80,570	11,519	–	–	11,519
At 31 December 2019/2018	35,744	41,720	28,627	106,091	25,521	–	–	25,521

Analysis of the carrying amount for which an expected credit loss allowance is recognised is as follows according to the stage of expected credit losses:

	Stage of assets			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (Credit-impaired) HK$'000	Total HK$'000
As at 31 December 2019	5,577,576	218,575	18,664	5,814,815
As at 31 December 2018	2,570,780	–	–	2,570,780

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Listed equity investments	**25,454**	4,311
Unlisted equity investments	**290,790**	224,601
Listed debt investments	**94,071**	129,398
Unlisted investment funds	**299,212**	193,135
Unlisted convertible promissory note	**–**	23,495
Unlisted convertible debt investments	**242,526**	482,039
	952,053	1,056,979

The fair values of the listed equity investments and listed debt investments were determined based on the quoted market prices.

27 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash held on behalf of customers

From the Group's ordinary business in provision of brokerage and related services, the Group receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients' monies are maintained in segregated bank accounts at market interest rates. The Group has recognised the corresponding accounts payable to respective clients. As at 31 December 2019, the segregated accounts with authorised institutions in relation to its brokerage business totaling HK$35,279,000 (2018: HK$134,047,000).

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and bank deposits at variable interest rates with original maturity of three months or less. As at 31 December 2019, cash and cash equivalents with authorised institutions totaling HK$400,708,000 (2018: HK$887,579,000).

27 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of profit for the year to cash from/(used in) operations:

	2019 HK$'000	2018 HK$'000
Operating activities		
Profit for the year	**356,863**	245,196
Adjustments for:		
Income tax expense recognised in profit or loss	**68,377**	39,541
Finance costs	**323,011**	262,029
Bank interest income	**(1,970)**	(2,070)
Interest income from provision of finance and securities margin financing	**(334,602)**	(279,185)
Dividend income and other investment income	**(44,029)**	(44,244)
Interest income from debt securities investments	**(335,532)**	(178,354)
Interest income from FVTPL investments	**(45,250)**	(25,460)
Impairment loss recognised in respect of accounts receivable	**1,516**	1,709
Impairment loss recognised in respect of loans and advances	**10,203**	20,735
Impairment loss recognised in respect of financial assets at FVOCI	**80,570**	11,519
Impairment loss recognised in respect of financial assets at amortised cost	**23,722**	–
Net (gains)/losses on financial assets at FVTPL	**(123,760)**	57,365
Net losses on financial assets at FVOCI	**32,632**	15,799
Depreciation of property, plant and equipment	**4,976**	4,909
Depreciation of right-of-use asset	**23,357**	–
Loss on disposal of property, plant and equipment	**134**	–
Amortisation of intangible asset	**1,371**	1,371
Operating cash flows before movements in working capital	**41,589**	130,860

27 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of profit for the year to cash from/(used in) operations: (continued)

	2019 HK$'000	2018 (Re-presented) HK$'000
Operating activities (continued)		
Decrease/(Increase) in accounts receivable	**689,492**	(340,946)
Increase in prepayments, deposits and other receivables	**(25,390)**	(28,837)
Decrease/(Increase) in loans and advances	**1,944,169**	(2,677,922)
Increase in interests receivable	**(11,562)**	(13,796)
Increase in other assets	**(1)**	(974)
Increase in amount due from an intermediate holding company	**(3,866)**	(243)
Decrease in cash held on behalf of customers	**98,768**	356,094
(Decrease)/Increase in accounts payable	**(330,735)**	50,517
Increase/(Decrease) in other payables and accruals	**53,428**	(155,139)
Decrease in amount due to an intermediate holding company	**–**	(7,197)
Increase in financial assets at amortised cost	**(195,824)**	–
Increase in financial assets at fair value through other comprehensive income ("**FVOCI**")	**(3,907,336)**	(2,532,815)
(Increase)/decrease in financial assets at fair value through profit or loss ("**FVTPL**")	**(34,069)**	728,549
Increase in financial assets sold under repurchase agreements	**2,027,789**	1,160,485
Cash from/(used in) operations	**346,452**	(3,331,364)

27 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(d) Reconciliation of liabilities arising from financing activities

	Bank and other borrowings (Re-presented) HK$'000 (Note 30)	Notes payable (Re-presented) HK$'000 (Note 31)	Lease Liabilities HK$'000	Total (Re-presented) HK$'000
At 31 December 2018	6,653,340	149,216	–	6,802,556
Recognition of lease liabilities on 1 January 2019	–	–	135,142	135,142
At 1 January 2019	6,653,340	149,216	135,142	6,937,698
Changes from financing cash flows:				
Proceeds from loans from an intermediate holding company	2,550,462	–	–	2,550,462
Repayment of bank loans	(235,497)	–	–	(235,497)
Repayment of loans from an intermediate holding company	(3,187,111)	–	–	(3,187,111)
Principal and interest elements of lease payments	–	–	(22,824)	(22,824)
Repayment of notes	–	(100,000)	–	(100,000)
Total changes from financing cash flows	(872,146)	(100,000)	(22,824)	(994,970)
Exchange adjustments	(21,360)	–	–	(21,360)
Other changes	(11,366)	784	6,082	(4,500)
At 31 December 2019	5,748,468	50,000	118,400	5,916,868

27 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(d) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other borrowings (Re-presented) HK$'000 (Note 30)	Notes payable (Re-presented) HK$'000 (Note 31)	Total (Re-presented) HK$'000
At 1 January 2018	3,351,038	148,400	3,499,438
Changes from financing cash flows:			
Proceeds from new bank loans	493,437	–	493,437
Proceeds from loans from an intermediate holding company	5,631,671	–	5,631,671
Repayment of bank loans	(557,872)	–	(557,872)
Repayment of loans from an intermediate holding company	(2,354,166)	–	(2,354,166)
Total changes from financing cash flows	3,213,070	–	3,213,070
Exchange adjustments	5,366	–	5,366
Other changes	83,866	816	84,682
At 31 December 2018	6,653,340	149,216	6,802,556

Note: Bank and other borrowings consist of bank loans, loans from an intermediate holding company as disclosed in note 30.

In 2019, the respective cash flows relating to financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss (previously presented under 'Investing activities'), and financial assets sold under repurchase agreements (previously presented under 'Financing activities') are now presented under 'Operating activities' due to its change in business circumstances during the year. However, there was no impact to the cash and cash equivalents for both years ended 31 December 2019 and 2018. Comparative figures have been re-presented correspondingly to conform with the current year's presentation.

28 ACCOUNTS PAYABLE

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Accounts payable arising from the ordinary course of business of securities brokerage, futures and options dealing services:		
– Cash clients	**29,805**	127,446
– Margin clients	**7,084**	6,712
– Clearing house	**2,069**	578
– Broker	**–**	234,957
	38,958	369,693

Accounts payable arising from the business of dealing in securities

The accounts payable balances arising from the ordinary course of business of securities brokerage services are normally settled in two trading days after the trade date except for the money held on behalf of clients at the segregated bank accounts which are repayable on demand. No ageing analysis is disclosed as, in the opinion of directors of the Company, an ageing analysis does not give additional value in view of the nature of this business.

29 OTHER PAYABLES AND ACCRUALS

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Other payables	**53,401**	30,381
Interest payables	**37,778**	9,563
Accruals	**53,106**	14,402
Contract liabilities	**1,044**	4,337
	145,329	58,683

The revenue recognised in relation to carried-forward contract liabilities amounted to HK$4,337,000 (2018: HK$11,035,000) for the year ended 31 December 2019.

30 BANK AND OTHER BORROWINGS

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Unsecured bank loans	–	234,957
Loans from an intermediate holding company	5,748,468	6,418,383
	5,748,468	6,653,340
The carrying amounts of the above borrowings are repayable:		
Within one year	5,748,468	6,653,340

The above borrowings as at 31 December 2018 and 2019 are repayable within one year.

As at 31 December 2019, the Group had loans amounting to approximately HK$5,656,678,000 (2018: HK$6,314,421,000) from CMBC International Holdings Limited, an intermediate holding company and interest payable amounting to approximately HK$91,790,000 (2018: HK$103,962,000). The loans bear interest at variable rates of 4% to 4.24% per annum (2018: fixed rate of 4% per annum) and are repayable within one year. The Group's undrawn amount of the loan facilities is approximately HK$2,343,322,000 (2018: HK$ 1,685,579,000).

During the year ended 31 December 2019, all bank borrowings from China Minsheng Banking Corp., Ltd. Hong Kong Branch ("**CMBC HK Branch**"), a branch of the ultimate holding company, had been repaid in full and no outstanding amount as at 31 December 2019 (31 December 2018: bank borrowings of HK$234,957,000 from CMBC HK Branch with variable interest rate carried at 4.5% per annum).

31 NOTES PAYABLE

On 8 November 2012, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to place, through the placing agent, on a best effort basis, the notes up to an aggregate principal amount of HK$100,000,000 to be issued by the Company in the denomination of HK$10,000,000 each to independent third parties (the "**Placing of Notes**"). Details of the Placing of Notes were set out in the Company's announcement dated 8 November 2012. The Company had issued placing notes in the aggregate principal amount of HK$100,000,000. The placing notes carry interest at 5% per annum and are to be redeemed on the seventh anniversary from the respective issue dates of the placing notes. During the year, the note principal of HK$100,000,000 was fully repaid.

In 2013, the Company further issued notes in the aggregate principal amount of HK$50,000,000 to independent third parties. The notes carry interest at 5% per annum and are to be redeemed on the seventh anniversary from the respective issue dates of the notes.

As at 31 December 2019, the aggregate principal amount of the notes payable was HK$50,000,000 (2018: HK$150,000,000).

The movement of the notes payable for the year ended 31 December 2019 and 2018 are set out below:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
At the beginning of the year	**149,216**	148,400
Interest charged at effective interest rate From 5% to 5.91% (2018: 5% to 5.91%) per annum (note 9)	**7,904**	8,316
Repayment of note principal	**(100,000)**	–
Interest payable	**(7,120)**	(7,500)
At the end of the year	**50,000**	149,216
Less: Amount due within one year presented under current liabilities	**(50,000)**	(99,216)
Amount presented under non-current liabilities	**–**	50,000

32 DEFERRED TAX

The followings are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

	Deferred tax assets			Deferred tax liabilities		
	Decelerated tax depreciation HK$'000	Impairment provision HK$'000	Total HK$'000	Unrealised gain on financial assets at FVTPL HK$'000	Notes payable HK$'000	Total HK$'000
At 1 January 2018	(21)	–	(21)	–	264	264
Credited to retained profit at 1 January 2018 for adoption of HKFRS 9	–	(1,230)	(1,230)	–	–	–
Debited/(credited) to profit or loss (note 13)	–	329	329	7,824	(135)	7,689
At 31 December 2018	(21)	(901)	(922)	7,824	129	7,953
Debited/(credited) to profit or loss (note 13)	21	(12,619)	(12,598)	17,626	(68)	17,558
At 31 December 2019	–	(13,520)	(13,520)	25,450	61	25,511

At the end of the reporting period, the Group has unused tax losses of approximately HK$12 million (2018: HK$21 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the HK$12 million (2018: HK$21 million) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

33 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Bonds	3,180,420	1,170,680

As at 31 December 2019, the Group entered into repurchase agreements with financial institutions to sell bonds recognised as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost with carrying amount of approximately HK$5,590,071,000 (2018: financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income with carrying amount of approximately HK$2,063,196,000), which are subject to the simultaneous agreements to repurchase these investments at the agreed dates and prices.

Sales and repurchase agreements are transactions in which the Group sells bonds and simultaneously agrees to repurchase them (or assets that are substantially the same) at the agreed dates and prices. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those bonds sold. The bonds are not derecognised from the financial statements but regarded as "collaterals" for the liabilities because the Group retains substantially all the risks and rewards of the bonds.

34 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Payables to interest holders of unlisted consolidated investment funds, designated at FVTPL	**27,977**	130,149

As at 31 December 2019, the Company held 60% (31 December 2018: 60%) interest of CMBCC Co-High Medical Investment Fund SP (the "**Medical Fund**"). As the Group has control over the Medical Fund, it is accounted for as a subsidiary. Accordingly, the interests of the non-controlling shareholder are classified as financial liabilities designated as at fair value through profit or loss of approximately HK$27,977,000 as at 31 December 2019 (31 December 2018: HK$22,930,000).

As at 31 December 2018, the Company also held 70% interests in New China OCT Fund 2 Segregated Portfolio ("**the Segregated Portfolio**") as a Class A shareholder and an independent third party held 30% interests in the Segregated Portfolio as a Class B shareholder. As the Group has control over the Segregated Portfolio, it is accounted for as a subsidiary. Pursuant to the appendix of the placing memorandum of the New China OCT Fund SPC for the segregated portfolio, Class A shareholder is subject to a maximum priority expected return of up to 7.5% per annum and Class B shareholder is subject to a maximum subordinate expected return before deduction of performance fee. Any excess beyond Class B expected return after payment of other fees and expenses, shall be paid to the fund manager in the form of performance fees, where available. Accordingly, the interests of the non-controlling shareholder are classified as financial liabilities designated as at fair value through profit or loss of approximately HK$107,219,000 as at 31 December 2018.

During the year ended 31 December 2019, the Company had received full amount of the cash dividends distributable to itself in accordance with the placing memorandum of New China OCT Fund SPC for the Segregated Portfolio, and all Class A shares held by the Company had been redeemed. For details, please refer to the Company's announcement dated 18 March 2019.

35 SHARE CAPITAL

	Notes	Number of shares		Amount	
		As at 31 December 2019 '000	As at 31 December 2018 '000	**As at 31 December 2019 HK$'000**	As at 31 December 2018 HK$'000
Authorised:					
Ordinary shares at HK$0.01 each		**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid:					
At the beginning of the year		**47,705,978**	45,778,758	**477,059**	457,787
Issue of shares	(i)	**–**	1,350,000	**–**	13,500
Placing of shares	(ii)	**–**	577,220	**–**	5,772
Cancellation for shares repurchased	(iii)	**(26,760)**	–	**(267)**	–
At the end of the year		**47,679,218**	47,705,978	**476,792**	477,059

Notes:

(i) Pursuant to the subscription agreement entered into on 3 July 2018, the Company has conditionally agreed to allot and issue, and CMBC International Investment Limited has conditionally agreed to subscribe for 1,350,000,000 new shares, at the price of HK$0.363 per new share. The subscription was completed on 15 October 2018.

(ii) Pursuant to the placing agreement entered into on 3 July 2018, the Company has conditionally agreed to place, through placing agents, up to 830,000,000 new shares to not less than six placees at the placing price of HK$0.363 per new share. The placing of 577,220,000 new shares was completed on 20 July 2018.

(iii) During the year ended 31 December 2019, the Company repurchased an aggregate of 28,700,000 ordinary shares of the Company on market at prices ranging from HK$0.116 to HK$0.217 per share at a total consideration of approximately HK$3,990,000 (before transaction costs). Of these repurchased shares, 26,760,000 shares were cancelled prior to year ended 31 December 2019. The premium of approximately HK$3,441,000 paid on the repurchase of such shares was debited to share premium account. Subsequent to end of the reporting period, the remaining 1,940,000 repurchased shares were cancelled on 7 January 2020.

36 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the returns to shareholders through the optimisation of debt and equity balance.

The capital structure of the Group consists of debts, which include notes payable, bank and other borrowings, financial assets sold under repurchase agreements and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of capital and other sources of funds other than issuance of shares, including bank and other borrowings, issue of notes and financial assets sold under repurchase agreements. Based on the recommendation of the directors of the Company, the Group will balance its overall capital structure through raising or repayment of borrowings.

CMBC Securities Company Limited, CMBC International Futures Company Limited, CMBC Asset Management Company Limited and CMBCIC are registered by the Hong Kong Securities and Futures Commission (the "**SFC**") and are subject to the liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "**SF(FR)R**") adopted by the SFC. For the licensed subsidiaries, the Group ensures each of them maintains a liquid capital level adequate to support the level of activities with sufficient buffer to accommodate for increases in liquidity requirements arising from potential increase in the level of business activities.

36 CAPITAL RISK MANAGEMENT (continued)

The Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total debt divided by capital and total debt. During the year ended 31 December 2019 and 2018, the Group's strategy was to maintain a reasonable gearing ratio. During the year ended 31 December 2019 and 2018, the Group's strategy was to maintain a balance between higher shareholder returns with higher levels of borrowings and solid capital position, and make adjustment to capital structure in light of changes in economic conditions. The gearing ratio at 31 December 2019 and 31 December 2018 were as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Notes payable	50,000	149,216
Bank borrowings	–	234,957
Loans from an intermediate holding company	5,656,678	6,314,421
Financial assets sold under repurchase agreements	3,180,420	1,170,680
Total debt	8,887,098	7,869,274
Equity attributable to owners of the Company	2,222,243	1,876,076
Capital and total debt	11,109,341	9,745,350
Gearing ratio	0.80	0.81

Gearing ratio of the Group remained at a similar level and it was 0.80 as at 31 December 2019 (31 December 2018: 0.81) as the Group has maintained its funding sources in developing its business segments.

37 FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Financial assets		
Financial assets at fair value through profit or loss	**952,053**	1,056,979
Loans and advances	**2,210,711**	3,995,037
Financial assets at amortised cost	**171,078**	–
Accounts receivable	**601,243**	1,228,278
Deposits and other receivables	**51,215**	26,320
Interests receivable	**147,676**	67,648
Amount due from an intermediate holding company	**4,109**	243
Cash held on behalf of customers	**35,279**	134,047
Cash and cash equivalents	**400,708**	887,579
Financial assets at amortised cost	**3,622,019**	6,339,152
Financial assets at fair value through other comprehensive income	**6,888,906**	3,006,050
Financial Liabilities		
At amortised cost	**9,227,425**	8,382,873
At fair value through profit or loss	**27,977**	130,149

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies

The Group's major financial instruments include financial assets at fair value through other comprehensive income, financial assets at amortised cost, accounts receivable, deposits and other receivables, loans and advances, financial assets at fair value through profit or loss, bank balances, accounts payable, other payables, bank and other borrowings, financial assets sold under repurchase agreements, notes payable and financial liabilities at fair value through profit or loss. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Group's credit risk is primarily attributable to accounts receivable, other receivables, interests receivable, financial assets at fair value through profit or loss, financial assets at amortised cost, financial assets at fair value through other comprehensive income, loans and advances and bank balances as at 31 December 2019 and 31 December 2018.

The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31 December 2019 and 31 December 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. For details relating to credit losses and impairment of financial assets, please refer to Note 2(s).

In order to manage the credit risk in the accounts receivable due from clients arising from businesses of dealing in securities, individual credit evaluation are performed on all clients including cash and margin clients. Accounts receivable from cash clients generally settled in two days after trade date, credit risk arising from the accounts receivable due from cash clients is considered minimal. For margin clients, the Group normally obtains liquid securities as collateral based on the margin requirements. The Group has not granted any committed facility amount to each of the margin clients and the margin loan is granted by the Group depending on the assessment of the quality of the collateral and credit risk of the respective client. The margin requirement is closely monitored on a daily basis by the designated team. In addition, the Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

In this regard, the directors of the Company consider that the credit risk is significantly reduced. Market conditions and adequacy of securities collateral and margin deposits of each margin account are monitored by management on a daily basis. Margin calls and forced liquidation are made where necessary.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

In respect of accounts receivable from clearing houses arising from businesses of dealing in securities and futures and options contracts, credit risks are considered low as the Group normally enters into transactions with clearing houses or agents which are registered with regulatory bodies. The Group's concentration of credit risk by geographical locations is mainly in Hong Kong. As at 31 December 2019, the Group has concentration risk on its accounts receivable as the balance with the largest client represent 35% (2018: 17%) of the total accounts receivable from cash and margin clients and the three largest clients represent 35%, 18% and 15% (2018: 17%, 11% and 10%) respectively, of the accounts receivable from cash and margin clients. The Group has no other significant concentration risk.

The Company manages credit risk of loans and advances by obtaining collaterals, guarantees or keepwell and liquidity deed from the borrowers. For loans and advances, the management, the risk control department and relevant business units will review the financial strength, purpose of the borrowing, repayment ability of the borrower to ensure that the borrower has sound financial repayment ability prior to entering into a transaction. The Group assesses the credit profile of each individual debtor by analysing many factors that influence the default probability, including (but not limited to) the counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical performance. In the post-investment stage, the financial conditions of the borrower or the guarantors will be reviewed on a regular basis.

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

For the Group's investments in listed bonds investments, the management, the risk control department and respective business units of the Group assess the financial performance and relevant business environment of the issuers to ensure that the issuers can satisfy the repayment of the principal and interest as they fall due. The Group has set portfolio size and single issuer limits to control the Group's exposure to the credit risk. The Group also monitors the credit ratings and market news of the issuers of respective bond investments for any indication of potential credit deterioration.

For the other financial assets, the management has closely monitored their status and it believes that the Group's credit risk exposure on them is minimal.

(b) Liquidity risk

The Group manages liquidity risk by maintaining sufficient bank balances and cash and the availability of funding through an adequate amount of committed credit facilities. The Group also aims at maintaining flexibility in funding by arranging and keeping committed facilities and other external financing available.

The Group's primary cash requirements have been driven by operations, investments and repayment of related debts. The Group finances its working capital requirements through a combination of funds generated from operations and cash reserve.

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) Liquidity risk (continued)

The following tables detail the Group's liquidity analysis for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual cash outflows on the financial liabilities. To the extent that interest flows are floating rate, the undiscounted amount is derived from the prevailing market rate at the end of the reporting period.

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2019							
Accounts payable	–	38,958	–	–	–	38,958	38,958
Other payables	–	46,321	–	2,080	5,000	53,401	53,401
Interest payables	–	37,778	–	–	–	37,778	37,778
Bank and other borrowings	4%–4.24%	–	–	5,884,541	–	5,884,541	5,748,468
Notes payable	5%	–	–	52,500	–	52,500	50,000
Financial assets sold under repurchase agreements	1.9%–3.0%	3,180,420	–	–	–	3,180,420	3,180,420
Financial liabilities at fair value through profit or loss	–	27,977	–	–	–	27,977	27,977
Lease liabilities	4.5%	2,282	4,565	20,541	107,269	134,657	118,400
		3,333,736	4,565	5,959,662	112,269	9,410,232	9,255,402

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) Liquidity risk (continued)

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2018							
Accounts payable	–	369,693	–	–	–	369,693	369,693
Other payables	–	16,303	–	14,078	–	30,381	30,381
Interest payables	–	9,463	–	100	–	9,563	9,563
Bank and other borrowings	4%–4.5%	235,016	–	6,574,526	–	6,809,542	6,653,340
Notes payable	5%–5.9%	–	–	107,500	52,500	160,000	149,216
Financial assets sold under repurchase agreements	2.65%–3.65%	1,170,680	–	–	–	1,170,680	1,170,680
Financial liabilities at fair value through profit or loss	–	22,930	107,219	–	–	130,149	130,149
		1,824,085	107,219	6,696,204	52,500	8,680,008	8,513,022

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(c) Interest rate risk

(i) Cash flow interest rate risk

The Group's cash flow interest rate risk arises primarily from variable rate financial assets and liabilities including accounts receivable from margin clients and financial assets sold under repurchase agreements.

The Group's exposure to changes in interest rates primarily relates to its certain variable rate accounts receivable arising from the business dealing in securities, bank balances and financial assets sold under repurchase agreements. The management monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank saving balances and bank deposits where necessary.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for certain variable rate accounts receivable arising from the business dealing in securities, bank balances and financial assets sold under repurchase agreements at the end of the reporting period. The analysis is prepared assuming these balances outstanding at the end of the reporting period were held/outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would decrease by HK$10,657,000 or increase by HK$10,837,000 (2018: decrease by HK$233,000 or increase by HK$1,686,000).

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(c) Interest rate risk (continued)

(ii) Fair value interest rate risk

The Group's fair value interest rate risk arises primarily from financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss at the end of the reporting period. The analysis is prepared assuming these balances outstanding at the end of the reporting period were held/outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would decrease or increase by HK$2,492,000 (2018: decrease or increase by HK$5,598,000), and the Group's other comprehensive income for the year ended 31 December 2019 would decrease or increase by HK$56,487,000 (2018: decrease or increase by HK$30,191,000).

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(d) Other price risk

The Group is exposed to other price risk through its investment in financial assets at fair value through profit or loss. The management manages its exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to other price risk arising from investment in financial assets at fair value through profit or loss at the end of the reporting period.

	As at 31 December 2019		
	Increase/ (decrease) in prices of underlying instrument	Carrying amount HK$'000	Increase/ (decrease) in profit after tax HK$'000
Financial assets at fair value through profit or loss:			
– Listed equity investments	5%/(5%)	25,454	1,063/(1,063)
– Unlisted equity investments	5%/(5%)	290,790	5,021/(5,000)
– Unlisted investment funds	5%/(5%)	299,212	5,714/(6,499)

	As at 31 December 2018		
	Increase/ (decrease) in prices of underlying instrument	Carrying amount HK$'000	Increase/ (decrease) in profit after tax HK$'000
Financial assets at fair value through profit or loss:			
– Listed equity investments	5%/(5%)	4,311	180/(180)
– Unlisted equity investments	5%/(5%)	224,601	7,735/(2,200)
– Unlisted investment funds	5%/(5%)	193,135	6,867/(6,343)

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(e) Fair value measurement

Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(e) Fair value measurement (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

	Fair value		Fair value hierarchy	Valuation techniques	Significant unobservable input
	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000			
Financial assets					
Financial assets at fair value through profit or loss					
– Listed equity investments	25,454	4,311	Level 1	Quoted market closing prices in an active market	N/A
– Listed debt investments	94,071	129,398	Level 2	Quoted price from broker/financial institution	N/A
– Unlisted equity investments	290,790	224,601	Level 3	Recent transaction price/Binomial model	Discount rate for lack of marketability/Forward Price-to-Earnings ratio
– Unlisted investment funds	299,212	193,135	Level 3	Recent transaction price/Trending on stock price movement/Equity allocation model	Stock price movement/ Scenario probability
– Unlisted convertible promissory note	–	23,495	Level 3	Recent transaction price	(i)
– Unlisted convertible debt investments	242,526	482,039	Level 3	Discounted cash flow	Discount rate

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(e) Fair value measurement (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

	Fair value		Fair value hierarchy	Valuation techniques	Significant unobservable input
	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000			
Financial assets					
Financial assets at fair value through other comprehensive income					
– Listed debt investments	**5,814,815**	2,570,780	Level 2	Quoted price from broker/financial institution	N/A
– Listed equity instruments	**1,074,091**	435,270	Level 2	Quoted price from broker/financial institution	N/A
Financial liabilities					
Financial liabilities at fair value through profit or loss	**–**	107,219	Level 2	Net asset value	N/A
Financial liabilities at fair value through profit or loss	**27,977**	22,930	Level 3	Net asset value	N/A

During the year ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2.

(i) The Directors of the Company consider that the financial position of these investments has no significant change between its recent transaction date and the reporting date, and hence no adjustment to the recent transaction price is needed.

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(e) *Fair value measurement (continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

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

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through profit or loss		
Unlisted equity investments:		
At 1 January	224,601	–
Payment for purchase	7,820	219,992
Changes in fair value recognised in profit or loss during the year	60,924	4,196
Exchange (loss)/gain recognised in profit or loss during the year	(2,555)	413
At 31 December	290,790	224,601
Unlisted investment funds:		
At 1 January	193,135	–
Payment for purchase	54,861	156,744
Changes in fair value recognised in profit or loss during the year	52,786	36,527
Exchange loss recognised in profit or loss during the year	(1,570)	(136)
At 31 December	299,212	193,135
Unlisted convertible promissory note:		
At 1 January	23,495	–
Payment for purchase	–	23,545
Conversion to listed security	(23,540)	–
Exchange gain/(loss) recognised in profit or loss during the year	45	(50)
At 31 December	–	23,495

37 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(e) Fair value measurement (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

	2019 HK$'000	2018 HK$'000
Unlisted convertible debt investments:		
At 1 January	**482,039**	–
Payment for purchase	**–**	563,437
Repayment	**(240,073)**	(78,249)
Changes in fair value recognised in profit or loss during the year	**1,730**	(1,972)
Exchange loss recognised in profit or loss during the year	**(1,170)**	(1,177)
At 31 December	**242,526**	482,039
Total unrealised gains for the year included in profit or loss for assets held at the end of the reporting period	**115,440**	38,751
Financial liabilities at fair value through profit or loss:		
At 1 January	**22,930**	–
Proceed from subscription	**–**	15,650
Changes in fair value recognised in profit or loss during the year	**5,047**	7,280
At 31 December	**27,977**	22,930
Total unrealised gains for the year included in profit or loss for liabilities held at the end of the reporting period	**5,047**	7,280

37 FINANCIAL INSTRUMENTS (continued)

Fair value of financial assets and liabilities that are not measured at fair value

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recognised at amortised cost approximate their fair values, which were determined in accordance with generally accepted pricing models based on undiscounted cash flow analysis, as at 31 December 2019 and 31 December 2018.

38 SHARE OPTION SCHEME

The share option scheme of the Company (the "**Share Option Scheme**") was adopted by the Company at the annual general meeting of the Company held on 24 September 2012. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Group to attract, retain and motivate talented participants to strive for future development and expansion of the Group. The Share Option Scheme shall provide incentive to encourage participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions. Eligible participants of the Share Option Scheme include any individual being an employee, officer, agent, consultant or representatives of any member of the Group (including any executive or non-executive director of any member of the Group) who, as the Board of Directors may determine in its absolute discretion, has made valuable contribution to the business of the Group based on his/her performance and/or years of service, or is regarded to be a valuable human resource of the Group based on his/her working experience, knowledge in the industry and other relevant factors. The offer of a grant of share options may be accepted within thirty days from the date of grant. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

The subscription price for the shares on the exercise of options under the Share Option Scheme shall be a price determined by the Board of Directors and notified to the relevant participant at the time of grant of the options (subject to any adjustments made pursuant to the Share Option Scheme and the relevant provisions of the Rules Governing the Listing of securities on the Stock Exchange) is made to (subject to acceptance by) the participant and shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is granted, which date must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the option is granted; and (iii) the nominal value of the share. The exercise period of the share options granted is determinable by the directors but in any event, not longer than ten years from the date of grant.

38 SHARE OPTION SCHEME (continued)

The total number of shares issued and to be issued upon exercise of the options granted to each participant, together with all options granted and to be granted to him/her under any other share option scheme(s) of the Company within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options) shall not exceed 1% of the total number of the shares in issue as at the proposed date of grant. Any further grant of options to a participant in excess of the 1% limit shall be subject to the shareholders' approval of the Company with such participant and his/her associates abstaining from voting.

The limit on the total number of the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company (excluding lapsed and cancelled options) must not exceed 30% of the total number of the shares in issue from time to time. In addition, the total number of the shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, together with all options to be granted under any other share option scheme(s) of the Company (excluding lapsed options), must not represent more than 10% of the total number of the shares in issue as at the date of approval of the Share Option Scheme (the "**Scheme Mandate Limit**") or as at the date of approval of the refreshed Scheme Mandate Limit as the case maybe.

As at 31 December 2019, there was no outstanding share options. (31 December 2018: Nil)

39 RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme (the "**MPF Scheme**") established under the Hong Kong Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group independently in administered funds under the control of the trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by the employee. The Group follows the minimum contribution requirement of 5% of eligible employees' relevant aggregated income with a cap of HK$1,500 per employee per month since 1 June 2014.

The contributions made by the Group to the MPF Scheme are charged to the consolidated statement of profit or loss and other comprehensive income when employees have rendered service to the Group.

40 OPERATING LEASE ARRANGEMENTS

After the transition to HKFRS 16, as disclosed in note 2, the Group has recognised the operating leases commitments as at 31 December 2018 as lease liabilities on 1 January 2019.

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases for office premises which fall due as follows:

	As at 31 December 2018 HK$'000
Within one year	28,866
In the second to fifth years, inclusive	109,551
Over five years	25,105
	163,522

Leases are negotiated for terms of three to six years.

41 CAPITAL COMMITMENT

At the end of the reporting period, capital commitments outstanding not provided for in the consolidated financial statements are as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Property, plant and equipment	–	5,154

42 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments that are either:

- offset in the Group's consolidated statement of financial position; or
- not offset in the consolidated statement of financial position as the offsetting criteria are not met.

Under the agreement of continuous net settlement made between the Group and Hong Kong Securities Clearing Company Limited ("**HKSCC**"), the Group has a legally enforceable right to set off the money obligations receivable and payable with HKSCC on the same settlement date and are settled simultaneously. In addition, the Group has a legally enforceable right to set off all clients accounts receivable and payable at any time without prior notice to clients and the Group intends to settle these balances on a net basis.

Except for above, amounts due from/to HKSCC that are not to be settled on the same date, accounts receivable and payable from clients not intends to settle on a net basis, financial collateral including cash and securities received by the Group, deposit placed with HKSCC do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

42 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements

	At 31 December 2019				
Type of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position HK$'000	Net amount HK$'000
Accounts receivable arising from the business of dealing in securities brokerage, futures and options dealing services	592,987	(8,732)	584,255	(770)	583,485

	At 31 December 2018				
Type of financial assets	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position* HK$'000	Net amount* HK$'000
Accounts receivable arising from the business of dealing in securities brokerage, futures and options dealing services	1,204,954	(8)	1,204,946	(119)	1,204,827

* Comparative figures have been re-presented correspondingly to conform with the current year's presentation.

42 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements

	At 31 December 2019				
Type of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position HK$'000	Net amount HK$'000
Accounts payable arising from the business of dealing in securities brokerage, futures and options dealing services	44,066	(5,108)	38,958	(770)	38,188

	At 31 December 2018				
Type of financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position HK$'000	Net amount HK$'000
Accounts payable arising from the business of dealing in securities brokerage, futures and options dealing services	369,701	(8)	369,693	(119)	369,574

43 RELATED PARTY TRANSACTIONS

Compensation to key management personnel of the Group which represents directors of the Company is set out in note 11.

Except for disclosed elsewhere in the financial statements, the Group entered into the following material transactions and balances with related parties:

(a) Transactions with related parties:

	2019 HK$'000	2018 HK$'000
Interest expense to an intermediate holding company (Note (i))	**242,650**	207,305
Interest income from a branch of the ultimate holding company	**13**	1,853
Interest expense to a branch of the ultimate holding company	**2,027**	19,694
Underwriting commission income from a branch of the ultimate holding company (Note (ii))	**–**	78
Asset management fee incomes from an intermediate holding company and segregated portfolios invested by an intermediate holding company (Note (iii))	**76,981**	24,167
Office sharing fee income from an intermediate holding company	**5,180**	–
Underwriting referral services expenses to an intermediate holding company	**–**	4,621

Notes:

(i) During the year, an intermediate holding company provided loans in aggregate amount of approximately HK$5,656,678,000 (2018: HK$6,314,421,000) to the Group. The loans bear annual interest rates of 4.0% to 4.24% (2018: 4.0%) and repayable within one year (2018: within one year) from the drawdown date. Interest payables of approximately HK$91,790,000 (2018: HK$103,962,000) are accrued from these loans during the year.

(ii) During the year ended 31 December 2018, the Company earned commission income for the underwriting services provided to a branch of the ultimate holding company for its debt issuance.

(iii) During the year, the Group earned asset management fee income for the asset management services provided to an intermediate holding company and segregated portfolios invested by an intermediate holding company.

43 RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Amount due from an intermediate holding company	**4,109**	243
Loans from an intermediate holding company	**5,748,468**	6,418,383
Bank balances at a branch of the ultimate holding company		
– House accounts	**26,322**	25,738
– Segregated accounts	**238**	–
Bank loan from a branch of the ultimate holding company	**–**	234,957
Interest payables to a branch of the ultimate holding company	**–**	861
Accounts receivable from an intermediate holding company	**–**	195,895
Accounts receivable from segregated portfolios invested by an intermediate holding company	**–**	39,179
Accounts payable to the immediate holding company	**605**	–

(c) Service agreement with related party

On 30 July 2018, the Company entered into a deposit services agreement with CMBC HK Branch with effective date back to 31 May 2017, pursuant to which CMBC HK Branch agreed to provide deposit services to the Group.

On 4 April 2019 and 29 May 2019, the Company entered into the service agreement and the supplemental agreement to the service agreement with CMBCI respectively, pursuant to which (i) the Group agreed to provide asset management services to CMBCI, its subsidiaries (other than the members of the Group) and its associates; (ii) CMBCI and its subsidiaries (other than the members of the Group) agreed to provide the distribution services and the underwriting referral services to the Group; and (iii) the Group agreed to provide underwriting and sub-underwriting services to CMBCI, its subsidiaries (other than the members of the Group) and its associates.

43 RELATED PARTY TRANSACTIONS (continued)

(c) Service agreement with related party (continued)

On 31 May 2019, the Company entered into the office sharing agreement with CMBCI, pursuant to which the Company agreed to grant CMBCI the non-exclusive right to use certain area of the office space in consideration of the sharing fees payable by CMBCI. On 31 December 2019, the Company entered into the renewed office sharing agreement with CMBCI to renew the existing office sharing agreement and also entered into the renewed deposit services agreement with CMBC HK Branch to renew the existing deposit services agreement.

On 23 July 2019, the Company (for itself and on behalf of other members of the Group) entered into a service agreement (the "**Service Agreement**") with China Minsheng Banking Corp., Ltd. ("**China Minsheng**") (for itself and on behalf of other members of China Minsheng and its subsidiaries, excluding the members of the Group ("**China Minsheng Group**"), pursuant to which, (i) the Group agreed to provide the asset management services, investment advisory services and ancillary services to China Minsheng Group, its associates or any third parties who are deemed to be connected with the Company under Rule 14A.20 of the Listing Rules; (ii) China Minsheng Group agreed to provide the distribution services to the Group; (iii) China Minsheng Group agreed to provide the underwriting referral services to the Group pursuant to the Service Agreement; and (iv) the Group agreed to provide the underwriting services for securities (including but not limited to securities issued by China Minsheng Group) to China Minsheng Group. The Service Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps were approved at the special general meeting on 23 September 2019.

During the year ended 31 December 2019, transactions relating to provision of asset management services, provision of deposit services and office sharing (2018: transactions relating to provision of asset management services, referral of underwriting opportunities and provision of deposit services) were listed in note 43(a).

44 DETAILS OF SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are set out below:

Name	Place of incorporation and operations	Paid-up registered capital	Proportion of ownership interest held by the Company: Direct As at 31 December 2019	Direct As at 31 December 2018	Indirect As at 31 December 2019	Indirect As at 31 December 2018	Principal activities
CMBC Securities Company Limited	Hong Kong	Ordinary HK$1,050,000,000	100%	100%	–	–	Provision of brokerage services and securities margin financing services
CMBC International Futures Company Limited	Hong Kong	Ordinary HK$10,000,000	100%	100%	–	–	Provision of futures and options dealing services
CMBC Asset Management Company Limited	Hong Kong	Ordinary HK$12,000,000	100%	100%	–	–	Provision of asset management services
CMBC International Capital Limited	Hong Kong	Ordinary HK$20,000,000	100%	100%	–	–	Advisory and corporate financing
CMBC Capital Finance Limited	Hong Kong	Ordinary HK$1	100%	100%	–	–	Provision of loan financing services
CMBC Investment (HK) Limited	Hong Kong	Ordinary HK$1	100%	100%	–	–	Investment holding
Cap Port Holding Limited	British Virgin Islands	Ordinary US$100	–	–	100%	100%	Investment holding
Cap FH Holding Limited	British Virgin Islands	Ordinary US$1	–	–	100%	100%	Investment holding
YBX Company Limited	Hong Kong	Ordinary HK$1	–	–	100%	100%	Investment holding
Cap Success Holding Limited	British Virgin Islands	Ordinary US$1	–	–	100%	100%	Investment holding
CMBCC Co-High Medical Investment Fund SP	Cayman Islands	N/A	60%	60%	–	–	Investment holding

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

45 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Unlisted investment funds	**299,212**	193,135

The Group has concluded that the unlisted investment funds in which it invests, but that it does not consolidate meets the definition of structured entities because:

– the voting rights in the funds are not dominant rights in deciding who controls them as they relate to administrative tasks only;

– each fund's activities are restricted by its articles of associations; and/or

– the funds have narrow and well defined objectives to provide investment opportunities to investors.

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest:

Type of structured entity	Nature and purpose	Interest held by the Group
Unlisted investment funds	To manage assets on behalf of third party investors	Acting as limited partner

45 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

The table below sets out interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the financial assets held.

	31 December 2019	
	Number of investment funds	Carrying amount included in financial assets at fair value through profit or loss HK$'000
Unlisted investment funds	**3**	**299,212**

	31 December 2018	
	Number of investment funds	Carrying amount included in financial assets at fair value through profit or loss HK$'000
Unlisted investment funds	2	193,135

During the year ended 31 December 2019 and 2018, the Group did not provide financial support to the unconsolidated structured entities and has no intention of providing financial or other support.

46 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Non-current assets		
Property, plant and equipment	**11,853**	2,897
Right-of-use asset	**116,785**	–
Investment in subsidiaries	**1,185,966**	1,180,966
Loans and advances	**241,752**	662,690
Rental deposit	**7,648**	7,648
Deferred tax assets	**692**	351
	1,564,696	1,854,552
Current assets		
Prepayments, deposits and other receivables	**2,220**	11,968
Loans and advances	**685,324**	372,100
Financial assets at fair value through profit or loss	**54,808**	275,778
Amount due from an intermediate holding company	**4,109**	243
Amounts due from subsidiaries	**6,091,048**	6,039,821
Cash and cash equivalents	**136,041**	215,240
	6,973,550	6,915,150
Current liabilities		
Other payables and accruals	**56,138**	11,537
Notes payable	**50,000**	99,216
Bank and other borrowings	**5,748,468**	6,653,340
Amounts due to subsidiaries	**768,605**	48,962
Tax payable	**1,886**	4,667
Lease liabilities	**27,388**	–
	6,652,485	6,817,722
Net current assets	**321,065**	97,428
Total assets less current liabilities	**1,885,761**	1,951,980

46 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Non-current liabilities		
Notes payable	–	50,000
Lease liabilities	91,012	–
Deferred tax liabilities	3,393	1,926
	94,405	51,926
Net assets	1,791,356	1,900,054
Capital and reserves		
Share capital	476,792	477,059
Reserves	1,314,564	1,422,995
Total equity	1,791,356	1,900,054

46 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	Share premium HK$'000	Contributed surplus HK$'000	Other reserve HK$'000	Fair value reserve (recycling) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2017	1,089,404	2,318,758	–	(1,111)	(2,730,658)	676,393
Impact on initial application of HKFRS 9	–	–	–	12,170	(17,878)	(5,708)
Adjusted balance at 1 January 2018	1,089,404	2,318,758	–	11,059	(2,748,536)	670,685
Profit for the year and total comprehensive expense for the year	–	–	–	(11,059)	87,268	76,209
Issue of shares	476,550	–	–	–	–	476,550
Placing of shares	199,551	–	–	–	–	199,551
At 31 December 2018	**1,765,505**	**2,318,758**	**–**	**–**	**(2,661,268)**	**1,422,995**
Loss for the year and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(9,301)**	**(9,301)**
Shares repurchased and cancelled	**(3,441)**	**–**	**–**	**–**	**–**	**(3,441)**
Shares repurchased but not yet cancelled	**–**	**–**	**(282)**	**–**	**–**	**(282)**
Dividend approved in respect of the previous year	**–**	**(95,407)**	**–**	**–**	**–**	**(95,407)**
At 31 December 2019	**1,762,064**	**2,223,351**	**(282)**	**–**	**(2,670,569)**	**1,314,564**

47 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

The coronavirus disease outbreak since early 2020 has brought about uncertainties to the Group's business environment and its impact is expected to gradually unfold. The Group has been closely monitoring the impact of the developments on the Group's businesses and has introduced corresponding contingency and additional risk management measures for its principal risks. In addition, the Group's management has worked vigilantly to implement a number of health and safety measures to protect staff members.

The Group will continue to closely monitor the coronavirus situation and assess the impact to the Group's financial position and performance regularly. The Group will keep its contingency and additional risk management measures under on-going review as the situation evolves. Timely actions will be undertaken to mitigate potential impact and strengthen its risk management measures as necessary. While the circumstances of the coronavirus disease outbreak has now become pandemic and is evolving rapidly around the world, an estimate of its financial impact to the Group at this stage may not be appropriate as it will be subject to material uncertainties under the current financial market conditions.

Financial Summary

	Notes	For the year ended 31 December 2019 HK$'000	2018 HK$'000	For the period from 1 April 2017 to 31 December 2017 HK$'000	For the year ended 31 March 2017 HK$'000	2016 HK$'000
RESULT						
Continuing operations						
Revenue	1	**978,683**	791,190	165,180	83,705	57,052
Profit/(loss) before taxation	1	**425,240**	284,737	129,903	(1,042,695)	(1,928,594)
Taxation	1,2	**(68,377)**	(39,541)	(11,540)	(5,342)	55,813
Profit/(loss) for the year/period from continuing operations		**356,863**	245,196	118,363	(1,048,037)	(1,872,781)
Discontinued operations						
(Loss)/profit for the year/period from discontinued operations		**–**	–	(95)	5,939	(2,243)
Profit/(loss) for the year/period		**356,863**	245,196	118,268	(1,042,098)	(1,875,024)
Attributable to:						
Owners of the Company		**356,863**	245,196	118,268	(1,042,098)	(1,874,835)
Non-controlling interests		**–**	–	–	–	(189)
		356,863	245,196	118,268	(1,042,098)	(1,875,024)

Financial Summary

	Notes	As at 31 December			As at 31 March	
		2019 HK$'000	2018 HK$'000	2017 HK$'000	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES						
Total assets	1,2	**11,639,816**	10,441,715	5,314,847	1,735,276	2,211,857
Total liabilities	1,2	**(9,417,573)**	(8,565,639)	(4,034,661)	(586,427)	(794,671)
		2,222,243	1,876,076	1,280,186	1,148,849	1,417,186
Equity attributable to:						
Owners of the Company		**2,222,243**	1,876,076	1,280,186	1,148,849	1,414,925
Non-controlling interest		**–**	–	–	–	2,261
		2,222,243	1,876,076	1,280,186	1,148,849	1,417,186

Notes to the five year summary:

1. As a result of the adoption of HKFRS 15, Revenue from contracts with customers, with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

2. The Group adopted HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.