



中國通海國際金融有限公司

CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED

(Incorporated in Bermuda with limited liability) (於百慕達註冊成立之有限公司)

Stock Code 股份代號：952

2020

Annual Report

年報

Your
Growth
Partner
與你邁向
成功的夥伴



This report is printed on environmentally friendly paper 本報告以環保紙印製

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Corporate Information

BOARD OF DIRECTORS

Mr. HAN Xiaosheng (*Chairman*)
Mr. FANG Zhou (*Deputy Chairman*)
(*Appointed on 16 October 2020*)
Mr. ZHANG Xifang
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing (*Chief Executive Officer*)
Mr. LIU Bing[^]
Mr. ZHAO Yingwei[^]
Mr. ZHAO Xiaoxia[^]
Mr. Roy LO Wa Kei[#]
Mr. KONG Aiguo[#]
Mr. LIU Jipeng[#]
Mr. HE Xuehui[#]
Mr. HUANG Yajun[#]

[^] *Non-Executive Director*

[#] *Independent Non-executive Director*

EXECUTIVE COMMITTEE

Chairman: Mr. FANG Zhou
Vice-Chairman: Mr. Kenneth LAM Kin Hing
Members: Mr. HAN Xiaosheng
Mr. ZHANG Xifang
Mr. LIU Hongwei

AUDIT COMMITTEE

Chairman: Mr. Roy LO Wa Kei
Members: Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

REMUNERATION COMMITTEE

Chairman: Mr. KONG Aiguo
Members: Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

COMPANY SECRETARY

Ms. Hortense CHEUNG Ho Sze

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th and 19th Floors
China Building
29 Queen's Road Central
Hong Kong

AUDITOR

KPMG
Certified Public Accountants and Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

HONG KONG LEGAL ADVISER

Howse Williams

BERMUDA LEGAL ADVISER

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church 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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Minsheng Banking Corp., Ltd.
Hong Kong Branch
Chong Hing Bank Limited
Dah Sing Bank, Limited
Fubon Bank (Hong Kong) Limited
Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
Nanyang Commercial Bank, Limited

STOCK CODE

952

WEBSITE OF TONGHAI FINANCIAL GROUP

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Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I would like to present to you the annual report of China Tonghai International Financial Limited (the "Group") for the year ended 31 December 2020. The Group recorded a significant increase in consolidated profit before tax of approximately HK\$113 million for 2020 (compared with the consolidated profit before tax of approximately HK\$3.6 million for the same period of 2019 and the consolidated loss before tax of approximately HK\$164 million for the six months ended 30 June 2020, the Group recorded a turnaround to consolidated profit before tax for the second half of 2020).

The year of 2020 was a year of turbulence in terms of global economy. Given the volatility of the COVID-19 pandemic, various sectors were heavily affected and thus led to global economic recession, the unemployment rate of Hong Kong has increased to the highest level in sixteen years, while we also witnessed the emergence of digital currencies, decline in saving return and high debt level. There are hardly any sectors could be immune amidst the pandemic. Comparing 2020 and 2019, the GDP of Hong Kong decreased by 6.1% in real terms. Although global economy has taken a bad hit from COVID-19 pandemic, investor sentiment remained sizzling with buoyant transaction. The U.S. stock market went through a roll-coaster ride in 2020 with slump triggering the trading curb four times within two weeks and even negative oil price. On the last trading day of 2020, all three major indexes of the U.S. stock market soared and it implies that investors tend to focus on the post COVID-19 pandemic prospects. For the Hong Kong stock market, a relatively large volatility was seen, and the difference between the highest and lowest level of the Hang Seng Index was over 8,000 points.

With the severe challenge imposed by COVID-19 pandemic in the previous year around the world, our living and business modes have changed accordingly, and the Group's business expansion in the Greater China Region was inevitably hampered by travel restriction. Nonetheless, with acute foresight and pragmatic response, the Group seized the opportunity and adjusted its business development strategy in a timely manner, thereby attaining fruitful results in various business sectors. In particular, the fund performance of China Tonghai China Focus segregated portfolio and Oceanwide Greater China UCITS fund (being renamed as Global Alliance Partners SICAV) were the most outstanding in asset management business, with return rates surpassing the market index. For securities brokerage business, investor sentiment remained relatively rampant albeit economic downturn, and its business development was still relatively stable. For interest income business, the amount of loans provided to clients based on market needs grew from the same period of 2019, and hence drove the increase in revenue. For proprietary investment business, the income also recorded a turnaround as compared to the same period of last year, benefitting from the significant increase in the fair value of an American listed depository receipt, an unlisted equity and a private equity investment. With regards to financial technology, the Group acted along with the trend and took the initiative to enhance its competitiveness. In 2020, the Group launched "Quam Derivatives", which is the first warrants and CBBC intelligent trading platform in Hong Kong to offer customised services to our clients for capturing the best timing of transactions.

While proactively expanding its business, the Group also spared no effort to pay back and extended its care to the society by keenly participating in charity campaigns. During the COVID-19 pandemic, the Group donated face masks to Caritas-Hong Kong to help those in need to pass through difficult times, exemplifying the spirit of mutual care and assistance. Meanwhile, the Group also endeavoured to contribute to environmental protection. The Group became the sponsor organization of "CarbonCare® Label" Scheme in 2020, and was awarded the CarbonCare® ESG Label by CarbonCare InnoLab for its outstanding performance in environmental, social and governance reporting as well as its commitment to create a greener future.

Looking forward to 2021, it is expected that COVID-19 pandemic would soon be alleviated and controlled with the roll-out of mass vaccination around the world, which will bring a hope of global economic resuscitation and the asset market, we remain prudentially optimistic about future economic environment. The Group will continue to proactively deepen its business partnership with Oceanwide Holdings Group, our parent company, and Tohigh Group, while place focus on capturing various domestic and foreign development opportunities. Such approaches will pave the way to success for our business and differentiate us as an ideal financial service partner with industry leading position.

On behalf of the Board, I would like to express my gratitude to all employees for their hard work and selfless dedication, which have empowered the Group to overcome the severe and adverse environment and become more flourishing. I would also like to appreciate our customers, shareholders and stakeholders for their support. With inspiring spirit and firm confidence, we will attain even better results for the coming year, while joining our efforts on increasing value for our customers and shareholders in the new prosperous era!

Yours truly,
HAN Xiaosheng
Chairman

Hong Kong, 25 March 2021

Chief Executive Officer's Review

Dear Shareholders,

How long can a storm last?

In our last annual report to shareholders we have mentioned the year of 2019 was a year of Perfect Storm, where China, and Hong Kong were trying hard to deal with the tightening of the Fiscal Policy, the U.S.-China Trade War, and the social movements in Hong Kong. Came 2020 we had the pandemic attack which created almost a world-wide lock down.

The effects of this pandemic, apart from the lives that it has taken away, has caused all major nations the reduction in their GDP growth, if there was still growth. All perhaps with some silver linings in China where its GDP in 2020 can still manage a rebound in the second half of the year, and still perhaps a modest growth.

If this the tail end of the storm, which we all are hoping for, we certainly love to see the sunshine again when the pandemic subsides.

Returning to the forecast of 2021, the economic effects of the bail out programs by the different governments and vaccination are yet to be seen. While these subjects are all interesting studies academically, the expectations on asset price inflation did create a much higher turnover in 2020 in the stock markets, hence benefited our capital market to a certain extent.

Business performance for our Tonghai in 2020 has taken advantage of the stock market recovery and delivered a modest profit of HK\$113 million before tax, compared with the HK\$3.6 million in 2019. However what is more remarkable is that Tonghai has turned its return from a loss of HK\$164 million before tax in the interim to this profit of HK\$113 million. The contributions came largely from our improvements in Asset Management Fees, interest income, and timely management of investments. Our total operational revenues hence increased by about 42% over the year 2020. Direct costs for the year were also contained, came roughly in-line with our budgets. We however continued to take a conservative view towards the impact of market volatility, and has increased our provisions on our loans & investment portfolio from the HK\$185 million in 2019, to about HK\$373 million in 2020, an increase of HK\$188 million. Silver linings could then be the possible write back when the economic situation stabilizes.

Within the performance of the business teams, few things we would report to our shareholders: first is our reduction in coverage in both our Structured Finance Unit, and our DCM team. Both initiatives are our increased cautions towards the matched funding needs by nature of these businesses, and the general change in credit standings as a result of the economic factors. The supplement acts however is our stepping up in the buildup of the sales force in our private client services and wealth management teams.

A revival of our private wealth management unit has started towards the end of last year intending to increase the sales staff colleagues from less than 10 to more than 20. Insurance and wealth planning advisory services and products are now being expanded to capture the rising trend.

Adjusting to the change in accounting standard, and also the slow down in progress of our IPO sponsorship, our corporate finance income suffered a 68% reduction. However, we have restructured the team with redeployment of people to station in China. We have managed to get back on track of project growth and robust reserves, which will bring us a healthy 2021 pipeline.

The significant increase of 80% in revenue in our Asset Management came largely from the increase in our AUM, with also performance fee earned during the year. We expect the trend to continue. We also have noticed the rising trend of Private Equity investments particularly in the technology & new economy sectors. We have begun to make PE investments in these sectors, and initiatives have started henceforth in the launch of our PE Fund, Pioneer II. Thanks to the expertise of our Oceanwide's Beijing Team, the multiple returns generated held in the shares of NIO Inc. (NIO: NYSE) in our Pioneer I was also a substantial contributor to our Tonghai's positive performance.

The investment gains in 2020 have helped to substantially contribute to our Tonghai, drawn in about HK\$203 million of revenue compared with a HK\$76 million loss in 2019. The timely disposal and trading strategy has helped us to score indeed.

In our words of thanks to our shareholders, it is also our intention that we should first return to paying dividends, and to commission a continuing dividend policy. At the time of this report, we are discussing the payment of a final dividend and dividend distribution policy in the Board while in study of the near to medium term market forecasts.

Looking into 2021, certainly the hope is the end of the storm and returning our Tonghai to our growth mode. We have gone through this turmoil of times, but proud to advise our shareholders that we have come out stronger.

Kenneth LAM Kin Hing
Chief Executive Officer

Management Discussion and Analysis

Macro Environment

The COVID-19 pandemic has created an unprecedented health and economic crisis both in scope and magnitude. Lockdowns and border closures in 2020 had paralyzed economic activities globally. Central banks across the world have been committed to enlist generous quantitative easing measures. The U.S. Federal Reserve slashed the key interest rate to near zero in mid-March 2020 to stabilize the market. In the second half of 2020, governments around the world rolled out fiscal and monetary stimulus measures aiming to minimize the impact of a catastrophic economic downturn in the real economy and support employment. The International Monetary Fund (IMF) expects the global economic growth to pick up in 2021 and, in particular, that China's economic growth rate to rebound to high single-digit.

Hong Kong Market Review

The Hang Seng Index plunged sharply from 28,189 in the beginning of 2020 to 21,696 in March 2020 following the then global sell-off. Thanks to the fast responding fiscal and monetary stimulus measures around the world, the Hang Seng Index had a strong rally and recovered thereafter most of the loss towards the end of 2020 at 27,231. Meanwhile, Hong Kong stock market remained very active in 2020. The average daily turnover during the year reached HK\$129.5 billion, representing a year-on-year increase of 49%. The market capitalization of the stock market topped HK\$47.5 trillion at the end of 2020, gaining 24% year-on-year. The Hong Kong Stock Exchange ranked second in the world's IPO fundraising league table in 2020 with a total of HK\$400.2 billion fund raised (out of 154 IPOs), representing a year-on-year 27% increase.

Results and Overview

The Group recorded revenue of HK\$1,105 million for 2020, as compared to HK\$779 million for 2019, representing a year-on-year increase of 42%. Excluding the income from investment and other business of HK\$212 million in 2020 (2019: loss of HK\$66 million), the remaining revenue amounts to HK\$893 million, which is roughly 6% more than HK\$845 million in 2019. Net profit for 2020 is around HK\$103 million, as compared to HK\$5 million for 2019, representing a year-on-year increase of around 20 times. The Group recommends the payment of a final dividend for 2020 at HK0.5 cent per share (2019: Nil), which amounts to roughly HK\$31 million.

Similar to previous years, we set out here the adjusted financial result for readers to understand our core business' performance better. Excluding the impact of certain fair value changes on investment and sophisticated provision amount, the Group's adjusted revenue for 2020 is HK\$886 million, which is 20% more than HK\$737 million for 2019. Adjusted profit before tax for 2020 is around HK\$143 million, which is 30% more than HK\$110 million for 2019. As compared to the adjustment items made in 2019, further adjustment items were made in 2020 for a) unrealized valuation gain in one of our Private Equity ("P.E.") investment; b) unrealized gain in one more listed stock; c) heavy provisions made to our other loans' portfolio (where most of them are still current and our management has confidence to recover. Albeit so, the current accounting standard of "Expected Credit Loss" methodology would come up with such a high number of provision); and d) mark-to-market loss on our investment in our parent company's USD bond.

| Adjusted results | 2020 HK\$'000 | 2019 HK\$'000 |
|----------------------------|--------------------------------|------------------|
| Adjusted revenue | 885,781 | 736,673 |
| Adjusted total expenses* | (742,885) | (627,134) |
| Adjusted profit before tax | 142,896 | 109,539 |

* Adjusted total expenses include other income/(loss), share of result of an associate and share of results of joint ventures presented in the financial statement.

The adjusted items for 2020 in details are as follows:

- 1) Fair value adjustment of the Group's investment in the H shares of Haitong Securities (6837.HK) and in OneConnect Financial Technology (OCFT:US): As at year end 2020, the Group was still holding around HK\$142 million worth of Haitong Securities. The share price of which had decreased by roughly 25% in 2020 and it contributed an unrealized loss of HK\$45 million to our 2020 annual result. On the other hand, the share price of OneConnect Financial Technology had nearly doubled in 2020 and our holding of this company's share had contributed an unrealized gain of HK\$85 million to our book.
- 2) Unrealized revaluation gain in PingAn HealthKonnnect and seed funding investment of a P.E. fund: For 2020, our holding of PingAn HealthKonnnect had contributed HK\$169 million profit to our book. Besides, our continue holding of the P.E. fund managed by our asset management team had resulted in a gain of HK\$64 million in 2020 (2019: HK\$41 million loss). The fact that the P.E. fund has numerous listed and unlisted company shares and the fluctuation in revaluation of the underlying companies would give rise to such unrealized revaluation gain or loss over the year. To be consistent with the approach of adjustment here in 2020, the comparative figure has been revised and does not tie to that similar figure in 2019 annual report.
- 3) The provision made to a basket of "other loans": The biggest provision made in 2019 was HK\$120 million against a loan to a listed Chinese property developer, which we have further provided HK\$36 million in 2020. The accumulative provision percentage has then become 84% which our management has confidence that no further material provision amount should be made in the near future. Besides that, a full provision on its current outstanding balance as of the date of this report has been provided against one client which increased the provision of HK\$154 million due to several delays in payment although it has repaid more than HK\$100 million in 2021 so far. We have also provided HK\$58 million provision on a syndicated loan which we are prepared to give up as a concession on a selling process.
- 4) Unrealized fair value loss in our investment in our parent company's USD bond: We have taken the theoretical market price from Bloomberg and determined that the fair value is 5% discount to our carrying cost. Although we think our parent company is financial sound and could repay this USD bond at maturity to us in full, the HKFRS requires us to make HK\$55 million unrealized fair value loss (i.e. 5% discount) to the 2020 result.

Management Discussion and Analysis

The Group had held special general meetings in the past to approve the Group's on-going transactions with connected parties. Although the actual amount used was below the approved cap, it represented a significant portion of net assets. To let readers understand the proportions of revenue from continuing connected transactions in various segments, the Company presents the relevant data in the following table (those continuing connected transactions were approved latest by the special general meetings held on 8 March 2019 and 11 October 2019):

Analysis of Continuing Connected Transactions — Revenue

For the financial year ended 31 December 2020

| | Revenue HK\$ million | Analysis: | | | |
|------------------------------------|-------------------------|---|------------|---|------------|
| | | Continuing connected transactions HK\$ million | | Independent third parties' transactions HK\$ million | |
| 1) Corporate finance business | 14 | — | | 14 | |
| 2) Asset management business | 42 | 22 | | 20 | |
| 3) Brokerage business | 170 | — | | 170 | |
| 4) Interest income business | 667 | 297 | 45% | 370 | 55% |
| — Loans to margin clients | 159 | 5 | | 154 | |
| — Others | 508 | 292 | | 216 | |
| 5) Investments and others business | 212 | 3 | | 209 | |
| | 1,105 | 322 | 29% | 783 | 71% |

As shown in the table above, revenue from continuing connected transactions accounted for 29% of the Group's total revenue. The proportion of continuing connected transactions in interest income accounted for 45% of total interest income.

The proportions of continuing connected transactions to items in the balance sheet of the Group are analyzed in the table below:

Analysis of Continuing Connected Transactions — Balance Sheet Items

As at 31 December 2020

| | Analysis: | | | | |
|---|--------------|---|---|------------|------------|
| | HK\$ million | Continuing connected transactions HK\$ million | Independent third parties' transactions HK\$ million | | |
| Major items extracted from the balance sheet: | | | | | |
| Financial assets held for trading and market making activities | 2,069 | 667 | 1,402 | | |
| — Listed debt securities | 11 | — | 11 | | |
| — Listed equity securities | 726 | — | 726 | | |
| — Unlisted debt securities | 700 | 667 | 33 | | |
| — Unlisted equity securities | 428 | — | 428 | | |
| — Unlisted mutual funds | 9 | — | 9 | | |
| — Private equity fund | 195 | — | 195 | | |
| Financial assets not held for trading and market making activities | 126 | 93 | 33 | | |
| — Unlisted debt securities | 118 | 93 | 25 | | |
| — Unlisted equity securities | 8 | — | 8 | | |
| Derivative financial instruments | 95 | — | 95 | | |
| Loans to margin clients | 1,372 | 67 | 1,305 | | |
| Advances to customers for merger and acquisition activities | 189 | — | 189 | | |
| Other loans | 3,339 | 1,890 | 1,449 | | |
| | 7,190 | 2,717 | 4,473 | | |
| Other current and non-current assets | 2,747 | — | 2,747 | | |
| Total assets | 9,937 | 2,717 | 7,220 | 27% | 73% |
| Net assets | 5,891 | 2,717 | 3,174 | 46% | 54% |

Management Discussion and Analysis

As loans to connected parties were executed in different forms in practice, each item was classified by its actual form in accordance with the HKFRS. The assets lent to connected parties as at the end of 2020 valued HK\$2,717 million, accounting for approximately 27% of total assets and approximately 46% of net assets. Its major components are: 1) other loans of HK\$1,890 million (unsecured loans generally granted to connected parties by our subsidiaries); 2) bonds of HK\$760 million; and 3) margin loans of HK\$67 million (margin loans provided to connected parties by our securities company).

Business Review

We have accomplished most of the operation targets in 2020.

In 2020, the Group has entered into 3 sponsorship engagements for initial public offerings (2019: 1). We have also entered into 28 other corporate finance projects in 2020 (2019: 28) as financial advisor/independent financial advisor and underwriter, etc.

At the end of 2020, our assets under management (“AUM”) under our asset management subsidiary company reached HK\$2,683 million, increasing by 18% from HK\$2,267 million at the end of 2019, which was mainly due to the Group’s newly developed asset management products.

Although our market share in the Hong Kong stock secondary market recorded a slight year-on-year decline, the robust market turnover growth in general has given rise to our increased clients’ trading turnover in Hong Kong market. At the end of 2020, the Group’s margin loans to clients amounted to HK\$1,372 million (trade date basis), representing a decrease of 31% from HK\$1,978 million (trade date basis) at the end of 2019, was mainly due to our cooperative measures to comply with the requirement from Securities and Futures Commission (“SFC”) on tightening margin loans. Our ranking in the HKEX’s exchange participants in 2020 has remained roughly the same level.

It is worth mentioning that the Group is proud to be the Gold Sponsor of 2020 Corporate Governance Excellence Awards in two consecutive years. The Group has also become the Diamond Sponsor of “Annual Conference 2020” held by The Hong Kong Independent Non-Executive Director Association (HKiNEDA). Furthermore, the Group is committed to actively contributing to the community and fostering a caring culture. The Group has become a Silver Member of WWF-Hong Kong since 2019 to 2020 in order to support environmental conservation and education work. During the COVID-19 pandemic, the Group donated face masks to Caritas-Hong Kong to help those in need to pass through difficult times, exemplifying the spirit of mutual care and assistance. As a caring company, the Group will continue to uphold its corporate social responsibility.

Financial Review

As the revenue from investments and other businesses were affected by market volatility, we have presented the following analysis of revenue by businesses by way of deducting the revenue from investments and other businesses from the total revenue. We wish such presentation would help our readers to better understand the proportion of our recurring revenue:

| Revenue | 2020 HK\$ million | 2020 Proportion | 2019 HK\$ million | 2019 Proportion | Change |
|--|----------------------|--------------------|----------------------|--------------------|--------|
| Corporate finance business | 14 | 1% | 45 | 5% | (69%) |
| Asset management business | 42 | 5% | 23 | 3% | 83% |
| Brokerage business | 170 | 19% | 166 | 20% | 2% |
| Interest income business | 667 | 75% | 611 | 72% | 9% |
| Total income excluding investments and other businesses | 893 | 100% | 845 | 100% | 6% |

From the above table, the rising proportions included interest income business and asset management business, which has increased from 72% in 2019 to 75% in 2020 and from 3% in 2019 to 5% in 2020, respectively; while the falling proportions included revenue from corporate finance business and brokerage business, which has decreased from 5% in 2019 to 1% in 2020 and from 20% in 2019 to 19% in 2020, respectively.

Corporate Finance Business

The Group's corporate finance business comprises sponsorship for listing, financial advisory, financing consultation service, equity capital market and debt capital market. It consists of revenue booked in China Tonghai Capital Limited and some commission income from placing and underwriting booked under China Tonghai Securities Limited ("China Tonghai Securities"). In 2020, total income from corporate finance business recorded HK\$14 million, a drop of roughly 69% as compared to HK\$45 million in 2019.

In 2020, commission-based income (from placing, underwriting and sub-underwriting deals) amounted to HK\$7.8 million, representing a year-on-year drop of 71% from HK\$26.6 million in 2019. The major reason was high comparative figure caused by the commission income recorded from Tai Hing Group Holdings Limited (Stock Code: 6811) in 2019. In 2020, fee-based income (from sponsorship, financial advisory, compliance advisory engagements) was approximately HK\$6.6 million, representing a year-on-year decline of approximately 64% from HK\$18.3 million in 2019.

Management Discussion and Analysis

Asset Management Business

In 2020, total revenue from asset management business recorded HK\$42 million, representing a year-on-year increase of 83% as compared to HK\$23 million in 2019. The increase was mainly due to the increase of more than HK\$20 million in performance fee from both funds and discretionary accounts. Average AUM for 2020 has decreased slightly as compared to that in 2019, thus a slightly decrease in general management fee was recorded. Our asset management business at the end of 2020 included the management of China Tonghai China Focus Segregated Portfolio (“CTCF”, a private fund incorporated in the Cayman Islands), Oceanwide Greater China UCITS fund (“UCITS”, a European public fund registered in Luxemburg), private equity funds named Oceanwide Pioneer Limited Partnership, Oceanwide Elite Limited Partnership, China Tonghai Guaranteed Return Segregated Portfolio, Golden Global SP1, Golden Global SP2, China Tonghai Minsheng Trust A Shares Segregated Portfolio and various discretionary accounts managed by both our asset management subsidiary and our securities subsidiary company, etc.

Brokerage Business

In 2020, total income from brokerage business recorded HK\$170 million, a year-on-year increase of 2% from HK\$166 million in 2019, mainly due to the slight increase in commission from dealing in Hong Kong securities. Commission income on futures and options products slightly declined from HK\$77 million in 2019 to HK\$74 million in 2020.

Interest Income Business

The Group’s interest income business includes interest income from margin loans, interest income from other loans, interest income from proprietary investment business and interest income from treasury operation. Total revenue from interest income business in 2020 recorded HK\$667 million, representing a 9% growth from HK\$611 million in 2019. In particular, interest income from other loans has increased from HK\$305 million in 2019 to HK\$368 million in 2020 by 21%. The main reason is the increase of loans to our connected parties. Interest income from margin loans has reduced from HK\$193 million in 2019 to HK\$159 million in 2020 by 18% which was basically in line with the reduction of outstanding margin loan amounts to clients. Key improvements have been made in IPO margin loan interest income. This item, though small in proportion to the overall revenue figure, has improved from HK\$0.5 million in 2019 to HK\$3.0 million in 2020 by around five folds.

Investments and Others Business

In 2020, due to the correct investment decisions made by our colleagues, we are proud to report that we have turned around from the loss of HK\$66 million in 2019 to the gain of HK\$212 million in 2020. There were several projects making significant gains in 2020 despite some projects were making losses. Other than those discussed in the section of our adjusted results, they are realized portion which give rise to more cash to the Group.

Expenses

In 2020, direct costs recorded HK\$166 million, representing a year-on-year increase of 4% from HK\$160 million in 2019. The increase was mainly due to the increase in income from brokerage business, where its corresponding commission expenses are a major component of direct costs.

In 2020, staff costs recorded HK\$255 million, representing a year-on-year increase of approximately 19% from HK\$215 million in 2019. The increase was mainly resulted from various factors: including result-based bonuses for our dedicated colleagues, the slight annual salary increment and the recruitment of higher caliber staff.

In 2020, E.C.L. provisions recorded approximately HK\$373 million, representing a year-on-year increase of approximately 102% from HK\$185 million in 2019. As at 31 December 2020, the Group made a 13% (2019: 5%) E.C.L. provisions for other loans and advances to customers for merger and acquisition activities, being calculated as E.C.L. provisions of other loans and advance to customers for merger and acquisition activities over their gross amounts before E.C.L. provisions.

Finance cost in 2020 recorded HK\$110 million, representing a year-on-year decline of approximately 2% from HK\$112 million in 2019 due mainly to the general decline of HIBOR. The outstanding total borrowings of the Group have decreased slightly from HK\$2,037 million at the end of 2019 to HK\$1,875 million at the end of 2020. The decrease in outstanding total borrowings is due to partial repayment to China Minsheng Banking Corp., Ltd., Hong Kong Branch (the "CMBC HK Branch") and reduced commercial need to gear up the Group at year end.

Other Information

Capital Structure, Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow as well as through the utilization of banking facilities and short-term notes. From time to time, the Company may raise funding by issuing new shares or debt instruments. The Group's cash level at the end of 2020 was around HK\$214 million (2019: HK\$182 million).

At the end of 2020, the Group's total borrowings amounted to HK\$1,875 million, decreased by 8% from HK\$2,037 million at the end of 2019. Borrowings mainly consisted of three components. The first component was utilized bank facilities of around HK\$1,503 million (2019: HK\$1,826 million), of which the Group had available aggregate banking facilities of around HK\$3,849 million (2019: HK\$4,249 million). Most of our banking facilities are based on putting our margin clients' stock as collaterals (commonly known as "margin loan"). The second component was private notes issued by our listed company, which amounted to HK\$370 million at the end of 2020 (2019: HK\$211 million). They were very short term instruments ranging from 30 days to 180 days. The third component was the obligations under repurchase agreements, which recorded HK\$2 million as at the end of 2020 (2019: Nil). At the end of 2020, the Group's gearing ratio (leverage) was 32% (2019: 35%), being calculated as total borrowings over net assets. The management has applied prudent risk and credit management on the increased borrowing. In addition, the Group is required to strictly follow regulatory re-pledging ratios and prudent bank borrowing benchmarks that govern the extent of bank borrowings in the securities margin lending business.

Management Discussion and Analysis

Contingent liabilities

Counterclaim by a Hong Kong listed company

On 4 February 2019, China Tonghai Securities, our subsidiary, initiated legal proceedings against a Hong Kong listed company (the "Defendant") in the High Court of the Hong Kong Special Administrative Region in respect of the failure of payment of commission fees to China Tonghai Securities under the agreement on provision of financial agency services dated 28 March 2018 (the "Agency Agreement") to recover the remaining commission fees of HK\$10.35 million not yet paid by the Defendant to China Tonghai Securities (not yet booked). The Defendant submitted its defense and counterclaim in mid-2019. Save as disclosed above, the Directors consider that the Group has no other contingent liabilities. Although the possible consequence of the above case is now uncertain, the Directors consider any possible legal obligations arising from the above counterclaim would not impose any material adverse impact on the financial position of the Group.

Material acquisitions, disposals and significant investments

For 2020, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies. As at the end of 2020, the Group did not hold any significant investments.

Charges on the Group's assets

At the end of 2020, assets of HK\$1,409 million (2019: HK\$1,297 million) were charged to banks and other lender for facilities.

Employees and remuneration policies

On 31 December 2020, the Group had 249 full time employees (2019: 242) in Hong Kong and 33 full time employees (2019: 30) in Mainland China. In addition, the Group has 76 self-employed sales representatives (2019: 87). Competitive total remuneration packages are offered to employees by reference to industry remuneration research reports, prevailing market practices and standards and individual merit. Salaries are reviewed annually, and bonuses are paid with reference to individual performance appraisals, prevailing market conditions and the Group's financial performance. Other benefits offered by the Group include MPF, medical and health insurance.

Risk management

The Group's business is closely related to the economy and market fluctuation of Hong Kong and China, and indirectly affected by other overseas financial markets. To cope with the unpredictable market fluctuation and minimize risks, the Group takes preventive measures and establishes a risk management system with defined segregation of duty between business departments on the front line and internal control units such as the Internal Audit Department, Risk Management Department and Compliance Department. The Risk Management Department of the Group is responsible for overseeing all risk management functions. These functions primarily include risk identification, risk limits setting, measurement and monitoring of risk limits, analysis of risk scenarios, and produce timely reports to the senior management. The Risk Management team also perform pre- and post-risk assessments on both asset and liability items.

Credit risk

Credit risk is the risk in respect of loss arising from incompetence of a borrower, counterparty or issuer of financial instruments to meet its obligation, or potential deterioration of credit ratings. The Group has Credit Risk Approving Policy and Post Lending Monitoring Policy in place to dictate procedures and approving authorities required for all credit applications relating to increases in credit risk. The credit risks of the Group mainly arise from five business areas: corporate finance business, asset management business, brokerage business, interest income business and propriety investment business. The Group's senior management and other executives have also set up a Business Assessment Committee to review and approve credit risky products/transactions within each of the business line. Advance IT systems are also utilized by the Group to conduct daily monitoring on credit and concentration risk limits. Significant deals have to go through approval procedures by Executive Committee and/or the Board of Directors of our listed company.

Market risk

Market risk refers to potential losses due to market price movement of investment positions held, which includes interest rates risk, equity prices risk and foreign exchange rates risk. Risk Management Department is an independent department from business lines responsible for setting up market risk limits and investment guidelines for the Group's various business functions and their investment activities. Investments which carry market risks potential are, where appropriate, assessed and approved by Risk Management Department. Monitoring and assessments of market risks positions are conducted timely, and significant risks shall be reported to senior management to ensure the market risks of the Group collectively is controlled within an acceptable level. The Group continues to modify the market risk models through periodic back-testing and stress scenarios tests.

Liquidity risk

Liquidity risk refers to the risk that the Group might face in obtaining sufficient capital and funds in a timely manner to meet its payment obligations and capital requirements for normal business activities. The Treasury Department is responsible for management and allocation of funds for the Group, as well as the first line of defense to decide any fund movement would violate the FRR, regulatory ratios set by the SFC and financial covenants of lending banks/entities. The Accounts Department, acting as the second line of defense, has a monitoring system to double check the above items and identify irregularities to senior management. In addition, the Group has maintained good relationships with banks to secure stable channels for short-term financing such as borrowings and repurchases. The Group may also raise short-term working capital through public and private offerings of corporate notes. The Group has also established a liquidity system to ensure it has sufficient liquid assets to meet any emergency liquidity needs.

Operational risk

Operational risk is the risk of financial loss arises mainly from negligence or omission of internal procedural management, information system failures or personnel misconduct of staffs. The Group actively schedules briefing sessions to improve risk awareness amongst employees, and instructs all departments to establish internal procedural and control guidelines. There is an Operational Risk Events Reporting procedure to ensure that all risk events are timely reported to the Risk Management Department, Compliance Department and IT Department for immediate implementation of remedial action. The Group has a Business Continuity Policy and has a special task force to deal with whatever emergency situations may arise which could pose operational risks to us.

Management Discussion and Analysis

Regulatory compliance risk

As a financial group operating regulated businesses, we endeavor to meet the stringent and evolving regulatory requirements, including but not limited to those related to investor interest protection and market integrity and stability maintenance. Our Compliance Department works closely together with internal and external professionals, who has continually reviewed our internal control processes to reduce the regulatory risks.

Prospects

Like all our peers, we have encountered various complex macro-economic circumstances in 2020, including but not limited to prolonged global novel coronavirus pandemic, growing tension between the Sino-U.S. relations, volatility of the capital markets in different countries, rising unemployment rates in Hong Kong, etc. In Hong Kong, the real economy has been hit hard by the pandemic and the Government has timely put up relief measures and support schemes to individuals as well as corporations since early 2020. We are pleased to tell our shareholders that we have collected the necessary and appropriate amount of government subsidies from the Hong Kong Government in 2020 and those amount has been disclosed in our financial statement.

Having reviewed what had happened in 2020, we are now dedicated to plan our future for our shareholders. We had various meetings, formal and informal, discussing what would be the best strategy for our company in 2021 and/or in three years' time. There are various areas that we have decided to focus more in the near future. Firstly, the Group is reviewing and reallocating our investment portfolios to adjust to the right risk appetite under the current macro-economic environment. Secondly, the Group is strengthening our recurring business by reviewing the key businesses like private client service, wealth management service, corporate finance and asset management businesses. Thirdly, the Group is likely to control the resource spent on capital-driven business and wisely use our overall leverage.

Yes, we are facing an entirely new competing environment like the novel coronavirus pandemic and geo-political uncertainties. Yes, we believe the social distancing restrictions and strict border control under novel coronavirus pandemic would be lifted one day in the future, hopefully sooner than later. One thing our management could assure our shareholder is that we will stay committed and flat out for delivering a bright transcript on the table this year by bringing a desirable financial return to all shareholders.

Looking forward, let's go hand-in-hand to embrace the bright future.



Environmental, Social and Governance Report

ABOUT THIS REPORT

This is the fifth Environmental, Social and Governance (“ESG”) Report (“Report”) published by China Tonghai International Financial Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”). The Report is prepared on an annual basis. It outlines the Group’s sustainability strategy, measures and performance between 1 January 2020 and 31 December 2020 (the “year”). The Report is prepared in both Chinese and English, and has been uploaded to the website of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (www.hkexnews.hk) and the Company’s website (www.tonghaifinancial.com).

Reporting Scope and Boundary

The Report covers the Group’s management approach to the sustainability topics of the five core business, including asset management, brokerage, corporate finance, interest income, investment and others, and covers the operations of offices¹ in Hong Kong.

The core businesses of China Tonghai International Financial Limited



While the Report does not cover the Group’s operations in Mainland China, the Group plans to continuously enhance its data collection system to gradually expand the scope of disclosure in the future.

Reporting Standard

The Report is prepared in accordance with the ‘comply or explain’ provisions of Appendix 27 Environmental, Social and Governance Reporting Guide (the “Guide”) of the Rules Governing the Listing of Securities on the Main board of the Stock Exchange. The four reporting principles: materiality, quantitative, balance and consistency form the backbone of the Report.

| | |
|---------------------|--|
| Materiality | The Group has conducted a stakeholder survey with its internal and external stakeholders. Throughout the survey, the Group identified material topics according to the significance of the Group’s impacts and the topics importance for the stakeholders. The results have been reviewed and confirmed by the Board of Directors (the “Board”). |
| Quantitative | The Group, when appropriate, collects and assesses the quantitative data, and provide past performance data for comparison. |
| Balance | The Group is committed to providing an unbiased narrative explanation of the Group’s performance. |
| Consistency | The Group uses consistent methodologies for a fair and meaningful comparison of the performance. |

¹ The reporting scope in this reporting year covers the offices in Central, Sai Ying Pun, and Tsim Sha Tsui East, which includes a newly established office in Central, which begins its operation in 2020. Meanwhile, two offices in Central were closed in August 2020, only data between January and August 2020 is included.

Data Preparation

The Group is responsible for the accuracy and reliability of the presented information in this Report. The information has been sourced from formal documents and statistical data of the Group. The Report has been reviewed and approved by the Board on 25 March 2021.

Feedback Channel

We welcome your comments and suggestions on this report and our sustainability performance. Please contact the Group through the following channels:

Address: 18/F, China Building, 29 Queen's Road, Central, Hong Kong

Email: pr.comms@tonghaifinancial.com

ESG GOVERNANCE

The Group is committed to maintaining and upholding high standard of corporate governance by ensuring a high ethical standard and safeguarding the interests of shareholders and other stakeholders.

As the Group's highest governing body, the Board provides oversights of the overall ESG strategies, practices, and performance. The Board has now established an ESG Committee (the "Committee"), which is responsible for implementing sustainability policies and measures, assessing sustainability performance, recommending improvement actions, and setting targets and goals. The Company Secretary, acting as the Chair of the Committee, reports to the Board on a regular basis.

Moving Forward on ESG Governance

Looking ahead, the Committee is planning to establish its ESG long term strategies, which will serve as a foundation of sustainability policies and measures implementation. The Committee is also intended to formulate sustainability targets to further improve its sustainability performance.

Managing ESG Risks

The Board is accountable for overseeing the Group's risk management and internal control systems and maintaining their effectiveness on an ongoing basis. The Group monitors the daily operations of all departments and identify ESG-related risks through the risk management systems.

The two identified ESG risks: data security and anti-money laundering, remain material in this year, the Group has adopted various preventive measures to ensure the risks are appropriately mitigated.

During the year, the Group has also conducted a third party review on the Group's cybersecurity. The Group, in reference to the results of the review, will consider adopting various measures to further equip the Group's cybersecurity level.

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT

Effective communication with the stakeholders² proves to be vital to the Group's business development. It allows us to have a better understanding of their needs and the expectations regarding to the governance, environmental, and social aspects. During the year, the Group has continuously engaged both internal and external stakeholders through various communication channels, such as day-to-day operations, surveys, meetings, and workshops.

| Stakeholder types | Priority concerns | Communication channels |
|-------------------------------|---|---|
| Staff | <ul style="list-style-type: none"> Industry and corporate trends Staff welfare | <ul style="list-style-type: none"> Company announcements Performance evaluation Whistleblowing channel |
| Shareholders | <ul style="list-style-type: none"> Investment returns and interests Risk management | <ul style="list-style-type: none"> Annual General Meeting and other special meetings Annual Report and Interim Report Company website Announcements and notices |
| Business Partners | <ul style="list-style-type: none"> Quality of partnerships Business ethics | <ul style="list-style-type: none"> Business meetings |
| Customers | <ul style="list-style-type: none"> Product quality Customer service Customer privacy | <ul style="list-style-type: none"> Customer service hotline and email Online chat bot Customer complaint channel |
| Regulatory authorities | <ul style="list-style-type: none"> Operational compliance Combatting financial crimes | <ul style="list-style-type: none"> Enquiry from the regulatory authorities Public consultations |
| Communities | <ul style="list-style-type: none"> Community development | <ul style="list-style-type: none"> Sponsorships and donations Volunteering |

Identifying Material Issues

The Group has commissioned an independent consultancy to assist the Group in conducting a materiality assessment. In reference to the local reporting standards, the Group has identified 21 ESG issues related to the business, covering Environmental, Employment and Labour Practices, Operating Practices, and Community Investment. The Group has invited internal and external stakeholders to participate in a survey and to rate the 18 issues in accordance to the importance of the issue to them and the Group's impact to the environment and society. A total of 58 valid responses have been collected.

² Stakeholders are those who have considerable influence on the Group's business, and whom the Group's business has a significant impact on.

Base on the survey results, a materiality matrix is developed. 11 out of 21 issues were identified as material issues for the Group to address and report for 2020.



Moving Forward on Stakeholder Engagement

To further enhance the engagement level with the stakeholders, the Group is intended to continue to develop a comprehensive engagement strategy and to expand its communication channels.

OPERATING PRACTICES

As a responsible corporate citizen, the Group is committed to adopting high standard of integrity and transparency in the corporate development. The Group is committed to complying with the stringent regulations and integrates responsible practices into operation procedures. The Group has established the Supply Chain Management, Product Responsibility and Anti-corruption Policy Statement, which sets out its commitment on anti-corruption, anti-money laundering, product responsibility, and supply chain management.

Preventing Financial Crimes

The Group is committed to maintaining a fair, accountable, and transparent business operation, adhere to the laws and regulations. The Group values the integrity of the business operation and has zero-tolerance on corruption, bribery, extortion, money-laundering and other fraudulent activities, as stated in the Employee Handbook.

To ensure potential legal and regulatory risks are appropriately mitigated in the business operation, the Group has established a Compliance Manual and implemented a robust Anti-Money Laundering and Counter-Financing of Terrorism program.

Environmental, Social and Governance Report

Preventive measures implemented under the anti-money laundering and counter-financing of terrorism program

| | |
|---------------------------------------|--|
| Account opening | <ul style="list-style-type: none"> • Conducts a risk-based approach to client due diligence, incorporates customer identification and verification, and know your customer guidelines • Conducts a customer risk assessment to customers identified as higher risk, such as politically exposed persons and their associates • Establish restrictions on dubious customer activities (third party payments, operation of multiple accounts) |
| Existing customer transactions | <ul style="list-style-type: none"> • Ongoing monitoring procedure on unusual transactions to identify suspicious activities • Deployment of regulatory technology to enhance the regulatory processes |

The Group has adopted a whistle blowing policy and mechanism for staff to report any potential financial irregularities or non-compliance activities, without fear of retribution. The Group Whistleblowing Policy provides a clear guideline of the list of potential irregularities and the reporting procedures. Whistleblowers can make their reports in writing by email, post, or report to the Head of Internal Audit in person. An investigation team led by the Head of Internal Audit, with the authorization by the Whistleblowing Committee, will conduct the investigation. If there is sufficient evidence to a potential criminal case, the case will be reported to local authorities for further investigation.

To ensure the staff is aware of the regulatory obligations and the possible consequences of breaching the obligations, the Group provides regular training to all levels staff. During the year, the Group has provided three compliance training sessions for staff. The Human Resources Department has also circulated a training document produced by Hong Kong Independent Commission Against Corruption — “Bank on Integrity — A Practical Guide for Bank Manager”.

Stringent laws and regulations requirement in cope with evolving financial crimes

With technology continues to evolve, suspicious transactions are increasing and become more sophisticated. The Group remains vigilant in upholding the stringent rules and regulations in line with regulatory requirements and stakeholders’ expectations. The Group plans to organise an anti-corruption training, provided by Independent Commission Against Corruption, to further enhance the staff’s awareness on anti-corruption and business ethics. The Group is also intended to provide staff additional training on the trending financial crimes, to send internal notice and memos in daily communication to ensure the staff is fully aware with the local law and regulations.

Cybersecurity and Customer Privacy Protection

The Group attaches great importance to cybersecurity and customer data privacy protection in the course of business operation, in comply with the regulatory requirements. The Group has adopted various preventive measures to ensure the customer data privacy is well secured, as well as to prevent data breaches.

Preventive measures on cybersecurity and protecting customer data privacy

- Adopts an industry standard of multi-tier firewalls in its network
- Adopts two-factors authentication (2FA) in its operation
- Install anti-virus and anti-malware protection on staff personal computers
- Encrypted password setting
- Restrict staff access and authorize staff on a need-to-know basis to protect personal data
- Establish an internet protocol address whitelisting for the access to the internal server and database
- Website encryption with the use of SSL certificates
- Provide online cybersecurity awareness training to all new joined staff as part of the on-boarding process
- Conduct regular training and phishing tests to ensure staff remains vigilant to cybersecurity risks
- Regular email broadcasting to remind colleagues on ensuring customer data privacy

Firewalls upgrade project 2020

Maintaining the cybersecurity infrastructure up-to-date is the key to mitigate technology risks in the business operation. During the year, the Group has conducted a firewall upgrade project by replacing soon-to-be end of life products. With the enhancement of the network configuration by the IT department, the Group is now capable to fully utilize the availability and virtual domains of the firewalls, which further improves the protection performance and the capacity.

In cope with future growing cyber security threats in the industry, the Group has commissioned a third party vendor to conduct a review on the Group's cybersecurity. The review aimed to identify cybersecurity loopholes and potential risks, and to review the ability to identify, manage, and remediate threat. The results of the review will be a foundation of the future enhancement on cybersecurity.

Looking ahead, the Group is planning to set up an internal network monitoring system to detect any unauthorised internal devices and to detect malware activities, as well as to implements measures to cope with ransomware activities. The Group also plans to further enhance cybersecurity awareness by offering lunchtime sharing sessions and to provide reminders and tips on safeguarding customers' personal information.

Protecting Intellectual Property

The Group is committed to protecting intellectual property rights and not to infringe any third-party interests to safeguard major investments in business platforms, new products, and services in the financial services sectors. The Group maintains and monitors the trademarks regularly and obtains copyright owners' consents for information of the external parties. The Group will also engage a third party for professional advice and assistance when required.

Ensuring Responsible Marketing Communications

As a financial institution, the Group strives to maintain a good relationship with the customers by providing accurate, unbiased, and transparent information in its products and services, in line with the regulatory requirements.

When offering products and services, the staff shall provide appropriate advices based on customers' needs, trading patterns, level of sophistication and investment experience, product complexity and risks etc. The staff are also required to offer clear explanations of the product's nature and its potential risks, ensuring the customers are well informed before making investment decisions.

The Group's Compliance Department takes the responsibility to oversee and review all the marketing materials publications for regulated products or services, ensuring they are accurate and reliable, as well as in line with the regulatory requirements.

The Group has established various communication channels to handle operational enquiries and complaints from the customers, which include a customer hotline, a 24/7 live chat, and an online after sales service. All complaints received will be diverted to the relevant business units for further handling while complaints with regulatory compliance implication will be investigated by the Compliance Department.

Managing Supply Chain

The Group is committed to incorporating sustainability factors into the supply chain management, which takes environmental and social risks into consideration in the course of the supplier selection and regular review. To ensure the suppliers have met the requirements, the Group maintains a sufficient two-way communication with the suppliers.

Environmental, Social and Governance Report

Looking ahead, the Group will continue to develop a set of the supplier assessment criteria, which will be part of the supplier identification and evaluation process. It is aimed to give a priority to environmental friendly products and services, as to attain the Group's commitment in sustainable development.

STAFF CARE

The Group's success relies on staff's dedication and professionalism. The Group is committed to providing an open and meritocratic working environment to the staff, along with competitive remuneration and benefits, as well as various development opportunities. The Group has established the Staff Manual and the Employment and Labour Policy Statement, which provide guidelines on employment, health and safety, training and development, and labour standards.

Building a Healthy-Work Environment

Upholding the high standards of health and safety, the Group endeavours to provide a harmonious and safe working environment with various health benefits. The Group has policy in place to provide guidelines on occupational health and safety.

As the Group's operations are principally office-based business, the Group attaches great importance to staff wellbeing in the office environment. The Group has installed air purifiers to maintain the indoor air quality to ensure the staff are working in a comfort environment.

The Group has enrolled medical insurance for all eligible employees and eligible immediate family members. A voluntary supplementary medical insurance plan is also available for other employee' family members.

First-aid kits are also available in the office area to provide immediate medical treatment in case of work-related accident. Any injuries will be reported to the Human Resources Department for further investigations and follow up arrangements.

Due to the COVID-19 pandemic, most of the wellbeing activities have been either postponed or cancelled. While it is important to ensure the staff are both physical and mentally healthy, the Group is planning to resume these activities either online or a setting that compiles with the local laws and regulations.

Safeguarding Staff Rights

The Group endeavours to provide an open, inclusive, and respectful working environment to the staff. The Group's Staff Manual and the Employment and Labour Policy Statement address the policies on recruitment, promotion, dismissal, working hours, rest periods, compensation, benefits and welfare, equal opportunities, diversity and anti-discrimination.

Remuneration and benefits

To attract and retain talents, the Group offers comprehensive remuneration packages, which include bonus, incentives, and welfare benefits. The Group also offers annual leaves and medical coverage to the staff. The salary is evaluated based on the industry standard, the economy, inflations, as well as staff's performance on the performance appraisal.

The Group has established a career development path to the staff. The Group reviews staff's performance through an annual performance appraisal. Staff with good performance at work, leadership, and teamwork will be offered promotion opportunities.

| | |
|---|--|
| Equal opportunities and inclusive workplace | <p>The Group is committed to providing an inclusive, diversified, and fair working environment. The Group offers job opportunities to candidates regardless of gender, age, ethnic background, and religion etc. During the year, the Group has hired two non-Chinese staff.</p> <p>The Group has zero tolerance to any kind of discrimination on gender, disability, family status, race, or other factors.</p> |
| Grievance mechanism | A grievance mechanism is in place for reporting suspected violations, such as discrimination and sexual harassment. All the complaints will be proceeded to the Human Resources Department for investigations and follow-up actions. |
| Prevention from child labour and forced labour | The Group prohibits the employment of child labour and forced labour, in line with the laws and regulations. The Human Resources Department will verify the identification documents during the recruitment process to ensure the individual is eligible to work. Standard working hours are also clearly stated in the Staff Manual. |

In cope with the COVID-19 pandemic, the Group has adopted various measures to mitigate the impact of the outbreak in the business operation:

- Implementing flexible working arrangements, allowing staff to work from home by rotations
- Offering technology support for staff who work from home
- Offering flexible working hours for staff who are required to report duty in office
- Providing protective products, such as surgical masks and alcohol-based hand sanitisers in the office
- Disinfecting office area regularly
- Encouraging tele-conferencing, and video conferencing, instead of physical meetings
- Maintaining sufficient communications by conducting email announcement and notices

Developing Talents

In response to the continuing growth in the market and the financial industry, the Group recognises staff learning and development is the key to enhance the staff employability and competitiveness in the market. The Group has spared no efforts in providing staff opportunities of in-house training programs and external sponsorships.

The training activities include:

| Training types | Training topics |
|-----------------------|---|
| On-board training | <ul style="list-style-type: none"> • induction training • corporate culture and background • product training • compliance training |
| On-the-job training | <ul style="list-style-type: none"> • product and services • compliance and regulatory updates • anti-money laundering • risk management and internal control • cybersecurity • professional development |

Environmental, Social and Governance Report

COMMUNITY INVESTMENT

The Group is committed to being a “Growth Partner” and to create values to the surrounding communities. The Group’s Community Investment Policy Statement outlines its commitment in three aspects of community investment activities, which include: “Charity & Sponsorships”, “Education” and “Community Events”.

During the year, the Group has taken various initiatives in supporting community projects with a total contribution of HK\$732,500.

Sponsorships for Tonghai Financial Mini Red Challenge

The Group has donated HK\$400,000 to the Hong Kong Tennis Association in conducting the Mini Red Challenge. It aims to provide a better Mini-Red tennis experience for the young tennis players, which emphasis on players participation and education on rules, scoring, etiquette, and basic strategies.

Donation to Christian Zheng Sheng College

The Group has donated HK\$100,000 in support of Christian Zheng Sheng College, who offers rehabilitation services to youth with a history of substance abuse and drug-related crimes. The Group believes the donation help alleviate the financial emergency of Christian Zheng Sheng College due to the severe drop in donations brought by the COVID-19 pandemic.

Sponsorships for Quest for Securities and Investment Elites (QSIE) Case Analysis Competition 2020

The Group has donated HK\$50,000 to QSIE Case Analysis Competition, which aimed to enhance post-secondary students’ knowledge of securities and investments. Participants are required to produce a written report and analysis for a case by utilizing the data provided. The competition covered institutions in the Guangdong-Hong Kong-Macau Greater Bay Area, Hainan, and nearby region.

Facemasks donation to Caritas Hong Kong

While anti-pandemic products were in short supply in the COVID-19 outbreak, the Group has taken initiatives in donating HK\$12,500 worth facemasks to Caritas Hong Kong, which helped alleviate the shortage of facemasks among the vulnerable groups and the grassroots.

The Group has also taken other community investment initiatives:

| Activities | Beneficiary |
|--|--|
| Sponsorship for “Heart-to-Heart Charity Challenge” launched by Children’s Heart Foundation | Children with congenital heart disease |
| Sponsorship for WWF Earth Hour 2020 | World Wide Fund (WWF) |
| Sponsorship for “When You Believe” music performance | PMA Music Foundation |
| Sponsorship for TSW Pegasus FC | TSW Pegasus FC |

The Company has been recognised as the “Caring Company” by the Hong Kong Council of Social Service, in recognition of serving the community during the year.

ENVIRONMENTAL PROTECTION

Climate change has become one of the major threats to the planet. Frequent and extreme weather events, temperature rise, sea level rise, and wildfires, are imminent risks threatening the public health, food and water security, and human activities in the society. The Group endeavours to manage environmental risks across its operations and is committed to developing sustainability strategies to mitigate the environmental impacts of the Group’s daily operations. The Group’s Environmental Protection Policy Statement outlines its management approach to emissions, use of resources, and environmental and natural resources.

Managing Resources and Wastes

The Group attaches great importance to minimising its environmental footprint over the course of its business operation. The Group is aimed to mitigate the negative impact in the value chain by upholding the principles of “3Rs”, reduce, reuse, and recycle. The Group has policy in place which outlines the measures implemented on water and paper, as well as the waste management.

| Use of resources | Measures |
|------------------|--|
| Water | <ul style="list-style-type: none"> • Check water faucets and pipelines on a monthly basis and arranges immediate repairs when leakage is discovered |
| Paper | <ul style="list-style-type: none"> • Encourage the use of electronic version when delivering corporate brochures • Reduce the use of paper by adopting office automation system in the operation • Use environmental friendly papers and materials, such as FSC-certified papers • Encourage double-sided printing for printers and photocopiers • Reuse envelopes and folders for internal communications • Confidential papers are collected collectively, and proceeded to certified confidential recycling company |

During the year, the Group has consumed 448 m³ of water. The water consumption intensity was 1.79 m³ per staff. Compared with last year, the water consumption has been reduced by 28%. The Group does not encounter any problems in sourcing water in the daily operation.

The Group has generated 0.02 tonnes of hazardous waste, mainly wasted fluorescent lamps. The hazardous waste were collected and handled by the property management. Besides, the Group has generated 12 tonnes of non-hazardous waste, mainly domestic waste and paper. The waste were being collected by the property management and transferred to garbage collection points.

To reduce the amount of waste being generated, the Group encourages provided non-disposable tableware to staff and encouraged not to use disposable plastics and products. The Group has also placed recycling bins in the office and encourage the staff to recycle wasted papers.

Managing Emission and Energy

During the year, the Group’s energy consumption is 474.2 MWh, and the intensity is 1.9 MWh per staff. The major source of energy consumption is purchased electricity, which accounts for 98% of the total energy consumption. Compare with previous year, there was a decrease of 2%.

To further reduce the energy consumption, the Group has adopted various measures.

Environmental, Social and Governance Report

| Aspects | Measures |
|-------------|---|
| Electricity | <ul style="list-style-type: none"> • Clean the filter and coiled fan on a regular basis • Replace broken light bulbs with LED light tubes • Introduce energy-efficient equipment, such as devices with energy efficiency labels • Switch off unnecessary electronic appliances during off hours |

To assess the impact of greenhouse gas (“GHG”) emissions generated from the operations, the Group monitors carbon footprint regularly. This year, the Group continued to employ an external professional consultancy to conduct a carbon assessment on quantifying the GHG emissions³ of the operations.

During the year, the Group’s total GHG emissions are 388.1 tonnes of CO₂-e, of which energy indirect emissions, caused by purchased electricity⁴ (Scope 2) and other indirect emissions (Scope 3), caused by wastepaper disposal, water consumption and sewage treatment, which account for 96% and 3% of the total GHG emissions respectively. The total greenhouse gas emissions intensity is 1.55 tonnes of CO₂-e/staff.

Vehicles’ fuels combustion is the major source of air emissions emitted by the Group during the year. Compared with previous year, the nitrogen oxides (“NO_x”), sulphur oxides (“SO_x”) and respirable suspended particulates (“RSP”) have been reduced by 67.5%, 50.0%, 67.2% respectively.

To reduce air and GHG emissions from the vehicles’ fuels combustion, the Group plans to replace vehicles with models with less emissions. Staff are also encouraged to avoid business travelling by conducting tele-conferencing or video-conferencing. Looking ahead, the Group is considering further neutralise its GHG emissions by conducting carbon offset projects.

Creating a Green Future Together

The Group recognises the ties between the business operations and the use of natural resources. As such, the Group is committed to mitigating the environmental impacts of the operations, in collaborating with related stakeholders, such as suppliers, staff, and customers.

| Objects | Measures |
|-----------|---|
| Suppliers | <ul style="list-style-type: none"> • Purchasing products with high recyclability materials (e.g. LED light bulb) • Purchasing printing paper with environmental certifications, i.e. Programme for the Endorsement of Forest Certification • Transitioning to using eco-friendly inks for printing |
| Staff | <ul style="list-style-type: none"> • Promote and encourage staff to participate sustainability activities in the communities • Provide environmental protection tips and reminders to staff in daily communications |
| Customers | <ul style="list-style-type: none"> • Promoting the use of electronic documents in transactions |

³ The GHG emissions were assessed according to the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong.

⁴ Electricity consumed by the majority of the Group’s offices is supplied by The Hongkong Electric Company, Limited. Only an office located in New East Ocean Centre purchases electricity from CLP Holdings Limited.

Moving Forward on Environmental Protection

Climate change has posed various risks and opportunities in our business operation. In response, the Group is intended to explore these risks and opportunities and to establish mitigation and adaptation plans, with an aim to reduce the climate change risks towards our operation.

REGULATORY COMPLIANCE

The Group is committed to complying with all local laws and regulations. Non-compliance with the laws and regulations may led to repercussions such as enforcement actions by regulatory organisations, fines, and penalties. As such, the Group has adopted appropriate control measures to ensure the business operations are meeting the stringent regulatory requirements.

| Aspects | Relevant Laws and Regulations | Disclosure on Compliance |
|---------------------------|---|---|
| A1 Emissions | <ul style="list-style-type: none"> Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong) Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) | In the reporting year, no cases of non-compliance in relation to emissions were reported. |
| B1 Employment | <ul style="list-style-type: none"> Employment Ordinance (Chapter 57 of the Laws of Hong Kong) Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) | In the reporting year, no cases of non-compliance in relation to employment were reported. |
| B2 Health and Safety | <ul style="list-style-type: none"> Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) Employee Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) | In the reporting year, no cases of non-compliance in relation to health and safety were reported. |
| B4 Labour Standards | <ul style="list-style-type: none"> Employment Ordinance (Chapter 57 of the Laws of Hong Kong) Employment of Children Regulations (Chapter 57B of the Laws of Hong Kong) | In the reporting year, no cases of non-compliance in relation to labour standards were reported. |
| B6 Product Responsibility | <ul style="list-style-type: none"> Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) | In the reporting year, no cases of non-compliance in relation to product responsibility were reported. |
| B7 Anti-corruption | <ul style="list-style-type: none"> Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong) Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong) | In the reporting year, no cases of non-compliance in relation to anti-corruption were reported, and there were no corruption litigation against the Group or its staff. |

COMBATTING FINANCIAL CRIME in the age of CYBERSECURITY

The implications of financial crime on society are significant and continue to challenge our industry. Consistent with our goal to serve as a trusted partner to our clients by responsibly providing financial services that enable growth and progress, we recognize our obligation to help protect the integrity of the global financial system and lead the way in responsible finance.



In recent years, we have made substantial investments to improve systems and competencies to fight against money laundering and other types of financial crime. Among other measures, our internal policies and procedures of Anti-Money Laundering (“AML”) and Counter-Terrorist Financing (“CTF”) and surveillance programs include the following key elements that govern our approach towards management of financial crime risks:

- Cooperate with and support regulators and law enforcement agencies in their efforts to prevent, detect and control financial crime;
- Comply with the relevant laws and regulations to close off the financial channels that money launderers, terrorists, market manipulators and fraudsters use for illicit purposes;
- Provide products and services consistent with the Group’s risk appetite and commitment to the highest ethical standards; and
- Ensure proper policies, processes and controls are in place to deter money laundering and other financial crimes.

As criminal transgressions in the financial services sector become more sophisticated and break through traditional risk boundaries, especially since the rise of cyberthreats, we continue to invest in defenses to ensure that risk mitigating actions will be timely taken to address potential financial crime risks. Throughout 2020, we had continually ramped up our security capabilities, enhanced our systems and processes, and increased our collaboration with authorities and external cyber security organizations.

Spotlight — Responsible adoption of regulatory technology (RegTech) innovations

With the Securities and Futures Commission (SFC) continuing to promote regulatory technology (“RegTech”) adoption in AML and CFT areas and refine its use of supervisory technology (SupTech) to monitor regulated entities, we expect an ever-increasing number of tightening regulatory demands to follow.

Having invested in digital transformation and RegTech solutions over the past couple of years to support our ongoing customer due diligence and trade surveillance measures, our employees can concentrate on investigative work with robots handling the more repetitive activities, enhance processing efficiency and reduce human error. Such investment underpins our financial crime prevention efforts and enables us to stay agile in responding to the risks and opportunities resulting from new and emerging technologies.



Spotlight — Bolstering our defences and analytical capabilities

We have hired experienced personnel to lead the effort and significantly increased our financial crime compliance and investigation capabilities. Another area of focus has been to provide comprehensive training to raise employee skills and expertise within the areas of AML and combating financial crime. In 2020, most of front-line staff attended compliance training sessions about AML and other regulatory requirements.

As we look into the future where training and development approaches for AML/CFT team members are also evolving, we are pursuing learning opportunities to become more self-reliant in accessing and analyzing data for advancing intelligence-led investigations. We conduct regular audit on our cyber security performed by internal staff and external experts.

The United Nations Sustainability Development Goals (“SDGs”) provides a focus for how businesses can bring peace and prosperity to people and the planet, promoting a more sustainable future for all. As a socially responsible finance services provider, we are committed to fight against financial crime through effective Governance, Risk Management and Compliance (“GRC”) programs in support of SDG 16.4 — by 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime.

Environmental, Social and Governance Report

KEY PERFORMANCE INDICATOR SUMMARY

Environmental Performance

| A1 Emissions | 2020 | 2019 |
|---|----------------|-------------|
| Air emissions | | |
| Nitrogen oxides (NO _x) (kg) | 0.54 | 1.66 |
| Sulphur oxides (SO _x) (kg) | 0.02 | 0.04 |
| Respiratory suspended particulates (RSP) (kg) | 0.04 | 0.12 |
| Greenhouse gas emissions | | |
| Scope 1 Direct emissions (tonnes CO ₂ -e) | 2.9 | 7.3 |
| Scope 2 Energy indirect emissions (tonnes CO ₂ -e) | 373.5 | 366.6 |
| Scope 3 Other indirect emissions (tonnes CO ₂ -e) | 11.7 | 135.0 |
| Total carbon emissions (tonnes CO ₂ -e) | 388.1 | 508.9 |
| Intensity of carbon emissions (tonnes CO ₂ -e/staff) | 1.55 | 1.60 |
| Waste | | |
| Total hazardous waste produced (tonnes) | 0.02 | 0.03 |
| Intensity of hazardous waste produced (tonnes/'000 staff) | 0.1 | 0.09 |
| Total non-hazardous waste produced (tonnes) | 12.0 | 11.8 |
| Intensity of non-hazardous waste produced (tonnes/staff) | 0.05 | 0.04 |
| A2 Use of resources | 2020 | 2019 |
| Energy use | | |
| Petrol (MWh) | 10.1 | 25.1 |
| Electricity (MWh) | 464.1 | 458.9 |
| Total energy consumption (MWh) | 474.2 | 484.0 |
| Intensity of energy consumption (MWh/staff) | 1.90 | 1.52 |
| Water use | | |
| Total water consumption (m ³) | 448 | 621 |
| Intensity of water consumption (m ³ /staff) | 1.79 | 1.95 |
| Packaging materials¹ | | |
| Total packaging materials used | Not applicable | |
| Packaging materials used per unit produced | Not applicable | |

Social Performance

| B1 Employment | 2020 |
|--|------|
| Number of staff | |
| Total number of staff | 250 |
| By gender | |
| Male | 142 |
| Female | 108 |
| By age | |
| Under 30 | 52 |
| 30–50 | 162 |
| Over 50 | 36 |
| By staff grade | |
| Senior management | 4 |
| General staff | 246 |
| By staff category | |
| Full-time | 249 |
| Part-time | 1 |
| By geographical region | |
| Hong Kong | 250 |
| Number of other workers² | |
| Self-Employed | |
| Market trading services ³ | 72 |
| Office cleaning services | 4 |
| Contractual staff | |
| Consultant | 2 |

¹ The operations of offices did not involve any use of packaging materials for finished products.

² In accordance to HKEX "How to prepare an ESG Report" Appendix 3: Reporting guidance on Social KPIs, "other workers" refer to Agents/contractors/suppliers hired by the issuer to perform work at a workplace controlled by the issuer or in a public area and/or to deliver work/services at the workplace of a client of the issuer.

³ The marketing trading services included the account executive, relationship manager, and financial consultant.

| B1 Employment | | 2020 |
|--|-----------|-------------|
| New-hired staff number and rate | | |
| Number and rate of the new-hired staff | | 52 (20.8%) |
| By gender | Male | 27 (19.0%) |
| | Female | 25 (23.1%) |
| By age | Under 30 | 15 (28.8%) |
| | 30–50 | 30 (18.5%) |
| | Over 50 | 7 (19.4%) |
| By geographical region | Hong Kong | 52 (20.8%) |
| Staff turnover number and rate | | |
| Number and rate of the staff turnover | | 41 (16.4%) |
| By gender | Male | 20 (14.1%) |
| | Female | 21 (19.4%) |
| By age | Under 30 | 10 (19.2%) |
| | 30–50 | 24 (14.8%) |
| | Over 50 | 7 (19.4%) |
| By geographical region | Hong Kong | 41 (16.4%) |

| B2 Occupational health and safety | 2020 | |
|--|--------------|----------------|
| | Staff | Workers |
| Number of work-related fatalities | 0 | 0 |
| Number of work-related injuries | 0 | 0 |
| Rate of work-related fatalities (per '000 staff) | N/A | N/A |
| Rate of work-related injuries (per '000 staff) | N/A | N/A |
| Number of lost days due to work-related injuries | N/A | N/A |

| B3 Training and Development | | 2020 |
|-------------------------------------|--|-------------|
| Percentage of staff trained | | |
| Male | | 50.0% |
| Female | | 45.4% |
| Total | | 48.0% |
| Ratio of total staff trained | | |
| Male | | 59.2% |
| Female | | 40.8% |
| Average training hours | | |
| Male | | 3.2 |
| Female | | 2.2 |
| Total | | 2.8 |

| B5 Number of suppliers (Percentage of suppliers where the engagement practices are being implemented) | 2020 |
|--|-------------|
| Hong Kong | 26 (100%) |

| B8 Community Investment | 2020 (HKD) |
|--------------------------------|-------------------|
| Culture | 20,000 |
| Environment | 70,000 |
| Education | 550,000 |
| Health | 12,500 |
| Sports | 80,000 |
| Total | 732,500 |

Environmental, Social and Governance Report

ESG REPORTING GUIDE CONTENT INDEX

| Material Aspects | Content | Page Index |
|-------------------------------|--|------------|
| A1. 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 | 29–31 |
| A1.1 | The types of emissions and respective emissions data | 30, 34 |
| A1.2 | Greenhouse gas emissions in total and intensity | 30, 34 |
| A1.3 | Total hazardous waste produced and intensity | 29, 34 |
| A1.4 | Total non-hazardous waste produced and intensity | 29, 34 |
| A1.5 | Description of measures to mitigate emissions and results achieved | 30, 34 |
| A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved | 29, 34 |
| A2. General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials | 29–30 |
| A2.1 | Direct and/or indirect energy consumption by type in total and intensity | 29–30, 34 |
| A2.2 | Water consumption in total and intensity | 29, 34 |
| A2.3 | Description of energy use efficiency initiatives and results achieved | 29–30, 34 |
| A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved | 29, 34 |
| A2.5 | Total packaging material used for finished products and with reference to per unit produced | 34 |
| A3. General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources | 30–31 |
| A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them | 30–31 |
| B1. 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 | 26–27, 31 |
| B1.1 | Total workforce by gender, employment type, age group and geographical region | 34 |
| B1.2 | Employee turnover rate by gender, age group and geographical region | 35 |
| B2. 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 employee from occupational hazards | 26, 31 |
| B2.1 | Number and rate of work-related fatalities | 35 |

| Material Aspects | Content | Page Index |
|-------------------------------|--|--------------|
| B2.2 | Lost days due to work injury | 35 |
| B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored | 26 |
| B3. General Disclosure | Policies on improving employee knowledge and skills for discharging duties at work. Description of training activities | 27 |
| B3.1 | The percentage of employee trained by gender and employee category | 35 |
| B3.2 | The average training hours completed per employee by gender and employee category | 35 |
| B4. 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 | 26–27, 31 |
| B4.1 | Description of measures to review employment practices to avoid child and forced labour | 26–27 |
| B5. General Disclosure | Policies on managing environmental and social risks of the supply chain | 25–26 |
| B5.1 | Number of suppliers by geographical region | 35 |
| B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | 25–26, 35 |
| B6. 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 | 24–25, 31–33 |
| B6.3 | Description of practices relating to observing and protecting intellectual property rights | 25 |
| B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored | 24–25 |
| B7. 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 | 23–24, 31–33 |
| B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employee during the reporting period and the outcomes of the cases | 31 |
| B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored | 23–24 |
| B8. 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 | 28 |
| B8.1 | Focus areas of contribution | 28, 35 |
| B8.2 | Resources contributed to the focus area | 28, 35 |

Corporate Events and Affiliations

China Tonghai International Financial Limited (“Tonghai Financial”) is always dedicated to offer one-stop premier financial service to its clients. Our group actively participate in corporate activities, establish a close relationship with professional organizations and contribute to the local community.

CORPORATE EVENTS 2020

CHINA TONGHAI SECURITIES LIMITED — DIRECT SPOT BECOMES “THE QSIE CASE ANALYSIS COMPETITION 2020” TITLE SPONSOR

28 November 2020

Direct Spot, the product brand under China Tonghai Securities Limited (“Tonghai Securities”) is proud to be the title sponsor of “Quest for Securities & Investment Elites (QSIE) Case Analysis Competition 2020”. Organizing by EL Education Academy, it aims to increase students’ understanding of business and securities industry through participating in a case study. Mr. Harry YUEN, Investment Strategy Associate Director of Tonghai Securities, attended the competition on behalf of the company, as well as one of the judges, says “Participants have thorough analysis and reviews of



the case, both of the reports and presentations were excellent. We are truly glad to see the next generation has developed a certain level of knowledge in securities related topics. Wishing it can help students gaining insight into their career planning.”



TONGHAI FINANCIAL BECOMES THE GOLD SPONSOR OF "2020 HONG KONG CORPORATE GOVERNANCE EXCELLENCE AWARDS"

10 December 2020



Tonghai Financial is proud to be the Gold Sponsor of "2020 Hong Kong Corporate Governance Excellence Awards" in two consecutive years. With Mr. Joseph H.L. Chan, JP, under Secretary for Financial Services and the Treasury of the HKSAR Government as the officiating guest, the ceremony was successfully held at Grand Hyatt Hong Kong. Mr. Stacey WONG, Chief Operating & Risk Officer and management of Tonghai Financial was invited on stage to present the awards to the winners. During the ceremony, Mr. WONG shared his knowledge and point of view in how a high level of corporate governance affects investors' confidence. The event brought together representative from government and industry elites, hosting a fantastic evening.

Corporate Events and Affiliations

TONGHAI FINANCIAL BECOMES THE DIAMOND SPONSOR OF "THE 5TH OF ANNUAL CONFERENCE 2020" HELD BY HKiNEDA

12 December 2020

Tonghai Financial is glad to announce the corporate sponsorship with The Hong Kong Independent Non-Executive Director Association (HKiNEDA). Being a Diamond Sponsor of "Annual Conference 2020: WVR — Opportunities and Challenges", Tonghai Financial reiterated its full support the program by carrying out a series of keynote speeches and panel discussions with regards to the development and prospects of the WVR in global and local markets.



Mr. Benny CHUNG, Chief Executive Officer of China Tonghai Capital Limited received the certificate of appreciation on behalf of Tonghai Financial. He has also joined one of the Panel Discussion as a panelist to explore the topic of "Do we need corporate version of WVR?" with peers, creating a lively discussion in the Conference.



CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES 2020

TONGHAI FINANCIAL BECOMES THE GOLD SPONSOR OF INAUGURAL PERFORMANCE OF TRUE COLORS SYMPHONY

12 January 2020



Founded by PMA Music Foundation, the inaugural performance of True Colors Symphony “When You Believe” was successfully held at concert hall, Hong Kong Cultural Centre on 12 January 2020. Tonghai Financial is honored to be invited as a Gold Sponsor. With the aim of advocating “Be True, Be Colors”, we hope to nurture the musical talent of the differently-abled and providing them with various platforms to shine, as well as to promote mutual acceptance and harmony in our society.

Corporate Events and Affiliations

TONGHAI FINANCIAL DONATES FACE MASKS TO CARITAS — HONG KONG

12 March 2020



Tonghai Financial has been particularly enthusiastic in community service. Due to the shortage of face masks in Hong Kong, the Company immediately donates face masks to charity in helping Hong Kong people overcome this difficult time. Mr. Army YAN, Chief Investment Officer of Tonghai Financial, attended the mask donation ceremony at the Caritas Community Centre. By distributing the masks to those who are in need, we develop the community spirit of support and make valuable contribution to society in return.

TONGHAI FINANCIAL SPONSORS ENVIRONMENTAL ACTION "EARTH HOUR 2020"

28 March 2020

Earth Hour 2020, a global environmental movement organized by the World Wide Fund for Nature (WWF) came to a successful conclusion on 28 March 2020. The event is held annually encouraging public to turn off all non-essential electric lights for one hour. By promoting the use of renewable energy, it raises public awareness of reducing energy consumption and calls for public's action towards global warming.



Tonghai Financial has been actively participated and supported sustainable development projects in Hong Kong. The Group not only sponsored the event, but also appointed representatives to attend and witnessed the countdown ceremony. With the corporate responsibility to protect the sustainable planet and ecology, as well as create an ideal living environment to the public, Tonghai Financial is most honored to stand with WWF.



Corporate Events and Affiliations

TONGHAI FINANCIAL UNVEILED AS MINI RED COMPETITION TITLE SPONSOR

29 November 2020



Tonghai Financial became the title sponsor of Mini Red Competition which is organized by Hong Kong Tennis Association (HKTA). Tonghai Financial Mini Red Competition was inaugurated at Tsing Yi Sport Center on 28 to 29 November 2020. The award presentation ceremony of first tournament was officiated by Mr. Stacey WONG, Chief Operating and Risk Officer of Tonghai Financial.

Embracing a growth concept, Tonghai Financial has been stepping up its efforts in nourishing the society through a wide range of community activities. With the better Mini Red tennis experience for young Hong Kong tennis players, it embodies a shared vision of Tonghai Financial and HKTA, which is taking wider social responsibility in cultivating the interest of the younger generation in sport.

TONGHAI FINANCIAL ANNOUNCES HK\$100,000 DONATION TO CHRISTIAN ZHENG SHENG COLLEGE

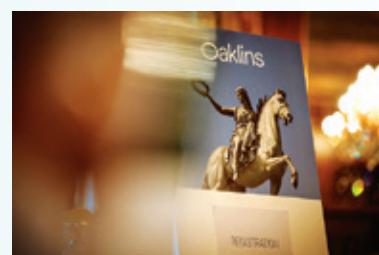
30 December 2020

Tonghai Financial has donated HK\$100,000 in support of Christian Zheng Sheng College ("Zheng Sheng College") to alleviate recent financial hardship. Zheng Sheng College provides rehabilitation services to youth with a history of substance abuse and drug-related crimes. As a private school, it does not receive any subsidies from the Education Bureau.



During the turbulent times brought by COVID-19 epidemic, Zheng Sheng College has been badly hit by the economic downturn and donation has dropped severely to a critical point. Tonghai Financial upholds the clear vision of being a "Growth Partner" of youth in Hong Kong, believing the cash donation will be an effective measure to cope with financial emergency whilst opening a new door for the once went astray youths during their dark moments in life.

OUR GLOBAL M&A CAPABILITY — OAKLINS INTERNATIONAL INC. (“OAKLINS”)



Oaklins is one of the world’s largest and most experienced M&A advisors in the mid-market, with over 850 professionals globally and dedicated industry teams in over 45 countries worldwide. China Tonghai Capital Limited is the Hong Kong based member of Oaklins and has been acting as its exclusive Hong Kong member since 2005.



With firm roots in local soil and flexible collaboration on a global scale, Oaklins facilitates the delivery of expert support by over 850 professionals with extensive industry knowledge in 15 key industries and numerous niche sectors worldwide to clients undertaking acquisitions, mergers and disposals. Oaklins successfully closed 358 deals in 2020, in which 80 deals were cross-border deals.

Corporate Events and Affiliations

GLOBAL ALLIANCE PARTNERS (GAP)



What a year 2020 has been!

It started roaring with equity markets hitting new highs; then at a blink of an eye, a new virus disease erupted across the globe and was evolving at a rapid pace. The Covid-19 pandemic suddenly changed how we live and how we do business.

In spite of each member's predicament, all of us at Global Alliance Partners (GAP) have shown a resilient desire to push against the odds... tenaciously believing that opportunities are there for all of us to niche down further into the financial market.

Highlights

Trading volumes on all markets have been exploding despite a compression on rates as online competition became more popular.

On the mergers and acquisition side, deals were available either for companies being in distressed, or for companies wishing to take advantage of low valuations.



Tonghai Financial is one of the founding partners of Global Alliance Partners. (Left to Right) **Mr. Army Yan** — Chief Investment Officer of Tonghai Financial and committee chairman for GAP's Fund Management; **Mr. Kenneth Lam** — executive Director and Chief Executive Officer of Tonghai Financial and Director of GAP; **Mr. Bernard Pouliot** — Senior Advisor of Tonghai Financial and Chairman of GAP; and **Ms. Jenny Lee** — Representative in Korea of both Tonghai Financial and Global Alliance Partners.

Our Spanish partner, GVC Gaesco presented deals in the secondary market that offered an upside, albeit slanted towards traditional industries.

USA partner TerraNova Capital, which is active in block trading in New York, approached GAP for large private tech companies. TerraNova has been very active in that sector.

Tourism Fund took off in Japan as the fund's theme proved attractive to investors who believe in a tourism comeback.

Capital Partners Securities has set up a real estate website to promote projects as an investment banker rather than as a broker. Other partners in the alliance were invited to also post on that website.

Closer to home in Hong Kong, Tonghai Financial made a killing with their China Focused Private Equity Fund providing a 100% return on the money.

Indeed, every Partner had opportunities to make money in different ways. Couple that with the fact that we were able to fend off against uncertainties and risks; then it can be said that we closed the year 2020 in a positive way.

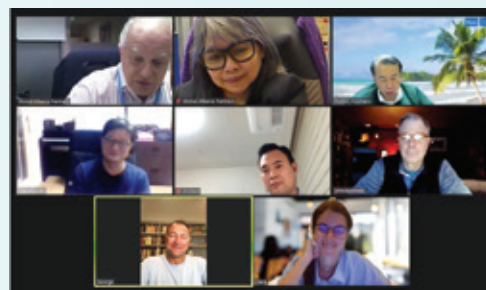
Market Reach Expansion

At post Brexit, Global Alliance Partners made significant inroads into the European market and welcomed two (2) new member firms namely; Cornhill Management, which is based in Luxembourg; and Eurofast International, which is based in Cyrus.

GAP also entered into a collaborative arrangement with Clairfield International, which is the leading M&A advisory network in Europe.

In addition, a GAP Representative in the United Kingdom was appointed.

Asia remains to be the bulwark of Global Alliance Partners, with China at the core of its market play.



Hence, a GAP Representative in Beijing was also appointed.

Our Partners in the Middle East (MAC Capital Advisors), in Australia (Petra Capital), in Spain (GVC Gaesco), and in the USA (TerraNova Capital), closed investment deals (IPOs, M&As, and capital raises) that hit the financial news headlines.

Launch of New GAP Website

As the pandemic plunges the economy into recession, it has become imperative to save on cost, particularly in Marketing.

Hence, GAP stopped using outside vendors and saved 328,430 HKD (42,378 USD) in development and maintenance costs.

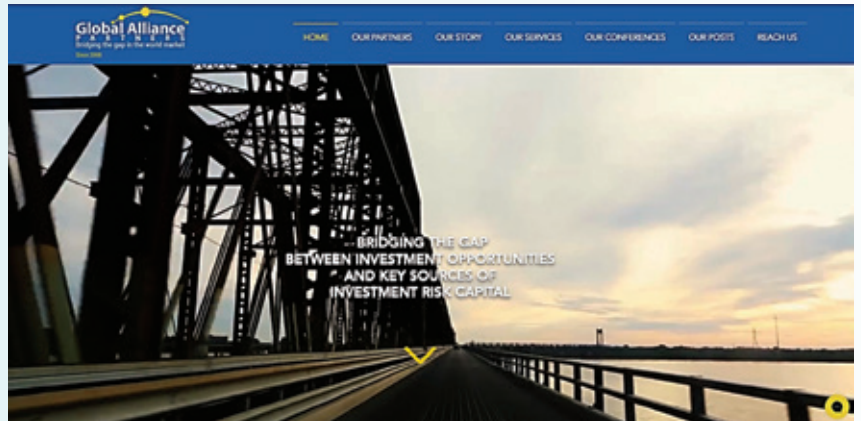
Nonetheless, we launched our new website with an altered purpose of simply maintaining GAP's online presence. Ms. Coy Rillo, our Director of Marketing and Communications, assumed the triple roles of producing the editorial contents, doing the creative works, and handling the digital and technical maintenance of the website.

The simplified function of the new GAP website is to point visitors to our partners.

Investment Conferences

With the quarantine impositions and sporadic lock downs worldwide, it has become impossible to fly and hold the bi-annual Global Alliance Partners Investment Conferences.

Yet, in keeping with the essence of GAP's people-to-people mindset, the partners started in April last year to meet bi-monthly through video calls, and offered each other mandated deals and business propositions.



Mr. Robert W. McMillen Founder and Chairman of MAC Capital Advisors was also one of the Founding Partners and Directors of Global Alliance Partners. He was GAP's committee chairman for Investment and was instrumental in pushing deal flows among the partners. He also actively recruited eight (8) partners since GAP's inception in 2008. He served as Chairman in 2012 and hosted three GAP Investment Conferences — 2009, 2013, and 2019. Much to our sadness, Mr. Bob McMillen left us on 18 February 2021 to be with his Creator.

By the end of Y2020, the Partners have had 13 video calls.

Changing the Trajectory

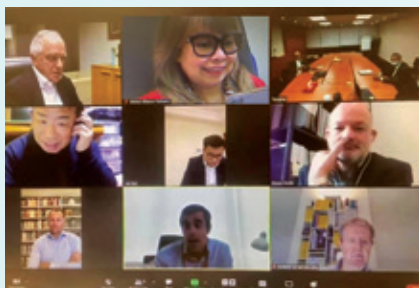
Our way of doing business at Global Alliance Partners is anchored on nurturing long-term ties that build trust not only in each other's capabilities but also in our sincere support for one another.

Although the path forward from 2020 seems uncertain, one thing has never been clearer: To change the trajectory for the better... we have to keep coming together, keep working together, and keep offering opportunities to each other. And thus, we will.

By **BERNARD POULIOT**
Chairman and Executive Director
Global Alliance Partners (GAP)



Please allow me to end this report with a tribute to our Bob McMillen... a great friend, a trusted colleague, and a respected dealmaker. His optimism was contagious and his driven sense of business inspired success. As his peers would say: Bob was well versed and knowledgeable on every single project he took on. Not one query or detail was ever forgotten, nor a single email that went unanswered. Bob had this ability of walking into a room full of strangers and walking out having made friends for life. It was a privilege to have had not just a friend and business partner, but a brother. Rest in peace Bob.



Profile of Directors, Senior Management, Senior Advisor and Key Executives

EXECUTIVE DIRECTORS

Mr. HAN Xiaosheng (韓曉生), aged 64, is the Chairman and executive Director with effect from 3 February 2017. He is also currently an executive director, the chairman of the board and chief executive officer of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715). Mr. HAN was the executive director and chief executive officer and the chairman of supervisory committee of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046). He obtained a master's degree in economics from Renmin University of China in July 1996 and a Ph.D in Management from Huazhong University of Science & Technology in June 2018. Mr. HAN is a senior accountant in the PRC. He is a chairman of supervisory committee of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) and directors of China Oceanwide Group Limited and Oceanwide Holdings International Financial Development Co., Ltd., which are substantial shareholders of the Company.

Mr. FANG Zhou (方舟), aged 50, is the executive Director of the Company with effect from 16 October 2020. He is also Deputy Chairman and chairman of executive committee of the Company since 23 November 2020. Mr. FANG is currently the executive vice president, director and member of executive committee of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046) and the director of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司). He is also the chairman of the supervisory committee of China Minsheng Trust Co., Ltd.* (中國民生信託有限公司) from August 2020. Mr. FANG worked in the business department of the Hubei branch of China Construction Bank from 1993 to 1998. He also worked in China Minsheng Banking Corp., Ltd. ("China Minsheng Bank"), whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 1988) and the Shanghai Stock Exchange (Stock Code: 600016) and held senior positions in various departments of head office and branch offices of China Minsheng Bank from April 1998 to April 2020. Mr. FANG was the chief director of the Office of the Board of China Minsheng Bank from April 2015 and the board secretary of China Minsheng Bank from February 2017 to April 2018. He obtained a doctoral degree in economics from Wuhan University in 2008 and is an economist.

Mr. ZHANG Xifang (張喜芳), aged 48, is the executive Director with effect from 3 February 2017. He is also currently a vice chairman and president of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), an executive director of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司), the chairman of Oceanwide Investment Group Co., Ltd.* (泛海投資集團有限公司), the chairman of Oceanwide Equity Investment Management Co., Ltd. (泛海股權投資管理有限公司), the chairman of supervisory committee (and was previously the chairman) of Wuhan CBD Operation Development Co., Ltd.* (武漢中央商務區運營發展有限公司), a chairman of China Minsheng Trust Co., Ltd.* (中國民生信託有限公司), the executive director of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), the vice chairman of Wuhan CBD Co., Ltd.* (武漢中央商務區股份有限公司), a director of Minsheng Securities Co., Ltd.* (民生證券股份有限公司), a non-executive director of China Bohai Bank Co., Ltd., whose shares are listed on the Stock Exchange (Stock Code: 9668), a director of Oceanwide Industry Co., Ltd.* (泛海實業股份有限公司), Asia-Pacific Property & Casualty Insurance Co., Ltd.* (亞太財產保險有限公司), and International Data Group, Inc.. He served as the head of the operation division of the finance and asset management department and the deputy director of the finance and asset management department of State Grid Corporation of China* (國家電網公司), the deputy general manager of State Grid Asset Management Co., Ltd.* (國網資產管理有限公司), the deputy general manager of State Grid Yingda International Holdings Group Co., Ltd.* (國網英大國際控股集團有限公司), the director, general manager of Yingda Taihe Property Insurance Co., Ltd.* (英大泰和財產保險股份有限公司) and the chairman of Yingda Insurance Asset Management Co., Ltd.* (英大保險資產管理有限公司). He studied the undergraduate programme of Accounting at Central University of Finance and Economics from September 1991 to June 1995 and received a degree of Bachelor of Economics. After that, he studied the programme of business administration at Tsinghua University School of Economics and Management from March 2006 to January 2009 and received a Master degree in Business Administration.

* For identification purposes only

Mr. LIU Hongwei (劉洪偉), aged 54, is the executive Director with effect from 3 February 2017. He is also an executive director and deputy chairman of the board of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), a supervisor of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), a non-executive director of CuDeco Limited, whose shares are previously listed on the Australian Securities Exchange (Stock Code: CDU, delisted in February 2020) and the vice-president of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司). He served as a director of Minsheng Holdings Co., Ltd.* (民生控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000416). He obtained a bachelor's degree in engineering from Dalian Ocean University (formerly known as Dalian Fisheries College) in July 1989 and a master's degree in management from Massey University in New Zealand in April 2006. He is also a director of China Oceanwide Group Limited, which is substantial shareholder of the Company.

Mr. Kenneth LAM Kin Hing (林建興), aged 67, joined the Company in 2001, and is currently the executive Director of the Company and Chief Executive Officer of the Group. Since 1994, he has been the Managing Director of Dharmala Capital Holdings Group, a company which was subsequently amalgamated with the Company. Mr. LAM is a responsible officer for Types 1, 2, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance (the "SFO") for China Tonghai Securities Limited and a responsible officer for Types 1, 4 and 9 regulated activities under the SFO for China Tonghai Asset Management Limited. Mr. LAM had worked for an international bank for 10 years as the head of its PRC and corporate banking operations. Mr. LAM has more than 30 years of experience in corporate finance and banking. He was an independent non-executive director of Hon Kwok Land Investment Company, Limited, a company listed in Hong Kong (March 2004 to August 2015) and a director of Seamico Securities Public Company Limited, a company listed in Thailand (September 1997 to August 2013). He is the member of the General Committee of The Chamber of Hong Kong Listed Companies since June 2013 and the Vice Chairman and past Chairman (2009 to 2010) of the Institute of Securities Dealers Limited. He holds a Bachelor of Science Degree in University of Western Ontario (now known as Western University) with a double major in Computer Science and Economic (1976), and a Master of Business Administration in the 3-Year MBA Program of The Chinese University of Hong Kong (1983). In 2012, he was conferred on Honorary Fellowship by Canadian Chartered Institute of Business Administration and Honorary Doctor of Laws by Lincoln University.

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Profile of Directors, Senior Management, Senior Advisor and Key Executives

NON-EXECUTIVE DIRECTORS

Mr. LIU Bing (劉冰), aged 63, is the non-executive Director with effect from 3 February 2017. He is currently the global president and director of International Data Group, Inc., an executive director of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), the vice chairman of the supervisory committee (previously was the executive director and executive vice president) of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) which is substantial shareholder of the Company and the chairman of the supervisory committee of Shenzhen Fanhai Sanjiang Electronics Co., Ltd. (深圳市泛海三江電子股份有限公司). He was the vice chairman of the board of Minsheng Holdings Co., Ltd.* (民生控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000416), a director of Oceanwide Equity Investment Management Co., Ltd. (泛海股權投資管理有限公司), a director of Minsheng Securities Co., Ltd.* (民生證券股份有限公司), the chairman of the supervisory committee of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046) and the supervisor of China Minsheng Trust Co., Ltd. He obtained a master's degree in business administration from Sacred Heart University in the United States in August 1989.

Mr. ZHAO Yingwei (趙英偉), aged 50, is the non-executive Director with effect from 28 March 2018. He is currently a non-executive director of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), the vice-chairman of supervisory committee (previously the executive director) of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046) and the chairman of the supervisory committee of Minsheng Holdings Co., Ltd.* (民生控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000416). He is a senior accountant in China. Mr. ZHAO obtained a Bachelor's degree in economics from Renmin University of China in January 1997 and a Master's degree in engineering from Beihang University in January 2013. He is also directors of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) and China Oceanwide Group Limited, which are substantial shareholders of the Company.

Mr. ZHAO Xiaoxia (趙曉夏), aged 57, is the non-executive Director with effect from 3 February 2017. He served as a director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), the sub-manager of international business division and the representative of London liaison office of People's Insurance Company of China* (中國人民保險總公司), director and the general manager of Huatai Insurance Agency & Consultant Service Ltd.* (華泰保險代理和諮詢服務公司), director and the executive vice president of AXA-Minmetals Assurance Co., Ltd.* (金盛人壽保險有限公司), senior vice president of New York Life Insurance (International)* (美國紐約人壽(國際)保險公司), president and the chief executive officer of Haier New York Life Insurance Co., Ltd.* (海爾紐約人壽保險有限公司), senior vice president of Asia Capital Holding Group Limited* (亞洲資本控股集團公司) and executive vice president of North Asia Region and the head of China of ACR Reinsurance Group* (ACR再保險集團). He obtained a bachelor's degree in law from Peking University in 1985.

* For identification purposes only

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Roy LO Wa Kei (盧華基), aged 49, is the independent non-executive Director with effect from 3 February 2017. He is the chairman of audit committee of the Company. He is currently the independent non-executive director of several public companies whose shares are listed on the Stock Exchange, including China Oceanwide Holdings Limited (Stock Code: 715), China Zhongwang Holdings Limited (Stock Code: 1333), Xinming China Holdings Limited (Stock Code: 2699), Wan Kei Group Holdings Limited (Stock Code: 1718) and G-Resources Group Limited (Stock Code: 1051). He also serves as the managing partner of SHINEWING (HK) CPA Limited, the member of the Shanghai Pudong New Area Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議上海市浦東新區委員會), the founding executive vice-president and council member of the Hong Kong Independent Non-Executive Director Association and the Divisional President 2019 — Greater China of CPA Australia. He served as an independent non-executive director of North Mining Shares Company Limited (Stock Code: 433) from September 2004 to November 2015 and an independent non-executive director of Sheen Tai Holdings Group Company Limited (Stock Code: 1335) from June 2012 to May 2020 and an independent non-executive director of Sun Hing Vision Group Holdings Limited (Stock Code: 125) from May 1999 to March 2021. He obtained a bachelor's degree in business administration from University of Hong Kong in November 1993 and a master's degree in professional accounting from Hong Kong Polytechnic University in November 2000. He is a certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of CPA Australia and a fellow of the Institute of Chartered Accountants in England and Wales.

Mr. KONG Aiguo (孔愛國), aged 53, is the independent non-executive Director with effect from 3 February 2017. He is the chairman of remuneration committee of the Company and a member of audit committee of the Company. He is currently an independent director of Geron Co., Ltd.*, whose shares are listed on Shenzhen Stock Exchange (Stock Code: 002722). He served as an independent non-executive director of Harmonicare Medical Holdings Ltd., whose shares are listed on the Stock Exchange (Stock Code: 1509) (March 2015 to August 2020), a director of Shanghai Fudan Forward Science and Technology Co., Ltd.* (上海復旦復華科技股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600624) (December 2017 to October 2020), an independent director of Tianjin Xinmao Science and Technology Co., Ltd.* (天津鑫茂科技股份有限公司) (now known as Tianjin Futong Xinmao Science and Technology Co., Ltd.* (天津富通鑫茂科技股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000836)) (May 2015 to August 2018), Simei Media Co., Ltd.* (思美傳媒股份有限公司), whose shares are listed on Shenzhen Stock Exchange (Stock Code: 002712) (December 2016 to November 2019) and an independent director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046) (June 2014 to May 2020). He is a professor and Ph.D supervisor in School of Management of Fudan University. From July 1989 to August 1992, he was an assistant engineer of Wuxi 721 Factory* (無錫721廠). He obtained a doctor's degree from Fudan University in December 1996.

Mr. LIU Jipeng (劉紀鵬), aged 64, is the independent non-executive Director with effect from 18 December 2017. He is a member of the audit committee and remuneration committee of the Company. He is also currently an independent non-executive director of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), China Minsheng Banking Corp., Ltd.* (中國民生銀行股份有限公司), whose shares are dually listed on the Stock Exchange (Stock Code: 1988) and the Shanghai Stock Exchange (Stock Code: 600016), an independent director of Chongqing Changan Automobile Co., Ltd.* (重慶長安汽車股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000625), an independent director of Valiant Corporation Ltd.* (中節能萬潤股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 002643) and

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Profile of Directors, Senior Management, Senior Advisor and Key Executives

independent director of CECEP Guozhen Environmental Protection Technology Co., Ltd.* (中節能國禎環保科技股份有限公司), whose shares are listed on Shenzhen Stock Exchange (Stock Code: 300388). He also previously served as directors of various public companies including independent director of AVIC Capital Co., Ltd.* (中航資本控股股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600705) (from May 2011 to May 2017), China-Singapore Suzhou Industrial Park Development Group Co., Ltd.* (中新蘇州工業園區開發集團股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 601512) (from December 2019 to June 2020) and an independent director of Zhongjin Gold Corporation, Ltd.* (中金黃金股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600489) (from May 2014 to March 2021) together with independent non-executive director of Dalian Wanda Commercial Properties Co., Ltd., whose shares are listed on the Stock Exchange (Stock Code: 3699, delisted on 20 September 2016) (from 2012 to 2016) and Wanda Hotel Development Company Limited, whose shares are listed on the Stock Exchange (Stock Code: 169) (from July 2013 to March 2019). He is a senior economist and certified public accountant in China. Mr. LIU obtained a Bachelor's degree in economics from Capital University of Economics and Business (formerly known as Beijing School of Economics) in July 1983 and a Master's degree in economics from Graduate School of Chinese Academy of Social Sciences in July 1986.

Mr. HE Xuehui (賀學會), aged 49, is the independent non-executive Director with effect from 3 February 2017. He is a member of the audit committee and remuneration committee of the Company. He is currently an EMBA professor in Shanghai National Accounting Institute* (上海國家會計學院), a senior partner of Shanghai Sigma Investment Consulting Corporation, an executive director of Shanghai Finance Institute* (上海市金融學會) and a member of Expert Committee on Working Mechanism of Prudential Qualification Appraisal of Risks Relating to Separate Accounting Business in Shanghai Pilot Free Trade Zone* (上海自貿試驗區分賬核算業務風險審慎合格評估工作機制專家委員會). From December 2012 to September 2016, he was Dean of School of Finance of Shanghai University of International Business and Economics* (上海對外經貿大學). From May 2009 to August 2012, he was a professor in Shanghai National Accounting Institute* (上海國家會計學院). From September 2003 to April 2009, he was Deputy Dean of School of Finance of Hunan University* (湖南大學金融學院). From May 2001 to January 2002, he served as a senior researcher in Shanghai Jin Xin Financial Engineering Research Institute* (上海金新金融工程研究院). He obtained a master's degree in economics from Hunan University (then known as "Hunan College of Finance and Economics*") (湖南財經學院 (現湖南大學)) in September 2009. He obtained a Ph.D in economics from Fudan University in December 2003.

Mr. HUANG Yajun (黃亞鈞), aged 68, is the independent non-executive Director with effect from 3 February 2017. He is a member of audit committee and remuneration committee of the Company. He is currently a professor of School of Economics and a director of Securities Research Institute of Fudan University. He is also an independent director of Shanghai Keysino Separation Technology Co., Ltd.* (上海凱鑫分離技術股份有限公司) whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 300899) and an independent director of YTO Express Group Co., Ltd.* (圓通速遞股份有限公司) whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600233). He previously served as an independent director of China Information Development Inc., Ltd. Shanghai* (上海中信信息發展股份有限公司) (now known as Trust Alliance Information Development Inc. Ltd. Shanghai* (上海信聯信息發展股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 300469) (2012 to November 2018) and an independent director of Shanghai Zi Jiang Enterprise Group Co., Ltd.* (上海紫江企業集團股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600210) (from June 2014 to June 2020). He served as Deputy Dean and Dean of School of Economics of Fudan University from July 1992 to December 2000 and Deputy Dean of University of Macau from December 2000 to July 2006. He obtained a master's degree in economy from Fudan University in 1985 and a doctor's degree in economy from West Virginia University in 1992.

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SENIOR MANAGEMENT

Mr. WONG Stacey Martin, aged 53, joined the Group in November 2017. He is the Chief Operating and Risk Officer and the Chief Executive Officer of the securities and future businesses of the Group. Mr. WONG has about 30 years of experience in the investment banking industry and led IPOs and placings of Hong Kong and Chinese Companies and has participated in mergers and acquisitions and financial advisory transactions of Blue-chip, Red-chip, private enterprise and H-share companies. He is a responsible officer for Types 1, 2, 4, 6 and 9 regulated activities under the SFO for China Tonghai Securities Limited and a responsible officer for Types 1 and 6 regulated activities under the SFO for China Tonghai Capital Limited. Mr. WONG is a non-executive director of Minsheng Creative Technology Holdings Limited (Stock code: 1632.HK). He served as an independent non-executive director of OCI International Holdings Limited (Stock code: 329.HK) (September 2014 to September 2020). Prior to joining China Tonghai International Financial Limited, Mr. WONG was the Chief Operating Officer and a director of CMBC International Holdings Limited since February 2013. Mr. WONG was the Head of Investment Banking of Piper Jaffray Asia Limited (formerly named as Goldbond Group Holdings Limited (2003–2007) which was merged by Piper Jaffray Companies (NYSE: PJC) in July 2007) and also headed Bear Stearns Asia Limited's corporate finance team, worked as the Head of BNP Paribas Peregrine Capital Limited's infrastructure and public utility corporate finance team, and spent ten years with Peregrine Capital Limited. Mr. WONG holds a Bachelor of Arts degree and a Master of Arts degree from the University of Cambridge, the United Kingdom.

Mr. Chris WU Kwok Choi, aged 47, joined the Company in June 2017 and is the Chief Financial Officer of the Company. Mr. WU has more than 20 years of finance and accounting experience in the Greater China region. Mr. WU graduated from the Hong Kong University of Science and Technology with a bachelor's degree in Business Administration. Mr. WU is a fellow member of the Association of Chartered Certified Accountants and a fellow member of The Hong Kong Institute of Certified Public Accountants.

Mr. YAN Chi Kwan, aged 45, joined the Group in May 2018 and is the Chief Investment Officer of the Group. He has over 20 years of investment experience in the financial markets of the Asia-Pacific region. Mr. YAN is a responsible officer for Types 1, 4 and 9 regulated activities under the SFO for China Tonghai Asset Management Limited and a responsible officer for Type 1 regulated activity under the SFO for China Tonghai Securities Limited. Prior to joining the Group, he was the Chief Investment Officer of CMBC International Holdings Limited, responsible for investment, financing and asset management. Mr. YAN has also set his footprints in other financial institutions. He was the Head of Product and Business Development in Shenwan Hongyuan Asset Management (Asia) Limited (formerly known as Shenyin Wanguo Asset Management (Asia) Limited) and Deputy Managing Director in Shenwan Hongyuan Securities (H.K.) Limited (formerly known as Shenyin Wanguo Securities (H.K.) Limited). Mr. YAN was also the Management Director in a number of well-established asset management companies where he participated in investment management, research, business and product development. He holds a Master degree in Economics and Bachelor degree in Finance from The University of Hong Kong. He is a CFA® charterholder. On personal front, Mr. YAN was a prominent speaker or lecturer in several university institutions. He conducted lectures at The Open University of Hong Kong, and National Kaohsiung University of Applied Sciences (now known as National Kaohsiung University of Science and Technology).

Profile of Directors, Senior Management, Senior Advisor and Key Executives

SENIOR ADVISOR

Mr. Bernard POULIOT, aged 69, has been the Senior Advisor of the Company since October 2017. He joined the Company in 2000. He was the Chairman of the Company until February 2017 and became Deputy Chairman of the Company (from February 2017 to September 2017). He was the non-executive director of the Company (from October 2017 to June 2020). Mr. POULIOT has more than 30 years of experience in investment, finance and corporate development. Mr. POULIOT was a director of Seamico Securities Public Company Limited, a company listed in Thailand (September 1997 to May 2013) and was appointed as the vice-chairman in February 2008.

Mr. Richard David WINTER, aged 68, has been the Senior Advisor of the Company since September 2017. He joined the Company in 2002 and was previously Deputy Chairman of the Company and Chief Executive Officer of corporate finance business of the Group. Mr. Winter has extensive experience in the investment banking and corporate finance advisory field in Hong Kong. He was Managing Director of Deloitte & Touche Corporate Finance Limited and before that Standard Chartered Asia Limited. He received an Honours Degree in Commerce from Edinburgh University. Mr. Winter is a member of the Takeovers and Mergers Panel and Takeovers Appeal Committee of the Securities and Futures Commission and a member of Listing Review Committee of the Hong Kong Exchanges and Clearing Limited. He is a senior fellow of Hong Kong Securities and Investment Institute, a fellow of the Institute of Chartered Accountants in England and Wales, a fellow of the Hong Kong Institute of Directors, a member of the Hong Kong Institute of Certified Public Accountants and Executive Committee member of The Outward Bound Trust of Hong Kong Limited, Director of Outward Bound International.

KEY EXECUTIVES

Mr. Benny CHUNG Koon Chung, aged 47, joined the Group in May 2017 and is the Chief Executive Officer of corporate finance of the Group. Mr. CHUNG has over 20 years of investment banking experience and had worked at the investment banking division of various multinational banks. He is a responsible officer for Types 1 and 6 regulated activities under the SFO for China Tonghai Capital Limited. Prior to joining the investment banking industry, Mr. CHUNG worked as an auditor at one of the major international accounting firms for over two years.

Mr. Calvin CHIU Chun Kit, aged 50, is the Deputy Chief Executive Officer of the securities and futures businesses of the Group. He is a responsible officer for Types 1, 2, 4 and 9 regulated activities under the SFO for China Tonghai Securities Limited. He joined the Group in 2002.

Mr. HAU Man Sing, aged 51, joined the Group in 2013 and is Head of Information Technology. Mr. HAU is responsible for the overall IT administration and services to the Group. Mr. HAU graduated from the University of Kent in England, with a Computer Science degree and has extensive experience across many IT fields.

Ms. Hortense CHEUNG Ho Sze, aged 46, is the Company Secretary of the Company. She joined the Group in 2007. Ms. CHEUNG has extensive experience in handling listed company secretarial matters and is an associate member of both The Chartered Governance Institute in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

Mr. HUI John, aged 47, joined the Group in December 2018, is the Head of Institutional Sales of China Tonghai Securities Limited, responsible for overseeing the Institutional Sales function. Mr. HUI has more than 20 years of experience in securities brokerage business, previously held senior positions in number of leading global Investment banks and Chinese financial institutions. He is responsible officer for Types 1 and 4 under the SFO for China Tonghai Securities Limited. Prior to Tonghai Securities, Mr. HUI was the Managing Director of Institutional Sales at China Galaxy International Financial Holdings Limited, Head of Institutional Sales in CMBC International Holdings Limited and RHB Securities Hong Kong Limited. Mr. HUI received a Honor Bachelor of Commerce and Finance from University of Toronto.

Mr. Jackie LAM Chi Sun, aged 43, joined the Group in August 2019 as the Head of Internal Audit. He has over 15 years of audit experience in the financial services industry. Mr. Lam holds a Master of Investment Management from The Hong Kong University of Science and Technology. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Jane CHAN Ching Yin, aged 40, is the Head of Marketing of the Group and responsible for the group marketing, promotional and branding matters. She joined the company in 2008 and rejoined again in 2012. She has extensive experience in the field of internal and external communication, public relations and marketing.

Mr. Keith CHAN Chin Wang, aged 45, joined the Group in July 2018 and is the Head of Legal of the Group. Mr. CHAN was admitted as a solicitor of the High Court of Hong Kong Special Administrative Region in 2003. Mr. CHAN has been a practising solicitor in Hong Kong for over 10 years specialised in corporate finance, merger and acquisition and regulatory compliance. Prior to joining the Group, Mr. CHAN was also appointed as the Company Secretary for a number of companies whose shares are listed on the Main Board and GEM of the Stock Exchange.

Mr. TSANG Chung Him, aged 49, joined the Group in 2007 as the Head of Compliance. He has extensive experience of compliance in the financial industry. He had worked for the Securities and Futures Commission and several major financial groups. Mr. TSANG holds a Bachelor of Social Sciences and a Master of Laws from The University of Hong Kong and the professional designations of Chartered Financial Analyst, Certified Public Accountant and Financial Risk Manager.

Ms. TSUI Ka Chi, aged 51, is the Group Human Resources Manager of the Group. She is responsible for the overall human resources management and administration of the Group. She joined the Group in 2006. Ms. TSUI has extensive experience in human resources and administration and is a professional member of the Hong Kong Institute of Human Resource Management.

Directors' Report

The board of directors (the "Board" or "Directors") of China Tonghai International Financial Limited (the "Company") presents the annual report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2020 (the "Year").

PRINCIPAL ACTIVITIES

During the Year, the principal activity of the Company is investment holding and the principal activities of the subsidiaries are as follows:

- a) corporate finance advisory and general advisory services;
- b) fund management, discretionary portfolio management and portfolio management advisory services;
- c) discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing, insurance broking and wealth management services;
- d) money lending services;
- e) financial media services; and
- f) investing and trading of various investment products.

Particulars of the principal subsidiaries of the Company as at 31 December 2020 are set out in note 49 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the Year, a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing, the environmental policies and performance and the relationship with key stakeholders of the Group are set out in the section of "Chief Executive Officer's Review", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" on pages 6 to 7, pages 8 to 18 and pages 20 to 37 respectively of this annual report.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by business segment for the Year is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year and the financial position of the Company and the Group as at 31 December 2020 are set out in the financial statements on pages 96 to 206.

No interim dividend was paid during the Year (2019: Nil).

The Board has proposed to recommend, at the forthcoming annual general meeting of the Company to be held on Friday, 21 May 2021 (the “2021 AGM”), a final dividend of HK0.5 cent per share (2019: Nil) for the Year.

It is expected that the proposed final dividend, if approved by the shareholders of the Company (the “Shareholders”) at the 2021 AGM, will be payable on or about Friday, 25 June 2021 to Shareholders whose name appear on the register of members of the Company on Tuesday, 1 June 2021.

Closure of Register of Members

(i) Entitlement to attend and vote at the forthcoming annual general meeting

The Board has fixed 4:30 pm on Friday, 14 May 2021 as the record time and date for ascertaining Shareholders’ entitlement to attend and vote at the 2021 AGM. All transfers of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 14 May 2021.

(ii) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Friday, 28 May 2021 to Tuesday, 1 June 2021, both days inclusive, during which period no transfer of shares will be registered. For the purpose of ascertaining shareholders’ entitlement to the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Thursday, 27 May 2021.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the past financial years, which was extracted from the audited financial statements and reclassified as appropriate, is set out on pages 207 and 208 of this annual report. This summary does not form part of the financial statements.

PROPERTY AND EQUIPMENT

Details of movements of the property and equipment of the Company and the Group during the Year are set out in note 30 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 37 to the financial statements.

BORROWINGS AND INTEREST CAPITALISED

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in note 33 to the financial statements.

Directors' Report

SHARE AWARD SCHEME

A Restricted Share Award Scheme ("Share Award Scheme") was adopted by the Company on 19 August 2010. The purpose of the Share Award Scheme is to recognize and motivate the contribution of certain employees and/or consultants and to provide incentives and help the Group in retaining its existing employees or consultants and recruiting additional employees or consultants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

Pursuant to the rules of Share Award Scheme, the Board may, from time to time, at its absolute discretion select the employees and consultants (excluding any excluded participant) as they deem appropriate for participation in the Share Award Scheme and determines the number of awarded shares ("Awarded Shares") to be granted. Existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected participants. The awarded shares of the Company will be vested only after satisfactory completion of time-based targets or time-and-performance-based targets.

The Share Award Scheme is subject to the administration of the Board in accordance with the rules of Share Award Scheme. The aggregate number of awarded shares granted by the Board throughout the duration of the Share Award Scheme should not in excess of 10% of the issued share capital of the Company as at the date of its adoption. Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years from the date of its adoption. However, the Board has the right to renew for the Share Award Scheme up to three times and each time for another 5-year terms. The Share Award Scheme had been renewed for five years from 19 August 2020 to 18 August 2025 (the "Renewal"). Further details of the Share Award Scheme and the Renewal were set out in the announcements of Company dated 19 August 2010 and dated 18 August 2020 respectively.

As at 31 December 2020, a total of 51,172,002 Awarded Shares are now held by the trustee under the Restricted Shares Award Scheme Trust which is available for allocation. No Awarded Share has been granted as at 31 December 2020. The Share Award Scheme should be retained until expiry of trust period or until informed by the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any listed securities of the Company.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity, and in note 48 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for cash distribution and/or distribution in specie to Shareholders, comprising the aggregate of contributed surplus and retained profits of the Company, amounted to HK\$5,546.7 million. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to Shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than its liabilities.

CHARITABLE DONATIONS

During the Year, the total charitable donations made by the Group is HK\$210,000 (2019: HK\$30,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, services provided to the Group's five largest customers accounted for 30% of the total turnover for the Year and services provided to the largest customer included therein amounted to 13%. Among the five largest customers (including the largest customer), 3 of them were subsidiaries of the holding companies of Oceanwide Holdings International Financial Development Co., Ltd (the controlling shareholder).

Services provided from the Group's five largest suppliers accounted for 31% of the total cost of services provided for the Year and services provided from the largest supplier included therein amounted to 12%. The Group is a provider of financial services. In the opinion of the Directors, it is therefore of no value to disclose details of the Group's suppliers.

Save as disclosed in the consolidated financial statements and the report herein, none of the Directors or any of their associates or any Shareholder (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had, at any time during the Year, a beneficial interest in any of the five largest customers and suppliers of the Group.

Directors' Report

SHARE OPTION SCHEME

The Company adopted an employee share option scheme on 23 September 2020 (the "Share Option Scheme"). A summary of the principal terms of the Share Option Scheme is given below:

- I) Purpose : The purpose of the Share Option Scheme is to provide incentives or rewards to eligible participants for their contribution or would-be contribution to the Group to obtain an equity interest in the Company and to attract potential candidates to serve the Group for the benefit of the development of the Group.
- II) Participants : Eligible participants of the Share Option Scheme include all directors (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), shareholders of the Company and any member of the Group, who, in the absolute opinion of the Board, have contributed or will contribute to the Company or the Group.
- III) Total number of shares available for issue under the scheme and percentage of issued share capital as at 25 March 2021 : The number of shares available for issue under the Share Option Scheme was 619,704,922 shares representing 10% of the issued share capital as at 25 March 2021.
- IV) Maximum entitlement of each participant : The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme to each participant in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of shares in issue unless it is approved by Shareholders in general meeting of the Company, at which such Participant and his close associates (or his associates if the Participant is a connected person) shall abstain from voting.

Any share options propose to grant to a substantial Shareholder or an independent non-executive Director of the Company or to any of their respective associates, in the 12-month period up to and including the date of the grant representing in aggregate over 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, are subject to approval by Shareholders in general meeting of the Company.

- V) The period within which the shares must be taken up under an option : The period within which the options must be exercised will be specified by the Company at the time of grant. This period shall not more than 10 years from the relevant date of grant of the options.
- VI) The minimum period for which an option must be held before it can be exercised : The Company may specify any minimum period(s) for which an option must be held before it can be exercised at the time of grant of the options. The Share Option Scheme does not contain any such minimum period.
- VII) The amount payable upon acceptance of the option : HK\$10.0 is payable by each eligible participant as consideration for the grant of an option on acceptance of options within 21 days from the date of offer of the options.
- VIII) The basis of determining the subscription price : The subscription price must be at least the higher of:
- (i) the closing price of share as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, which must be a business day;
 - (ii) the average closing prices of the shares as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of offer; and
 - (iii) the nominal value of a share.
- IX) The remaining life of the scheme : The Share Option Scheme shall be valid and effective until the close of business of the Company on the date which falls 10 years after the adoption date.

No share option has been granted since the adoption of the Share Option Scheme. Therefore, there was no share option outstanding as at 31 December 2020 and no share option lapsed or was exercised or cancelled during the Year.

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Report

DIRECTORS

The Directors of the Company during the Year and up to the date of this annual report are:

Executive Directors

Mr. HAN Xiaosheng
Mr. FANG Zhou (*Appointed on 16 October 2020*)
Mr. ZHANG Xifang
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing
Mr. ZHANG Bo (*Resigned on 23 November 2020*)
Mr. FENG Henian (*Resigned on 16 December 2020*)

Non-executive Directors

Mr. LIU Bing
Mr. ZHAO Yingwei
Mr. ZHAO Xiaoxia
Mr. Bernard POULIOT (*Retired by rotation at the annual general meeting on 26 June 2020*)

Independent Non-executive Directors

Mr. Roy LO Wa Kei
Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

In accordance with Bye-laws 86(2) and 87 of the Company and pursuant to code provision A.4.2 of Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), Mr. HAN Xiaosheng, Mr. ZHANG Xifang, Mr. ZHAO Yingwei, Mr. Roy LO Wa Kei and Mr. LIU Jipeng will retire by rotation at the forthcoming annual general meeting. Mr. FANG Zhou, the executive Director appointed during the Year, is also due to retire at the forthcoming annual general meeting. They are being eligible and will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of its independent non-executive Director an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent in accordance with the terms of the independence guidelines set out in rule 3.13 of the Listing Rules.

DIRECTORS' REMUNERATION

Details of the emoluments of the Directors for the Year are set out in note 15 to the financial statements.

EMOLUMENT POLICY

The emolument policy of the Group, in general, is determined with reference to the financial position and operating results of the Company and the prevailing market condition and trends. On this basis, the emolument of the Directors is determined with reference to their individual performances, involvement in the Group's affairs, the Company's performance and profitability. For the executive Directors, their remuneration is reviewed by the Remuneration Committee of the Company. As for the independent non-executive Directors, remuneration is determined by the Board, upon the recommendation from the Remuneration Committee of the Company. A resolution will be proposed at the forthcoming annual general meeting to obtain Shareholders' authorisation for the Board to fix Directors' remuneration.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are presented on pages 48 to 53 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. HAN Xiaosheng, Mr. ZHANG Xifang and Mr. LIU Hongwei has entered into a service agreement with the Company to act as executive Director for a term of three years commencing 3 February 2020, all renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. Each of them has agreed and acknowledged that he is not entitled to any director's fee or bonus as remuneration for his services during the continuance of his directorship under his service agreement.

Mr. FANG Zhou has entered into a service agreement with the Company to act as executive Director for a term of three years commencing 16 October 2020, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He is entitled to receive a monthly salary of HK\$200,000.

Mr. Kenneth LAM Kin Hing has entered into a service agreement with the Company to act as executive Director for a term of three years commencing 1 October 2020, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He is entitled to receive a monthly salary of HK\$433,334.

Each of Mr. LIU Bing and Mr. ZHAO Xiaoxia has entered into a letter of appointment with the Company to act as non-executive Director for a term of one year commencing 3 February 2021, all renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. Each of them has agreed and acknowledged that he is not entitled to any director's fee or bonus as remuneration for his services during the continuance of his directorship under his letter of appointment.

Mr. ZHAO Yingwei has entered into a letter of appointment with the Company to act as non-executive Director for a term of one year commencing 28 March 2021, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He has agreed and acknowledged that he is not entitled to any director's fee or bonus as remuneration for his services during the continuance of his directorship under his letter of appointment.

Directors' Report

Each of Mr. Roy LO Wa Kei, Mr. KONG Aiguo, Mr. HE Xuehui and Mr. HUANG Yajun has entered into a letter of appointment with the Company to act as independent non-executive Director for a term of one year commencing 3 February 2021, all renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. Each of them is entitled to receive a fixed annual director's fee of HK\$250,000 and will not receive any variable remuneration from the Group.

Mr. LIU Jipeng has entered into a letter of appointment with the Company to act as independent non-executive Director for a term of one year commencing 18 December 2020, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He is entitled to receive a fixed annual director's fee of HK\$250,000 and will not receive any variable remuneration from the Group.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under "Continuing Connected Transaction" in this director's report and in note 42 to the financial statements, no Director had a material interest in any transactions, arrangements or contract of significance to the business of the Group subsisted at the end of the Year or at any time during the Year to which the Company or any of its subsidiaries was a party.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS

As at 31 December 2020, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules were as follows:

(i) Long Position in the shares of the Company (the "Shares")

| Name of director | Capacity | Number of Shares held | Approximate percentage of shareholding in the Shares in issue (Note 1) |
|--------------------------|------------------|-----------------------|--|
| Mr. Kenneth LAM Kin Hing | Beneficial owner | 113,072,833 | 1.82% |

(ii) Long positions in the shares of associated corporations of the Company

(a) Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司) ("Oceanwide Holdings")

| Name of Director | Capacity | Number of shares in Oceanwide Holdings | Approximate percentage of shareholding in Oceanwide Holdings (Note 2) |
|-------------------|------------------|--|---|
| Mr. HAN Xiaosheng | Beneficial owner | 3,500,000 | 0.06% |
| Mr. ZHANG Xifang | Beneficial owner | 276,000 | 0.005% |
| Mr. LIU Hongwei | Beneficial owner | 30,000 | 0.0005% |
| Mr. LIU Bing | Beneficial owner | 90,000 | 0.001% |
| Mr. ZHAO Yingwei | Beneficial owner | 200,000 | 0.003% |
| Mr. ZHAO Xiaoxia | Beneficial owner | 183,500 | 0.003% |

Directors' Report

(b) *China Oceanwide Holdings Limited ("China Oceanwide")*

| Name of Director | Capacity | Number of shares in China Oceanwide | Approximate percentage of shareholding in China Oceanwide (Note 2) |
|------------------|------------------|-------------------------------------|--|
| Mr. LIU Jipeng | Beneficial owner | 9,212,000 | 0.05% |

III) Interest in the debentures of an associated corporation of the Company

| Name of Director | Name of associated corporation | Nature of interest | Amount of debenture |
|--------------------------|--|--------------------|------------------------|
| Mr. Kenneth LAM Kin Hing | Oceanwide Holdings International Development III Co., Ltd. | Personal interest | US\$5,500,000 (Note 3) |

Notes:

1. The approximate percentage shown was the number of Shares the relevant Director was interested in expressed as a percentage of the total number of issued Shares as at 31 December 2020.
2. The approximate percentage shown was the number of shares the relevant Director was interested in expressed as a percentage of the total number of issued shares of the relevant entity as at 31 December 2020.
3. Mr. Kenneth LAM Kin Hing has an interest in (i) US\$5,000,000 of the US\$215,000,000 12% guaranteed senior notes due 2021; and (ii) US\$500,000 of the US\$280,000,000 14.5% guaranteed senior notes due 2021, both issued by Oceanwide Holdings International Development III Co., Ltd.

Save as disclosed above, as at 31 December 2020, none of the Directors or their respective associates had or were deemed under the SFO to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSON'S INTERESTS

As at 31 December 2020, so far as were known to the Directors, the following persons (other than the Directors) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the shares in issue of the Company, were as follows:

Long Position in the Shares of the Company

| Name of holder of Shares/ underlying Shares | Capacity | Number of Shares and underlying Shares held | Approximate percentage of total interests in the Shares in issue (Note 3) |
|--|-------------------------------------|--|--|
| Mr. LU Zhiqiang ("Mr. LU") | Interest of controlled corporations | 4,493,764,732 (Note 1) | 72.51% |
| Ms. HUANG Qiongzi | Interest of controlled corporations | 4,493,764,732 (Note 1) | 72.51% |
| Tohigh Holdings Co., Ltd.* (通海控股有限公司) | Interest of controlled corporations | 4,493,764,732 (Note 2) | 72.51% |
| Oceanwide Group Co., Ltd.* (泛海集團有限公司) | Interest of controlled corporations | 4,493,764,732 (Note 3) | 72.51% |
| China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) | Interest of controlled corporations | 4,493,764,732 (Note 4) | 72.51% |
| Oceanwide Holdings | Interest of controlled corporations | 4,493,764,732 (Note 5) | 72.51% |
| China Oceanwide Group Limited | Interest of controlled corporations | 4,493,764,732 (Note 5) | 72.51% |
| Oceanwide Holdings International Financial Development Co., Ltd. ("Oceanwide Holdings IF") | Beneficial owner | 4,493,764,732 (Note 5) | 72.51% |
| Haitong Securities Co., Ltd. | Interest of controlled corporations | 4,100,000,000 (Note 6) | 66.16% |
| Haitong International Holdings Limited | Interest of controlled corporations | 4,100,000,000 (Note 7) | 66.16% |
| Haitong International Securities Group Limited | Interest of controlled corporations | 4,100,000,000 (Note 8) | 66.16% |
| Haitong International Investment Solutions Limited | Security interest in Shares | 4,100,000,000 (Note 9) | 66.16% |

Notes:

- Mr. LU and Ms. HUANG Qiongzi (黃瓊姿) (the spouse of Mr. LU) together held more than one third of the voting power at general meetings of Tohigh Holdings Co., Ltd.* (通海控股有限公司). By virtue of the SFO, Mr. LU and Ms. HUANG Qiongzi (黃瓊姿) are deemed to be interested in all the Shares in which Tohigh Holdings Co., Ltd.* (通海控股有限公司) is interested.

Directors' Report

2. Tohigh Holdings Co., Ltd.* (通海控股有限公司) held the entire issued share capital of Oceanwide Group Co., Ltd.* (泛海集團有限公司). By virtue of the SFO, Tohigh Holdings Co., Ltd.* (通海控股有限公司) is deemed to be interested in all the Shares held by Oceanwide Group Co., Ltd.* (泛海集團有限公司).
3. Oceanwide Group Co., Ltd.* (泛海集團有限公司) held 98% interest in the issued share capital of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司). By virtue of the SFO, Oceanwide Group Co., Ltd.* (泛海集團有限公司) is deemed to be interested in all the Shares held by China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司).
4. China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) directly and indirectly held 70.88% interest in the issued share capital of Oceanwide Holdings. By virtue of the SFO, China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) is deemed to be interested in all the Shares held by Oceanwide Holdings.
5. Oceanwide Holdings IF is a wholly-owned subsidiary of China Oceanwide Group Limited, which in turn is a wholly-owned subsidiary of Oceanwide Holdings. During 2 January 2020 to 31 December 2020, the Company were informed by Oceanwide Holdings IF that a total of 690,000 Shares were sold in the open market, as a result of which the number of Shares it held was reduced from 4,494,454,732 to 4,493,764,732. By virtue of the SFO, China Oceanwide Group Limited and Oceanwide Holdings are deemed to be interested in 4,493,764,732 Shares.
6. Haitong Securities Co., Ltd held 100% interest in the issued share capital of Haitong International Holdings Limited. By virtue of the SFO, Haitong Securities Co., Ltd is deemed to be interested in all the Shares held by Haitong International Holdings Limited.
7. Haitong International Holdings Limited indirectly held 63.08% interest in the issued share capital of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Holdings Limited is deemed to be interested in all the Shares held by Haitong International Securities Group Limited.
8. Haitong International Investment Solutions Limited is an indirect subsidiary of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Securities Group Limited is deemed to be interested in all the Shares held by Haitong International Investment Solutions Limited.
9. According to the announcement of Oceanwide Holdings dated 5 December 2018, Oceanwide Holdings IF issued to Haitong International Investment Solutions Limited the short term notes in the principal amount up to HK\$1,100,000,000 pursuant to which Oceanwide Holdings IF has pledged 4,100,000,000 Shares (representing 66.16% of the issued share capital of the Company as at 31 December 2020) to Haitong International Investment Solutions Limited.
10. The following entities, namely Tisé Media Fund LP and China Alliance Properties Limited (and its associates), disclosed to the Company that they were, directly or indirectly interested or deemed to be interested in 5% or more of the Shares on 28 August 2015 pursuant to the subscription agreement entered among the Company, CMBC International Holdings Limited ("CMBCI"), and the co-investors, namely New Hope Global Holding Co., Limited, United Energy International Trading Limited, Mind Power Investments Limited, China P&I Services (Hong Kong) Limited, China Alliance Properties Limited, Good First International Holding Limited, Divine Unity Limited, Tisé Media Fund LP, Novel Well Limited, Ristora Investments Limited and Insight Multi-Strategy Funds SPC for the account of Insight Phoenix Fund III SP (together the "Co-Investors") on 28 August 2015 which CMBCI and the Co-Investors had conditionally agreed to subscribe for an aggregate of 23,054,875,391 shares of the Company at the subscription price of HK\$0.565 per Subscription Share (the "First Subscription Agreement").

As disclosed in the announcement of the Company dated 1 March 2016, the First Subscription Agreement ceased to be effective as of 28 February 2016 as certain conditions precedent under the First Subscription Agreement remained outstanding as at the long stop date. Accordingly, as at 31 December 2020, as far as the Directors were aware, CMBCI and the Co-Investors had ceased to have any interests in the Shares.
11. The approximate percentage shown was the number of Shares the relevant company/person was interested in expressed as a percentage of the total number of issued Shares as at the 31 December 2020.

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any other person (other than the Directors) who had interests or short positions in the Shares or underlying Shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the financial period ended 31 December 2020, the following Director had interests in the following businesses (apart from the businesses of the Company or its subsidiaries) conducted through the company named below, its subsidiaries, associated companies or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Group conducted during the year and are required to be disclosed pursuant to Rule 8.10(2) of the Listing Rules:

| Name | Investing entity | Nature of interest | Nature of business considered to compete or likely to compete with the business of the Group |
|------------------|--|--------------------|--|
| Mr. ZHANG Xifang | Minsheng Securities Co., Ltd.* (民生證券股份有限公司) | director | Securities business |

Save as disclosed above, as at 31 December 2020, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

The Directors are aware of their fiduciary duties and will act honestly and in good faith in the interests of the Company and will avoid any potential conflict of interests and duties.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions undertaken by the Group during the Year are included in the transactions and balance set out in note 42 to the financial statements.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the continuing connected transactions set out in note 42 to the financial statements and have confirmed that these continuing connected transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Directors' Report

Certain related party transactions as disclosed in note 42 and the transaction as disclosed in note 40 (in respect of loans to directors) to the financial statements were "continuing connected transaction" or fell within de minimis continuing connected transaction which exempted from reporting, announcement and independent shareholders' approval under the Listing Rules. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

KPMG, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. KPMG has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DISCLOSURE PURSUANT TO RULE 13.15 OF THE LISTING RULES

| Items | Transactions | Amortised cost | | Fair value | |
|-------|--------------|-------------------|------------------------------|-------------------|------------------------------|
| | | Principal amounts | Carrying amounts (Note 1) | Principal amounts | Carrying amounts (Note 2) |

The following term loans were provided or extended by China Tonghai Finance Limited ("China Tonghai Finance", an indirect wholly owned subsidiary of the Company) to China Oceanwide:

| | | | | | |
|---|---|----------------|-----------------------------|---|---|
| 1 | on 1 April 2020, China Tonghai Finance extended a term loan in an amount of HK\$3 million with an interest rate of 12% per annum and with a maturity date of 31 March 2021. | HK\$3 million | HK\$3 million (Note 1a) | — | — |
| 2 | on 1 April 2020, China Tonghai Finance extended a term loan in an amount of HK\$5 million with an interest rate of 12% per annum and with a maturity date of 31 March 2021. | HK\$5 million | HK\$5 million (Note 1a) | — | — |
| 3 | on 1 April 2020, China Tonghai Finance extended a term loan in an amount of HK\$8 million with an interest rate of 12% per annum and with a maturity date of 31 March 2021. | HK\$8 million | HK\$8 million (Note 1a) | — | — |
| 4 | on 24 April 2020, China Tonghai Finance provided a term loan of HK\$28 million with an interest rate of 12% per annum and with a maturity date of 31 March 2021. | HK\$28 million | HK\$29 million (Note 1a) | — | — |

| Items | Transactions | Amortised cost | | Fair value | |
|-------|---|-------------------|------------------------------|-------------------|------------------------------|
| | | Principal amounts | Carrying amounts (Note 1) | Principal amounts | Carrying amounts (Note 2) |
| 5 | on 21 December 2020, China Tonghai Finance extended a term loan in the amount of HK\$280 million with an interest rate of 12% per annum to 31 December 2021. | HK\$280 million | HK\$256 million (Note 1a) | — | — |
| 6 | on 31 December 2020, China Tonghai Finance extended a term loan of HK\$156 million with an interest rate of 12% per annum and with a maturity date of 31 December 2021. | HK\$156 million | HK\$137 million (Note 1a) | — | — |

The following term loans and margin facility were provided or extended to China Oceanwide International Investment Company Limited ("COII") or Minyun Limited ("Minyun"), indirect subsidiaries of Tohigh Holdings Co., Ltd.* (通海控股有限公司):

| | | | | | |
|---|---|------------------|-----------------------------|---------------|------------------------------|
| 1 | on 3 December 2019, China Tonghai Finance provided a term loan of HK\$64.5 million to Minyun with an interest rate of 7.875% per annum and with a maturity date of 31 January 2022. | HK\$64.5 million | HK\$68 million (Note 1a) | — | — |
| 2 | an outstanding margin facility of HK\$5 million provided by China Tonghai Securities Limited ("China Tonghai Securities", an indirect wholly-owned subsidiary of the Company) to Minyun pursuant to the terms of facility agreement dated 3 March 2020 at a compound monthly interest rate of 1% above prime rate. The facility is secured by the Collateral which shall be charged to or held by China Tonghai Securities for its benefit as a first priority fixed continuing security for the payment and/or discharge to China Tonghai Securities of all and any of the Minyun's liabilities to China Tonghai Securities pursuant to the terms of the facility. | — | — | HK\$5 million | HK\$4.5 million (Note 2a) |

Directors' Report

| Items | Transactions | Amortised cost | | Fair value | |
|-------|---|-------------------|------------------------------|-------------------|------------------------------|
| | | Principal amounts | Carrying amounts (Note 1) | Principal amounts | Carrying amounts (Note 2) |
| 3 | an outstanding margin facility of HK\$38 million provided by China Tonghai Securities to COII pursuant to the terms of facility agreement dated 3 March 2020 at interest rate of 3% above prime rate per annum payable by COII annually. The facility is secured by the Collateral which shall be charged to or held by China Tonghai Securities for its benefit as a first priority fixed continuing security for the payment and/or discharge to China Tonghai Securities of all and any of the COII's liabilities to China Tonghai Securities pursuant to the terms of the facility. | — | — | HK\$38 million | HK\$32 million (Note 2a) |
| 4 | on 6 May 2020, China Tonghai Finance provided a term loan of HK\$3 million with an interest rate of 12% per annum to COII and with maturity date of 31 March 2021. | HK\$3 million | HK\$3 million (Note 1a) | — | — |
| 5 | on 4 July 2020, China Tonghai Finance extended the consolidated term loans in an aggregate amount of approximately HK\$141,240,822 with an adjusted interest rate of 12% per annum to COII and with a maturity date of 30 June 2021. | HK\$141 million | HK\$140 million (Note 1a) | — | — |
| 6 | on 4 July 2020, China Tonghai Finance extended a term loan of HK\$12 million with an interest rate of 12% to COII and with a maturity date of 30 June 2021. | HK\$12 million | HK\$12 million (Note 1a) | — | — |
| 7 | on 7 December 2020, China Tonghai Finance provided a term loan of HK\$10 million with an interest rate of 12% per annum to COII and with maturity date of 31 December 2021. | HK\$10 million | HK\$9 million (Note 1a) | — | — |
| 8 | on 30 December 2020, China Tonghai Finance extended a term loan of HK\$45 million with an interest rate of 12% per annum to COII and with maturity date of 31 December 2021. | HK\$45 million | HK\$39 million (Note 1a) | — | — |

| Items | Transactions | Amortised cost | | Fair value | |
|-------|--|-------------------|------------------------------|-------------------|------------------------------|
| | | Principal amounts | Carrying amounts (Note 1) | Principal amounts | Carrying amounts (Note 2) |
| 9 | on 30 December 2020, China Tonghai Finance extended a term loan of HK\$12.5 million with an interest rate of 12% per annum to COII and with maturity date of 31 December 2021. | HK\$12.5 million | HK\$11 million (Note 1a) | — | — |
| 10 | on 28 January 2021, China Tonghai Finance extended a term loan in the aggregate amount of HK\$678 million with an adjusted interest rate of 10.5% per annum to COII and with a maturity date of 28 January 2022. | HK\$678 million | HK\$684 million (Note 1a) | — | — |

The following term loans, unlisted senior notes and unsecured private notes were provided or extended to Oceanwide Holdings International Development III Co., Ltd. (the "Issuer/OHIDIII", a subsidiary of Oceanwide Holdings):

| | | | | | |
|---|--|-----------------|------------------------------|-------------------|------------------------------|
| 1 | on 1 April 2020, China Tonghai Finance extended the consolidated term loans in an aggregate amount of approximately HK\$361,019,322 with an interest rate of 12% per annum and with a maturity date of 31 March 2021. | HK\$361 million | HK\$358 Million (Note 1a) | — | — |
| 2 | on 14 April 2020, China Tonghai Finance provided a term loan in the aggregate amount of HK\$20 million with an interest rate of 12% per annum and with a maturity date of 31 March 2021. | HK\$20 million | HK\$21 million (Note 1a) | — | — |
| 3 | on 16 April 2020, China Tonghai Capital Holdings Limited ("China Tonghai Capital Holdings", a wholly-owned subsidiary of the Company) and China Tonghai Securities subscribed unlisted senior notes issued by the Issuer in the subscription amount of US\$91 million (equivalent to approximately HK\$709.8 million) with coupon interest rate of 11.5% per annum, payable semi-annually and with a maturity date of 15 April 2021. | — | — | HK\$709.8 million | HK\$683 million (Note 2b) |

Directors' Report

| Items | Transactions | Amortised cost | | Fair value | |
|-------|---|---------------------|------------------------------|-------------------|------------------------------|
| | | Principal amounts | Carrying amounts (Note 1) | Principal amounts | Carrying amounts (Note 2) |
| 4 | on 24 April 2020, China Tonghai Finance provided a term loan of HK\$10 million with an interest rate of 12% per annum and with maturity date of 31 March 2021. | HK\$10 million | HK\$10 million (Note 1a) | — | — |
| 5 | on 4 June 2020, China Tonghai Capital Holdings subscribed an unsecured private notes issued by the Issuer in the subscription amount of US\$12 million (equivalent to approximately HK\$93.6 million) with coupon interest rate of 11.5% per annum and with a maturity date of 2 June 2021. | HK\$93.6 million | HK\$93 million (Note 1b) | — | — |
| 6 | on 14 July 2020, China Tonghai Finance extended a term loan of HK\$45 million with an interest rate of 11% per annum and with a maturity date of 30 June 2021. | HK\$45 million | HK\$44 million (Note 1a) | — | — |
| 7 | on 14 July 2020, China Tonghai Finance extended a term loan of HK\$27.5 million with an interest rate of 12% per annum and with a maturity date of 30 June 2021. | HK\$27.5 million | HK\$27 million (Note 1a) | — | — |
| 8 | on 31 December 2020, China Tonghai Finance extended a term loan of HK\$27.5 million with an interest rate of 12% per annum and with maturity date of 31 December 2021. | HK\$27.5 million | HK\$24 million (Note 1a) | — | — |
| | Total | HK\$2,030.6 million | HK\$1,981 million | HK\$752.8 million | HK\$719.5 million |

Notes:

- 1a. As at 31 December 2020, approximately HK\$1,888 million forms part of the HK\$3,190 million total for current portion of other loans (note 23) in the consolidated statement of financial position.
- 1b. As at 31 December 2020, HK\$93 million forms part of the HK\$117 million total for current portion of financial assets not held for trading and market making activities (note 19) in the consolidated statement of financial position.
- 2a. As at 31 December 2020, HK\$36.5 million forms part of the HK\$1,372 million total for current portion of loans to margin clients (note 21) in the consolidated statement of financial position.
- 2b. As at 31 December 2020, HK\$683 million forms part of the HK\$1,956 million total for current portion of financial assets held for trading and market making activities (note 18) in the consolidated statement of financial position.

As at 31 December 2020, all the above loans were still outstanding.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

- 1) On 10 July 2020, the Company as borrower entered into a deed of amendment and restatement with a licensed bank in Hong Kong as lender (the "July Banking Facility Arrangement") to extend the banking facility with the principal amount of HK\$750,000,000 (the "Extended July Banking Facility") for one year. Pursuant to the July Banking Facility Arrangement, Oceanwide Holdings IF and Oceanwide Holdings International Co., Ltd., being the immediate controlling shareholders of the Company and China Oceanwide, charged 395,254,732 shares of the Company and 3,095,818,070 shares of China Oceanwide respectively, which represents 6.38% of the total issued shares of the Company and 19.18% of total issued shares of China Oceanwide (as of the date of this report), respectively, in favour of the licensed bank.

Pursuant to the July Banking Facility Arrangement, Mr. LU and his parties acting in concert, shall at all times directly or indirectly beneficially own not less than 60% of the issued Shares of the Company. Upon the breach of this condition, the Extended July Banking Facility will immediately and automatically be cancelled and all outstanding loans, together with accrued interest, and all other amounts accrued under the Extended July Banking Facility, become immediately due and payable.

- 2) On 1 December 2020, an indirect wholly-owned subsidiary of the Company as borrower entered into and accepted a supplemental facility letter (the "December Facility Agreement") with a licensed bank in Hong Kong to extend the revolving loan facility in the principal amount of up to HKD200 million (the "Extended December Banking Facility") up to and including 31 July 2021. Pursuant to the Extended December Banking Facility, Mr. LU and his parties acting in concert, shall at all times maintain directly or indirectly not less than 50% of the shareholdings of the borrower and shall maintain the absolute management control over the borrower and the Company. It will be an event of default upon the breach of this condition and in such event, the bank may declare that any outstanding amount due and owing under the Extended December Banking Facility shall become immediately due and payable by the borrower.

As at the date of this report, Mr. LU, through his controlled corporations, beneficially own approximately 72.51% of the issued Shares of the Company.

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 Shares was held by the public as at the date of this annual report, being the latest practicable date.

CORPORATE GOVERNANCE

Details of the corporate governance practices of the Company are presented in the Corporate Governance Report which is set out on pages 78 to 88 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Year, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

Directors' Report

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's bye-laws, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in the execution of his office or otherwise in relation thereto. The Company has taken out insurance policies against the liability and costs associated with defending any proceeding.

EQUITY-LINKED AGREEMENT

For the year ended 31 December 2020, the Group did not enter into any equity-linked agreement.

UPDATES ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Changes of information of the Directors since the date of 2020 Interim Report which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

| Name of Directors | Details of Change |
|-------------------|--|
| Mr. LIU Bing | — Entered the letter of appointment with the Company for a term of one year commencing 3 February 2021 |
| Mr. ZHAO Yingwei | — Entered the letter of appointment with the Company for a term of one year commencing 28 March 2021 |
| Mr. ZHAO Xiaoxia | — Entered the letter of appointment with the Company for a term of one year commencing 3 February 2021 |
| Mr. Roy LO Wa Kei | — Entered the letter of appointment with the Company for a term of one year commencing 3 February 2021 — Ceased to be an independent non-executive director of Sun Hing Vision Group Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 125), in March 2021 |
| Mr. KONG Aiguo | — Entered the letter of appointment with the Company for a term of one year commencing 3 February 2021 — Ceased to be a director of Shanghai Fudan Forward Science and Technology Co., Ltd.* (上海復旦復華科技股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600624), in October 2020 |
| Mr. LIU Jipeng | — Entered the letter of appointment with the Company for a term of one year commencing 18 December 2020 — Appointed as an independent director of CECEP Guozhen Environmental Protection Technology Co., Ltd.* (中節能國禎環保科技股份有限公司), whose shares are listed on Shenzhen Stock Exchange (Stock Code: 300388), in December 2020 — Ceased to be an independent director of Zhongjin Gold Corporations Ltd. (中金黃金股份有限公司), whose shares are listed on Shanghai Stock Exchange (Stock Code: 600489), in March 2021 |
| Mr. HE Xuehui | — Entered the letter of appointment with the Company for a term of one year commencing 3 February 2021 |
| Mr. HUANG Yajun | — Entered the letter of appointment with the Company for a term of one year commencing 3 February 2021 |

Save as disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

AUDITORS

The financial statements for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 were audited by KPMG.

KPMG will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint KPMG as auditor of the Company.

On behalf of the Board

China Tonghai International Financial Limited

HAN Xiaosheng

Chairman

Hong Kong, 25 March 2021

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance in order to ensure better transparency and safeguard the shareholders' interest in general. The board of directors (the "Directors" or "Board") reviews its corporate governance practices on periodic basis in order to build the effective self-regulatory practices and implementing sound internal control systems.

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has applied the principles and complied with the code provisions set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), titled "Corporate Governance Code and Corporate Governance Report" (the "CG Code"), throughout the year ended 31 December 2020 (the "Year") and subsequent period up to the date of this annual report, save for the deviations from code provision A.5.1 which stipulates that a Nomination Committee should be established. In view of the stage of business growth, the existing size of the board and business operation of the Group, it is considered more beneficial and effective to have the relevant function performed by the Board itself rather than through the establishment of such committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules. The code of conduct is also updated from time to time in order to keep abreast with the latest changes in the Listing Rules. It has also been extended to specific employees of the Company who are likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company.

In response to specific enquiry, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the Year.

BOARD OF DIRECTORS

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders of the Company (the "Shareholders") for the manner in which the affairs of the Company are managed, controlled and operated, and they devote sufficient time and attention to the Company's affairs. To the best of the Company's knowledge, there is no financial or family relationship among the Board members. All of them are free to exercise their independent judgment on all matters concerning the Company.

The roles of the Chairman and the Chief Executive Officer of the Company are separated. Mr. HAN Xiaosheng is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. Mr. Kenneth LAM Kin Hing is the Chief Executive Officer of the Company. The Chief Executive Officer is responsible for the overall management of the Group's business and recommendation of strategies to the Board. Matters reserved for the Board include formulation of the Group's long-term business strategy, consideration of dividend policy, approval of major investments, maintenance of an adequate system of internal controls and risk management, oversight of compliance with statutory and regulatory obligations and review of the corporate governance practices of the Group. Daily operations and administration are delegated to management teams.

The Board currently has thirteen members which comprise:

- five executive directors, namely Mr. HAN Xiaosheng, Mr. FANG Zhou (appointed on 16 October 2020), Mr. ZHANG Xifang, Mr. LIU Hongwei and Mr. Kenneth LAM Kin Hing;
- three non-executive directors, namely Mr. LIU Bing, Mr. ZHAO Yingwei and Mr. ZHAO Xiaoxia; and
- five independent non-executive directors, namely Mr. Roy LO Wa Kei, Mr. KONG Aiguo, Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun.

The brief biographical details of the above directors are set out in the section of “Profile of Directors, Senior Management, Senior Advisor and Key Executives” of this annual report. A list containing the names of the Directors and their roles and functions can also be found in the website of the Company (www.tonghaifinancial.com) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

The Company has five independent non-executive Directors which represents one third of the Board. They are highly experienced professionals and business people with a broad range of expertise and experience in areas covering accounting, finance and business management and the Board as a whole has achieved an appropriate balance of skills and experience. They bring independent judgment to bear on issues of strategy, policy and performance, accountability, resources, key appointments and standards of conduct, and enable the Board to maintain high standards of compliance with financial and other mandatory reporting requirements and provide adequate checks and balances to safeguard the interests of Shareholders and the Company. At least one of the independent non-executive Directors possesses appropriate professional qualifications or accounting or related financial management expertise under rule 3.10 of the Listing Rules.

The Company has received, from each independent non-executive Director, a written confirmation of his independence pursuant to rule 3.13 of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent. The independent non-executive Directors had been expressly identified in all corporate communications of the Company that disclose the names of Directors.

All the non-executive Directors are appointed for a term of one year, subject to renewal and re-election as and when required under the Listing Rules and the bye-laws of the Company (the “Bye-laws”).

The Board is continually updated on the Group’s business and regulatory environments in which it operates and other changes affecting the Group. The Company has provided the Board with monthly updates of the Group’s management information such as performance and key operational highlights to enable the Directors to discharge their duties.

The Company has arranged insurance cover for all Directors in respect of any legal action against the Directors. The insurance coverage is reviewed at least annually for ensuring that the Directors and officers are adequately protected against potential legal liabilities.

During the Year, the Board met six times in person or through telephone conference to approve the final results for the year ended 31 December 2019 and interim results for the six months ended 30 June 2020, to consider the financial budget and business development strategies, to consider financial and operating performances and strategic investment decisions of the Group, and to review the practises on corporate governance. Three general meetings were held which consisted of one annual general meeting and two special general meeting.

Corporate Governance Report

The number of Board Meetings, Audit Committee Meetings, Remuneration Committee Meetings, Executive Committee Meetings and General Meetings attended by each Director during the Year is set out in the following table:

| Name of Directors | Number of Meetings Attended/Total Number of Meetings Held (Percentage of Attendance) | | | | | | | | | |
|---|---|--------|-----------------|--------|------------------------|--------|---------------------|--------|-----------------|--------|
| | Board | | Audit Committee | | Remuneration Committee | | Executive Committee | | General Meeting | |
| Executive Directors | | | | | | | | | | |
| Mr. HAN Xiaosheng | 5/6 | (83%) | | N/A | | N/A | 10/12 | (83%) | 3/3 | (100%) |
| Mr. FANG Zhou (Note 1) <i>(Appointed on 16 October 2020)</i> | 1/1 | (100%) | | N/A | | N/A | 3/3 | (100%) | N/A | |
| Mr. ZHANG Xifang | 5/6 | (83%) | | N/A | | N/A | 7/12 | (58%) | 3/3 | (100%) |
| Mr. LIU Hongwei | 6/6 | (100%) | | N/A | | N/A | 12/12 | (100%) | 3/3 | (100%) |
| Mr. Kenneth LAM Kin Hing | 5/6 | (83%) | | N/A | | N/A | 11/12 | (92%) | 3/3 | (100%) |
| Mr. ZHANG Bo <i>(Resigned on 23 November 2020)</i> | 4/5 | (80%) | | N/A | | N/A | 8/10 | (80%) | 3/3 | (100%) |
| Mr. FENG Henian <i>(Resigned on 16 December 2020)</i> | 3/5 | (60%) | | N/A | | N/A | 1/11 | (9%) | 0/3 | (0%) |
| Non-executive Directors | | | | | | | | | | |
| Mr. LIU Bing | 5/6 | (83%) | | N/A | | N/A | | N/A | 0/3 | (0%) |
| Mr. ZHAO Yingwei | 5/6 | (83%) | | N/A | | N/A | | N/A | 1/3 | (33%) |
| Mr. ZHAO Xiaoxia | 6/6 | (100%) | | N/A | | N/A | | N/A | 3/3 | (100%) |
| Mr. Bernard POULIOT <i>(Retired on 26 June 2020)</i> | 4/4 | (100%) | | N/A | | N/A | | N/A | 0/1 | (0%) |
| Independent Non-executive Directors | | | | | | | | | | |
| Mr. Roy LO Wa Kei (Note 2) | 6/6 | (100%) | 4/4 | (100%) | | N/A | | N/A | 3/3 | (100%) |
| Mr. KONG Aiguo (Note 3) | 6/6 | (100%) | 4/4 | (100%) | 2/2 | (100%) | | N/A | 2/3 | (66%) |
| Mr. LIU Jipeng | 6/6 | (100%) | 4/4 | (100%) | 2/2 | (100%) | | N/A | 3/3 | (100%) |
| Mr. HE Xuehui | 6/6 | (100%) | 4/4 | (100%) | 2/2 | (100%) | | N/A | 3/3 | (100%) |
| Mr. HUANG Yajun | 6/6 | (100%) | 4/4 | (100%) | 2/2 | (100%) | | N/A | 3/3 | (100%) |

Notes:

1. Chairperson of the Executive Committee
2. Chairperson of the Audit Committee
3. Chairperson of the Remuneration Committee

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Upon reviewing (a) the directorships and major commitments of each Director; and (b) the attendance rate of each Director on board meeting and committee meetings as well as general meetings, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Year.

Arrangements are in place to allow all Directors the opportunity to include matters for discussion in the agenda of each Board meeting. At least fourteen days' notice of all Board meetings is given to all Directors. The agenda and board materials are sent to all Directors at least three days in advance of every Board meeting to facilitate informed discussion and decision-making. Senior management will be invited to attend the Board meeting, when necessary, to provide information and explanation to facilitate the decision-making process.

If a Director has conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by a physical Board meeting rather than a written resolution. That Director will abstain from voting on the relevant board resolution in which he/she or any of his/her associates has a material interest and he/she shall not be counted in the quorum present at such Board meeting. Independent Non-Executive Directors, who, and whose close associates have no material interest in the transaction, are present at the board meeting

All Directors have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request.

The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are followed.

The proceedings of the Board at its meetings are generally conducted by the Chairman who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to the Directors to speak, express their views and share their concerns.

The Company Secretary keeps minutes of each meeting. Draft minutes are sent to all Directors within a reasonable time for their comment and final versions of the minutes are available for inspection by all Directors at any time.

New director appointed by the Board to fill a casual vacancy is subjected to re-election by shareholders of the Company at the next general meeting pursuant to the Bye-laws of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting. Therefore, no Director has an effective term of appointment longer than three years.

At the annual general meeting of the Company held on 26 June 2020, Mr. LIU Hongwei and Mr. Kenneth LAM Kin Hing were re-elected as executive Directors, Mr. LIU Bing was re-elected as non-executive Director and Mr. HUANG Yajun was re-elected as independent non-executive Director while Mr. Bernard POULIOT retired as non-executive Director.

In order to allow the newly appointed Directors to understand the responsibilities under the relevant regulatory requirements, the operation and business of the Company, the Company will provide an orientation package including key legal requirements, the Memorandum and Bye Laws and information of the Company to and arrange a tailor-made induction for the newly appointed directors.

Corporate Governance Report

BOARD COMMITTEES

The Company has established the Audit Committee, the Remuneration Committee and the Executive Committee. The terms of reference of the Audit Committee and the Remuneration Committee can be found in the website of the Company (www.tonghaifinancial.com) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Audit Committee

The Audit Committee has been established to assist the Board in reviewing the financial information of the Company, maintaining the relationship with the external auditor and overseeing the financial reporting system, risk management and internal control procedures of the Company.

It currently comprises five independent non-executive Directors, namely Mr. Roy LO Wa Kei (the Chairman), Mr. KONG Aiguo, Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun. No member of the Audit Committee was a former partner of the existing external auditor of the Company.

The major role and authorities of the Audit Committee are summarised below:

- i) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and review and monitor their independence and objectivity as well as the effectiveness of the audit process;
- ii) to approve the remuneration and terms of engagement of external auditors, maintain appropriate relationship between the Group and the external auditors and develop policy on the engagement of the external auditors to supply non-audit services;
- iii) to ensure the integrity of the interim and annual consolidated financial statements and any significant financial reporting judgments contained in them; and review the external auditors' work, including management letter and management's response; and
- iv) to review the Company's financial controls, internal controls and risk management systems.

During the Year, four Audit Committee meetings were held. The Chief Financial Officer, The Chief Operating and Risk Officer, the Head of Internal Audit, the Head of Compliance and other key executives of the Company were also invited to participate in the meetings. The Audit Committee members also met privately with the external auditor during the Year.

During the Year, the Audit Committee has discharged its responsibilities by considering and reviewing the following:

- i) the financial statements for the year ended 31 December 2019 and for the six months ended 30 June 2020;
- ii) the audit plan and the nature, scope and process of the external audit;

- iii) the continuing connected transactions of the Group for the year ended 31 December 2019;
- iv) the risk management and internal control systems of the Company;
- v) the internal audit reports, the major findings and recommendations from internal audit;
- vi) the adequacy of resources, qualifications and experience of staff, training programmes and budget of the accounting and financial reporting function; and
- vii) the recommendation to the Board on the re-appointment of external auditor.

Remuneration Committee

The Remuneration Committee has been established and empowered by the Board to determine and review the remuneration packages of individual executive Directors and senior management, including salaries, bonuses, share options and benefits in kind.

It currently comprises four independent non-executive Directors, namely Mr. KONG Aiguo (the Chairman), Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun.

The major roles and authorities of the Remuneration Committee are summarised below:

- i) to review and recommend to the Board on the Group's remuneration policy and strategy;
- ii) to review and approve the proposals for remuneration of the executive Directors, senior management and employees of the Group; and
- iii) to review and approve the compensation arrangement relating to the dismissal or removal of directors.

During the Year, two Remuneration Committee meetings were held and the Remuneration Committee has discharged its responsibilities by considering and reviewing the following:

- i) the remuneration policy for senior management of the Group;
- ii) the discretionary bonus for senior management;
- iii) the adoption of new share option scheme; and
- iv) the preventive measures carried out by the group to deal with the COVID-19.

The basis for determining the emolument payable to directors and senior management are with reference to the prevailing market condition, the financial performance of the Company, time commitment and responsibilities and comparable market statistics. Staff remuneration is determined by the Group's management by reference to the individual staff's qualifications, work experience, performance and prevailing market conditions.

Corporate Governance Report

Executive Committee

The Executive Committee has been established which oversees the implementation of group business strategy, oversees the business operations and performance, examines major investments and monitors the management performance. It also identifies and manages the market risk, credit risk, liquidity risk, operational risk, legal risk and regulatory risk of the Group, devises the Group's risk management strategy and strengthens the Group's system of risk management. It currently comprises all the executive Directors, namely Mr. HAN Xiaosheng, Mr. FANG Zhou, Mr. ZHANG Xifang, Mr. LIU Hongwei and Mr. Kenneth LAM Kin Hing. In order to sustain the long-term business development of the Company, meetings are usually held once every month.

The senior managements and key executive, namely the Chief Financial Officer, the Chief Operating and Risk Officer, Chief Investment Officer and the Head of Compliance are invited to participate actively in the meetings. Minutes of the Executive Committee Meetings had also been sent to all the members of the Board within a reasonable time for review.

Nomination Committee

The Company does not establish a Nomination Committee. The Executive Committee will be responsible to identify and nominate suitable candidates as Board members. The shortlist of suitable candidates will then be proposed to the Board for consideration and appointment.

In February 2014, the Board has adopted a Board Diversity Policy which aims to set out the approach to achieve diversity on the Board. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be based on meritocracy while taking into account of diversity. Selection of candidates will be based on a range of diversity criteria, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates are likely to bring to the Board. The Board Diversity Policy, as appropriate, will be reviewed on periodic basis to ensure its continuing effectiveness.

The Group has adopted the nomination policy with retrospective effect from 1 January 2019. Each proposed new appointment or re-election of a director will be assessed and/or considered against the criteria and process set out in the nomination policy.

As a whole, the Board is diverse in terms of education background, professional background and business experience. Their age, gender and length of service with the Company can be found in the section of "Profile of Directors, Senior Management, Senior Advisor and Key Executives" of this annual report.

The Board will also be responsible for reviewing its structure, size and composition. Any new director appointed by the Board during the year shall be required to be offered for re-election by shareholders of the Company at the next general meeting if appoint to fill a casual vacancy or next annual general meeting of the Company if appoint as an addition to the Board pursuant to the Bye-laws of the Company.

Shareholders may propose a person for election as a Director at the general meeting of the Company pursuant to the Bye-laws of the Company. The procedures for such proposal can be found in the website of the Company (www.tonghaifinancial.com).

CONTINUING PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code, all Directors and the company secretary of the Company (the “Company Secretary”) should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contributions to the Board are made on a well-informed basis.

During the Year, all Directors had complied with the code provision in relation to continuous professional development. Directors (namely Mr. HAN Xiaosheng, Mr. FANG Zhou, Mr. ZHANG Xifang, Mr. LIU Hongwei, Mr. Kenneth LAM Kin Hing, Mr. LIU Bing, Mr. ZHAO Yingwei, Mr. ZHAO Xiaoxia, Mr. Roy LO Wa Kei, Mr. KONG Aiguo, Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun) have involved reading training materials provided by external professional advisor on the amendments of environmental, social and governance reporting and reading materials and updates relevant to the regulatory changes, director’s duties and responsibilities.

During the Year, the Company Secretary confirmed that she has undertaken no less than 15 hours of relevant professional training.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments of the Directors for the Year are set out in note 15 to the financial statements.

The remuneration (included salaries, discretionary bonuses and performance bonuses) of the members of senior management (other than the Directors), whose particulars are set out in the section headed “Profile of Directors, Senior Management, Senior Advisor and Key Executives” in this annual report, for the Year by band is set out below:

| Remuneration Bands | Number of Senior Management |
|---------------------|-----------------------------|
| Below HK\$5,000,000 | — |
| Above HK\$5,000,000 | 3 |

AUDITOR’S REMUNERATION

During the Year, the Group has engaged the following audit and non-audit services provided by the external auditor (i.e. KPMG):

| Type of services | HK\$’000 |
|--|----------|
| Audit fee for the Group | |
| — Current year | 3,480 |
| — Under provision in prior year | 400 |
| Taxation services for the Group | 300 |
| Non-audit services in respect of notifiable transactions under Listing Rules | 780 |
| TOTAL | 4,960 |

The Audit Committee will recommend the appointment of KPMG for assurance service for the financial year ending 31 December 2021 at a fee to be agreed.

Corporate Governance Report

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board acknowledges that they are responsible for overseeing the preparation of the consolidated financial statements which give a true and fair view of the financial position of the Company and of the Group as at 31 December 2020 and of the Group's financial performance and cash flow for the year ended 31 December 2020 in accordance with Hong Kong Financial Reporting Standards and the applicable disclosure provisions of the Listing Rules and for ensuring that appropriate accounting policies are selected and applied consistently.

KPMG, the external auditor of the Company, stated their reporting responsibilities in the Independent Auditor's Report which is set out on pages 89 to 95 of this annual report.

The financial statements are prepared on a going concern basis. The Board confirms that, to the best of their knowledge, they are not aware of any material events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

DIVIDEND POLICY

The Board has approved and adopted a dividend policy (the "Dividend Policy") effective from 9 January 2019.

The declaration of dividends by the Company is subject to any restrictions under the Company Act 1981 of Bermuda, the Listing Rules, Bye-laws of the Company and any applicable laws, rules and regulations. Distribution will usually be considered annually after the annual accounts of the Company are approved by the Shareholders but interim distribution may be made from time to time to Shareholders as appear to the Board to be justified by the position of the Company.

The declaration of future dividends will be subject to the decision by the Board and will depend on, among other things, the operation and financial performance, liquidity conditions, capital requirements and future funding needs, contractual restrictions, availability of reserves and the prevailing economic climate or any other factors that our Directors may consider relevant.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges the responsibility for establishing and maintaining an adequate system of internal control and risk management. The internal control system includes a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to protect the Group's operations and its clients from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.

The Group has well established risk management mechanism. Each business departments has the primary responsibility of managing its business risk, and serves as the first line of defence for the risk management and internal control systems. The middle and back office departments, which perform their management functions independently from the business units, particularly Risk Management and Compliance, form the second line of defence for the risk management and internal control systems. Charged with the major duty of independent oversight of risks, the compliance team is responsible for managing compliance risks, whereas the Risk Management Team is tasked with management of the overall risk governance, credit risk, market risk, liquidity and funding risk, and operational risk. The Internal Audit Department of the Company serves as the third line of defence to provide independent review and assurance of the Group's internal control effectiveness by adoption of a risk-based approach.

During the Year, the Executive Committee continued to oversee the internal control and risk management systems of the Group on an ongoing basis, and had reviewed the particular internal controls and governance issues of the Group at each Executive Committee meeting with the assistance of the Chief of Operating and Risk Officer and Head of Compliance.

The internal audit function develops its annual audit plan with a risk-based approach that covers the Group's major business activities and supporting functions' operations, procedures, as well as its IT environment. The annual audit plan is approved by the Audit Committee at the beginning of each year. The result of each audit will be reported to the Audit Committee and the Executive Committee. Moreover, special reviews will be conducted on specific areas of concern identified by the Audit Committee and senior management.

The Board, through the Audit Committee, has also reviewed the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting and financial reporting function during the Year. The review will be conducted annually in accordance with the requirements of the CG Code.

The Company is aware of its disclosure obligations under the Listing Rules and the Inside Information provisions under the Securities and Futures Ordinance and has put in place the proper procedure to ensure that any perceived inside information would be announced to the investing public on a timely basis.

The Board reviews the effectiveness of the Group's risk management and internal control systems on an ongoing basis. Through the structure and measures mentioned above, the Board considered that systems and procedures of the internal control and risk management of the Group were effective and adequate.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with the shareholders, including institutional investors, is crucial. The Company manages investor relations systematically as a key part of its operations and continues to promote and enhance investor relations and communications with the investors.

The Company maintains a company website at www.tonghaifinancial.com. It is a channel of the Company to communicate with the investing public with our latest corporate development. All our corporate communications, such as press release, statutory announcement, circular, annual report and interim report etc. are available on the website whereas circular, annual report and interim report are printed and sent to all shareholders of the Company. Shareholders and investors may also email their enquiries to the Company's email address: ir@tonghaifinancial.com, which will be handled by the Company's investor relations team. The Company has established a shareholders' communication policy and will review it on a periodic basis to ensure its effectiveness.

The last annual general meeting of the Company was held on 26 June 2020 at Gloucester Room, 2/F, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong. At the meeting, the ordinary business of adopting the audited financial statements for the year ended 31 December 2019, the re-election of Directors, the re-appointment of auditor and the authorisation of the Directors to fix their remuneration were approved at the meeting. Ordinary resolutions providing Directors with general mandates to repurchase and allot and issue shares of the Company subject to the relevant limits under the Listing Rules were also approved. Mr. HAN Xiaosheng, Mr. ZHANG Bo (resigned on 23 November 2020), Mr. ZHANG Xifang, Mr. LIU Hongwei, Mr. Kenneth LAM Kin Hing, Mr. ZHAO Xiaoxia, Mr. Roy LO Wa Kei (Chairman of Audit Committee), Mr. KONG Aiguo (Chairman of Remuneration Committee), Mr. LIU Jipeng, Mr. HE Xuehui, Mr. HUANG Yajun and representatives of KPMG (the external auditor) were present and available to answer questions at the meeting.

Corporate Governance Report

The forthcoming annual general meeting of the Company will be scheduled to be held on Friday, 21 May 2021. Details of the meeting and the necessary information on issues to be considered in the meeting will be set out in the circular to be dispatched to the shareholders of the Company in due course.

CONSTITUTIONAL DOCUMENTS

There is no change in the constitutional documents of the Company during the Year.

SHAREHOLDERS' RIGHTS

Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company may request the Board to convene a special general meeting of the Company. The purposes of convening the meeting must be stated in the relevant requisition, signed by all the shareholders concerned in one or more documents in like form and deposited at the Company's registered office and principal place of business in Hong Kong.

Shareholder(s) can also submit a written requisition to move a resolution at a general meeting pursuant to Section 79 to 80 of the Bermuda Companies Act if they (a) represent not less than one-twentieth of the total voting rights of those shareholders having the right to vote at a general meeting; or (b) are not less than one hundred shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the general meeting and deposited at the Company's registered office and principal place of business in Hong Kong.

The written requisition must be signed by all the shareholders concerned in one or more documents in like form and deposited at the Company's registered office and principal place of business in Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. A sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules should also be accompanied.

CONCLUSION

The Company believes that good corporate governance practices raise the confidence of investors towards the Company. We were one of the founding signatories of the Hong Kong Corporate Governance Charter of The Chamber of Hong Kong Listed Companies which demonstrated the commitment of the Company to uphold good corporate governance. The Company will keep its ongoing effort to enhance the corporate governance practices in order to meet the changing circumstances.

Independent Auditor's Report



To the shareholders of China Tonghai International Financial Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Tonghai International Financial Limited ("the Company") and its subsidiaries ("the Group") set out on pages 96 to 206, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2020 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 ("HKSA") 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 are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Independent Auditor's Report



KEY AUDIT MATTERS (CONTINUED)

| Assessment of the fair value of financial instruments | |
|--|--|
| <i>Refer to note 44 to the consolidated financial statements and note 2.15 of the accounting policies.</i> | |
| The Key Audit Matter | How the matter was addressed in our audit |
| <p>As at 31 December 2020, the fair value of the Group's financial assets carried at fair value represented 36% of its total assets. HK\$726,088,000, HK\$2,154,885,000 and HK\$663,044,000 were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively. The Group's financial liabilities carried at fair value was HK\$33,251,000 which all are classified as level 2 financial instruments.</p> <p>The valuation of the Group's financial instruments is based on a combination of market data and valuation models which often require judgement.</p> <p>Some of the inputs used in the valuation models are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement.</p> <p>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the significant degree of judgement exercised by management in determining the inputs used in the valuation models.</p> | <p>Our audit procedures for financial instruments carried at fair value included the following:</p> <ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of key internal controls over the valuation of financial instruments; • assessing the fair values of all level 1 financial instruments by comparing the fair values applied by the Group with publicly available market data; • reading investment agreements for a sample of level 2 and level 3 financial instruments to understand the relevant investment terms and identify any conditions that were relevant to the valuation of financial instruments; • involving our internal valuation specialists to assist us in evaluating the valuation models used by the Group to value certain level 3 financial instruments and to perform independent valuations of certain level 3 financial instruments and compare these valuations with the Group's valuations. This included comparing the valuation derived from the Group's valuation models with our knowledge of current market practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations; • assessing the appropriateness of the use of the net asset value reports provided by external fund administrators as the fair value of the level 3 financial instruments at reporting date. This included comparing the fair value movements against available market information. For the valuation of fund interests we obtained and agreed the latest reported net asset values from the fund managers. Our procedures also included obtaining audited financial statements of the funds where applicable and checking the historical accuracy of the net asset values; and • assessing whether the disclosures in the consolidated financial statements reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards. |



KEY AUDIT MATTERS (CONTINUED)

| Impairment allowance of financial instruments measured at amortised cost | |
|--|--|
| Refer to notes 19, 22, 23 and 25 to the consolidated financial statements and note 2.15 of the accounting policies. | |
| The Key Audit Matter | How the matter was addressed in our audit |
| <p>As at 31 December 2020, the Group's financial instruments measured at amortised cost amounted to HK\$6,146,000,000, represented 62% of the Group's total assets. Total impairment allowance was HK\$563,826,000 as at 31 December 2020.</p> <p>The Group applies its expected credit loss model to assess impairment allowances of financial instruments measured at amortised cost in accordance with HKFRS 9, <i>Financial instruments</i>.</p> <p>The determination of impairment allowance using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of the parameters and the application of the assumptions.</p> <p>In particular, the determination of the impairment allowance is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses are derived from estimates including the historical losses, historical overdue data and other adjustment factors.</p> <p>Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower or investee, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of impairment allowances as at the end of the reporting period.</p> | <p>Our audit procedures to assess the impairment allowance for financial instruments measured at amortised cost included the following:</p> <ul style="list-style-type: none"> understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of financial instruments measured at amortised cost and the calculation of impairment allowance; involving our internal specialists in assessing the reliability of the expected credit loss model used by management in determining impairment allowances, including assessing the methodology and appropriateness of the key parameters and assumptions in the expected credit loss model. Key parameters and assumptions include probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments; assessing the accuracy of input data of key parameters used in the expected credit loss model by comparing the internal data on a sample basis with underlying documents for financial instruments measured at amortised cost and comparing external data on a sample basis with publicly available sources; for key parameters involving judgement, critically assessing input parameters by seeking evidence from independent sources and comparing it to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged the reasons for modifications, if any, to estimates and input parameters and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development; |

Independent Auditor's Report



KEY AUDIT MATTERS (CONTINUED)

| Impairment allowance of financial instruments measured at amortised cost (Continued) | |
|---|--|
| <i>Refer to notes 19, 22, 23 and 25 to the consolidated financial statements and note 2.15 of the accounting policies.</i> | |
| The Key Audit Matter | How the matter was addressed in our audit |
| <p>We identified impairment allowance of financial instruments measured at amortised cost as a key audit matter because of the inherent uncertainty and management judgement involved, and because of its significance to the financial results and capital of the Group.</p> | <ul style="list-style-type: none"> evaluating the validity of management's assessment on a sample basis on whether the credit risk of the financial instruments measured at amortised cost has, or has not, increased significantly since initial recognition and whether credit impairment has occurred. We evaluated the validity by checking on a sample basis on the overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching external market information about borrowers' businesses; evaluating the lifetime credit losses for financial instruments measured at amortised cost that are credit-impaired by evaluating the Group's assessment of forecasted cash flow and challenging the viability of the Group's recovery plan; recalculating the amount of impairment allowance for 12 month and lifetime credit losses using the expected credit loss model adopted by management based on the above parameters and assumptions for all financial instruments measured at amortised cost where the credit risk has not, or has, increased significantly since initial recognition, respectively and comparing to the Group's result; and evaluating whether the disclosures on impairment allowance meet the disclosure requirements in the prevailing accounting standards. |



INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the 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 our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Auditor's Report



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

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism 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.
- 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.



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

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 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 Fong Hoi Wan.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

25 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------|-------------------|-------------------|
| Fee and commission income | 5 | 234,242 | 244,191 |
| Interest income | | | |
| — Calculated using the effective interest method | 5 | 424,552 | 340,819 |
| — Calculated using other method | 5 | 242,406 | 270,102 |
| Net investment gain/(loss) | 5 | 203,415 | (75,680) |
| Total revenue | 5 | 1,104,615 | 779,432 |
| Other income/(loss) | 6 | 15,902 | (2,275) |
| Direct cost | | (165,747) | (160,196) |
| Staff cost | 9 | (255,215) | (214,850) |
| Depreciation and amortisation | 10 | (48,243) | (42,440) |
| Expected Credit Loss ("E.C.L.") provisions | | (372,627) | (184,800) |
| Finance cost | | | |
| — Interest on borrowings | 8 | (105,713) | (107,520) |
| — Interest on lease liabilities | 8 | (4,111) | (4,611) |
| Other operating expenses | 11 | (53,662) | (56,883) |
| Share of result of an associate | | (206) | (212) |
| Share of results of joint ventures | | (1,873) | (2,036) |
| Profit before tax | 10 | 113,120 | 3,609 |
| Tax (expense)/credit | 12 | (9,870) | 1,738 |
| Net profit attributable to equity holders of the Company | | 103,250 | 5,347 |
| Earnings per share for net profit attributable to equity holders of the Company | | HK cent(s) | HK cent(s) |
| — Basic and diluted | 13 | 1.680 | 0.087 |
| Dividend per share | 14 | 0.5 | Nil |

The notes on pages 103 to 206 form part of these financial statements. Details of dividends payable to equity holders of the Company attributable to the profit for the year are set out in note 14.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Net profit attributable to equity holders of the Company | 103,250 | 5,347 |
| Other comprehensive income including reclassification adjustments | | |
| Item that may be reclassified subsequently to profit or loss | | |
| — Exchange gain/(loss) on translation of financial statements of foreign operations | 2,436 | (858) |
| Item that will not be reclassified subsequently to profit or loss | | |
| — Changes in fair value of financial assets measured at fair value through other comprehensive income (note 19(b)) | 1,977 | (170) |
| Other comprehensive income including reclassification adjustments and net of tax | 4,413 | (1,028) |
| Total comprehensive income attributable to equity holders of the Company | 107,663 | 4,319 |

The notes on pages 103 to 206 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020

| | Notes | As at 31 December 2020 | | | As at 31 December 2019 | | |
|--|-------|------------------------|-------------------------|-------------------|------------------------|-------------------------|-------------------|
| | | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 |
| ASSETS | | | | | | | |
| Cash and cash equivalents | 16 | 214,461 | — | 214,461 | 182,449 | — | 182,449 |
| Bank balances held on behalf of clients | 17 | 1,448,532 | — | 1,448,532 | 1,253,410 | — | 1,253,410 |
| Financial assets held for trading and market making activities | 18 | 1,956,168 | 113,039 | 2,069,207 | 1,630,972 | 188,022 | 1,818,994 |
| Financial assets not held for trading and market making activities | 19 | 117,494 | 8,050 | 125,544 | 152,059 | 6,073 | 158,132 |
| Derivative financial instruments | 20 | 94,899 | — | 94,899 | 17,119 | — | 17,119 |
| Loans to margin clients | 21 | 1,371,861 | — | 1,371,861 | 1,977,795 | — | 1,977,795 |
| Advances to customers for merger and acquisition activities | 22 | 189,448 | — | 189,448 | 54,813 | 166,588 | 221,401 |
| Other loans | 23 | 3,190,070 | 148,830 | 3,338,900 | 3,204,578 | 62,513 | 3,267,091 |
| Reverse repurchase agreements | 24 | 163,849 | — | 163,849 | — | — | — |
| Accounts receivable | 25 | 545,225 | — | 545,225 | 498,162 | — | 498,162 |
| Prepayments, deposits and other receivables | | 118,614 | — | 118,614 | 59,975 | — | 59,975 |
| Interest in an associate | 26 | — | 1,904 | 1,904 | — | 2,110 | 2,110 |
| Interests in joint ventures | 27 | — | 39,118 | 39,118 | — | 38,615 | 38,615 |
| Goodwill and other intangible assets | 28 | — | 17,782 | 17,782 | — | 19,558 | 19,558 |
| Other assets | 29 | — | 24,068 | 24,068 | — | 23,275 | 23,275 |
| Investment property | 30 | — | 9,600 | 9,600 | — | 11,700 | 11,700 |
| Property and equipment | 30 | — | 99,120 | 99,120 | — | 110,468 | 110,468 |
| Deferred tax assets | 36 | — | 64,790 | 64,790 | — | 65,790 | 65,790 |
| TOTAL ASSETS | | 9,410,621 | 526,301 | 9,936,922 | 9,031,332 | 694,712 | 9,726,044 |

| | Notes | As at 31 December 2020 | | | As at 31 December 2019 | | |
|---|-------|------------------------|-------------------------|-------------------|------------------------|-------------------------|-------------------|
| | | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 |
| LIABILITIES AND EQUITY | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | 31 | 1,954,531 | — | 1,954,531 | 1,664,961 | — | 1,664,961 |
| Obligations under repurchase agreements | 32 | 1,965 | — | 1,965 | — | — | — |
| Bank and other borrowings | 33 | 1,872,838 | — | 1,872,838 | 2,037,029 | — | 2,037,029 |
| Contract liabilities | 34 | 5,864 | — | 5,864 | 4,988 | — | 4,988 |
| Lease liabilities | 35 | 35,196 | 44,814 | 80,010 | 31,626 | 58,642 | 90,268 |
| Accruals and other payables | | 110,094 | — | 110,094 | 86,629 | — | 86,629 |
| Tax payables | | 20,403 | — | 20,403 | 58,615 | — | 58,615 |
| TOTAL LIABILITIES | | 4,000,891 | 44,814 | 4,045,705 | 3,883,848 | 58,642 | 3,942,490 |
| Equity | | | | | | | |
| Share capital | 37 | | | 20,657 | | | 20,657 |
| Reserves | | | | 5,870,560 | | | 5,762,897 |
| TOTAL EQUITY | | | | 5,891,217 | | | 5,783,554 |
| TOTAL LIABILITIES AND EQUITY | | | | 9,936,922 | | | 9,726,044 |
| <i>Net current assets</i> | | | | 5,409,730 | | | 5,147,484 |

Approved and authorised for issue by the Board on 25 March 2021.

On behalf of the Board

HAN Xiaosheng
Director

Kenneth LAM Kin Hing
Director

The notes on pages 103 to 206 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 113,120 | 3,609 |
| Adjustments for: | | | |
| Amortisation of other intangible assets | 10 | 1,823 | 2,446 |
| Changes in net assets value attributable to other holders of consolidated investment funds | 6 | 1,386 | 6,282 |
| Depreciation of property and equipment | 10 | 46,420 | 39,994 |
| Dividend income | 5 | (18,702) | (9,081) |
| Finance cost | 8 | 109,824 | 112,131 |
| Loss/(gain) on revaluation of investment property | 6 | 2,100 | (500) |
| Net charge of E.C.L. provisions | | 372,627 | 184,800 |
| Interest income | 5 | (666,958) | (610,921) |
| Net losses on disposals of property and equipment | 10 | 60 | 53 |
| Net realised loss on financial assets measured at amortised cost | 5 | 394 | 268 |
| Net realised and unrealised (gain)/loss on financial assets measured at fair value through profit or loss | 5 | (185,107) | 84,493 |
| Share of result of an associate | | 206 | 212 |
| Share of results of joint ventures | | 1,873 | 2,036 |
| Write-back of other payables | 6 | — | (1,400) |
| Operating loss before working capital changes | | (220,934) | (185,578) |
| Increase in other assets | | (273) | (2,661) |
| (Increase)/decrease in accounts receivable, prepayments, deposits and other receivables | | (113,611) | 53,598 |
| Decrease in loans to margin clients | | 564,500 | 816,381 |
| (Increase)/decrease in financial assets held for trading and market making activities | | (84,986) | 105,197 |
| Decrease in financial assets not held for trading and market making activities | | 30,422 | 130,519 |
| (Increase)/decrease in derivative financial instruments | | (15,517) | 1,629 |
| Decrease/(increase) in advances to customers for merger and acquisition activities | | 55,000 | (221,001) |
| Increase in other loans | | (369,583) | (694,524) |
| Increase in reverse repurchase agreements | | (164,277) | — |
| (Increase)/decrease in bank balances held on behalf of clients | | (195,122) | 67,961 |
| Increase/(decrease) in accounts payable, contract liabilities and accruals and other payables | | 324,728 | (199,187) |
| Cash used in operations | | (189,653) | (127,666) |
| Dividend received | | 18,702 | 9,081 |
| Interest received | | 580,195 | 487,903 |
| Income tax paid, net | | (47,082) | (2,045) |
| <i>Net cash generated from operating activities</i> | | 362,162 | 367,273 |

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|---|-------|------------------|------------------|
| Cash flows from investing activities | | | |
| Proceeds from sale of financial assets at fair value through other comprehensive income | 19(b) | — | 78 |
| Purchases of other intangible assets | | (47) | (1,628) |
| Purchases of property and equipment | | (10,356) | (11,491) |
| <i>Net cash used in investing activities</i> | | (10,403) | (13,041) |
| Cash flows from financing activities | | | |
| Capital element of lease rentals paid | 16(b) | (35,216) | (29,998) |
| Interest element of lease rentals paid | 16(b) | (4,111) | (4,611) |
| Interest paid for obligations under repurchase agreements | 16(b) | (10) | (149) |
| Interest paid for bank and other borrowings | 16(b) | (104,796) | (113,015) |
| Net repayments of bank and other borrowings | | (165,089) | (316,022) |
| Payments on redemption of shares by other holders of a consolidated investment fund | 16(b) | (12,203) | (14,107) |
| Proceeds from shares issued to other holders of consolidated investment funds | 16(b) | — | 784 |
| Net proceeds from/(repayment of) obligations under repurchase agreements | 16(b) | 1,956 | (34,779) |
| Purchase of shares held under the Share Award Scheme | | — | (17,379) |
| <i>Net cash used in financing activities</i> | | (319,469) | (529,276) |
| Net increase/(decrease) in cash and cash equivalents | | 32,290 | (175,044) |
| Cash and cash equivalents at the beginning of the year | | 182,449 | 357,300 |
| Effect of foreign exchange rate changes, on cash held | | (278) | 193 |
| Cash and cash equivalents at the end of the year | | 214,461 | 182,449 |

The notes on pages 103 to 206 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

| | Attributable to equity holders of the Company | | | | | | | | | | |
|--|---|----------------------------|---|----------------------------------|-------------------------------|---|---|---|---|-------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium* HK\$'000 | Capital redemption reserve* HK\$'000 | Contributed surplus* HK\$'000 | Exchange reserve* HK\$'000 | Investment revaluation reserve* HK\$'000 | Property revaluation reserve* HK\$'000 | Shareholder's contribution* HK\$'000 | Shares held for Share Award Scheme* HK\$'000 | Retained profits* HK\$'000 | Total HK\$'000 |
| At 1 January 2019 | 20,657 | 5,117,070 | 1,019 | 352,580 | (1,971) | (17,850) | 5,255 | 1,811 | (5,419) | 323,462 | 5,796,614 |
| Share purchased for Share Award Scheme | — | — | — | — | — | — | — | — | (17,379) | — | (17,379) |
| Transactions with equity holders | — | — | — | — | — | — | — | — | (17,379) | — | (17,379) |
| Net profit for the year | — | — | — | — | — | — | — | — | — | 5,347 | 5,347 |
| Other comprehensive income | — | — | — | — | — | — | — | — | — | — | — |
| — Exchange loss on translation of financial statements of foreign operations | — | — | — | — | (858) | — | — | — | — | — | (858) |
| — Changes in fair value of financial assets measured at fair value through other comprehensive income | — | — | — | — | — | (170) | — | — | — | — | (170) |
| Total comprehensive income for the year | — | — | — | — | (858) | (170) | — | — | — | 5,347 | 4,319 |
| Transfer from share premium to contributed surplus | — | (5,000,000) | — | 5,000,000 | — | — | — | — | — | — | — |
| Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings | — | — | — | — | — | (46) | — | — | — | 46 | — |
| At 31 December 2019 | 20,657 | 117,070 | 1,019 | 5,352,580 | (2,829) | (18,066) | 5,255 | 1,811 | (22,798) | 328,855 | 5,783,554 |
| At 1 January 2020 | 20,657 | 117,070 | 1,019 | 5,352,580 | (2,829) | (18,066) | 5,255 | 1,811 | (22,798) | 328,855 | 5,783,554 |
| Net profit for the year | — | — | — | — | — | — | — | — | — | 103,250 | 103,250 |
| Other comprehensive income | — | — | — | — | — | — | — | — | — | — | — |
| — Exchange gain on translation of financial statements of foreign operations | — | — | — | — | 2,436 | — | — | — | — | — | 2,436 |
| — Changes in fair value of financial assets measured at fair value through other comprehensive income | — | — | — | — | — | 1,977 | — | — | — | — | 1,977 |
| Total comprehensive income for the year | — | — | — | — | 2,436 | 1,977 | — | — | — | 103,250 | 107,663 |
| At 31 December 2020 | 20,657 | 117,070 | 1,019 | 5,352,580 | (393) | (16,089) | 5,255 | 1,811 | (22,798) | 432,105 | 5,891,217 |

* These reserve accounts comprise the reserves of HK\$5,870,560,000 (31 December 2019: HK\$5,762,897,000) in the consolidated statement of financial position as at 31 December 2020.

The notes on pages 103 to 206 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

China Tonghai International Financial Limited (the “Company”) is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and, its principal place of business is 18th and 19th Floors, China Building, 29 Queen’s Road Central, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). At 31 December 2020, the immediate holding company is Oceanwide Holdings International Financial Development Co., Ltd, a company incorporated in the British Virgin Islands (“BVI”). Its ultimate holding company is Tohigh Holdings Co., Ltd., a company incorporated in the People’s Republic of China (“PRC”) and its intermediate holding company is Oceanwide Holdings Co., Ltd., a joint stock company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange.

The Group is principally engaged in the following activities:

- corporate finance advisory and general advisory services
- fund management, discretionary portfolio management and portfolio management advisory services
- discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing, insurance broking and wealth management services
- money lending services
- financial media services
- investing and trading of various investment products

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 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 accounting period reflected in these financial statements.

2.2 Basis of preparation

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in an associate and joint ventures.

The measurement basis used in the preparation of the 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:

- investment property (see note 2.12);
- financial instruments classified as financial assets at fair value through profit or loss (see note 2.15);
- financial instruments classified as financial assets at fair value through other comprehensive income (see note 2.15); and
- derivative financial instruments (see note 2.15).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (Continued)

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 financial statements and major sources of estimation uncertainty are discussed in note 4.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company transactions, balances and cash flows between group companies together with any unrealised profits arising from inter-company transaction are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

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, liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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 the aggregate of the fair value of the consideration received and the fair value of any retained interest; and the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. 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. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting of a financial asset, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Subsidiaries

Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights relating to the investee (held by the Group and others) are considered. For a right to be substantive, the Group must have the practical ability to exercise that right. Control is reassessed when facts and circumstances indicate that there are changes to one or more of the elements of control.

When the Group has a less than majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including (a) the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; (b) potential voting rights held by the Group, other vote holders or other parties; (c) rights arising from other contractual arrangements; and (d) any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities often have restricted activities and a narrow and well defined objective.

In the Company's statement of financial position, investment in subsidiaries are carried at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post- acquisition profits are recognised in the Company's profit or loss.

2.5 Associates and joint ventures

An associate is an entity over which the Group or the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the Group or the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is an arrangement of which the Group and other parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Associates and joint ventures (Continued)

In the consolidated financial statements, the investments in associates or joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the post-acquisition change in the Group's share of net assets and any impairment losses relating to the investments. The Group's share of the post-acquisition, post-tax results of the investees, including any impairment losses on the investments in associates or joint ventures for the period, are recognised in profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income are recognised in other comprehensive income of the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are recognised only to the extent of unrelated investors' interests in the associates or joint ventures. The investor's share in the associate's or joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the associate or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in profit or loss.

Where the associate or joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to conform the associate's or joint venture's accounting policies to those of the Group when the associate's or joint venture's financial statements are used by the Group in applying the equity method.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and this amount is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the interest in the associate or joint venture is included in the determination of gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

In the Company's statement of financial position, investments in associates and joint ventures are carried at cost less impairment losses, if any. The results of associates and joint ventures are accounted for by the Company on the basis of dividends received and receivable during the period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation

The financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. All value are rounded to the nearest thousand except where otherwise indicated.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of and from the reporting date translation of monetary assets and liabilities are recognised in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the foreign exchange rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the foreign exchange rate at the date of the transaction.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group’s presentation currency, have been converted into HK\$. Assets and liabilities have been translated into HK\$ at the closing rate at the reporting date. Income and expenses have been converted into HK\$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in exchange reserve in equity.

On disposal of a foreign operation involving loss of control over a subsidiary, joint control over a joint venture or significant influence over an associate that includes a foreign operation, the cumulative exchange differences relating to that foreign operation accumulated in exchange reserve are reclassified from equity to profit or loss as part of the gain or loss on disposal. If the Group disposes part of its interest in a subsidiary but retains control then the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding value added tax or other sales tax and those amounts collected on behalf of third parties.

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 accrued 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.

Further details of the Group's revenue and other income recognition policies are as follows:

- (a) for financial advisory, financial media service, handling and custodian service fee income, depending on the nature of the services and the contract terms, advisory fees are recognised progressively over time using output method based on milestones achieved that depicts the Group's performance, or at a point in time when the advisory service is completed;
- (b) for asset management fee income, it is recognised on a time-proportion basis with reference to the net asset value of the investment funds and portfolios under management;
- (c) for performance fee income, it is recognised on the performance fee valuation day of the managed accounts when there is a positive performance for the relevant period, taking into consideration the relevant calculation basis of the investments funds and portfolios under management;
- (d) for commission income from brokerage business, it is recognised on a trade date basis when the relevant transactions are executed;
- (e) for interest income from financial assets measured at amortised cost, it is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost 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 impairment allowance) of the asset;
- (f) for interest income from financial assets measured at fair value through profit or loss, it is recognised as it accrues using the effective interest method;
- (g) for placing and underwriting commission income, they are recognised at a point in time when the obligation is completed;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Revenue and other income (Continued)

- (h) for dividend income, it is recognised when the shareholders' right to receive payment has been established from unlisted investments, and the share price of the listed investments goes ex-dividend; and
- (i) for realised gains and losses on financial assets measured at fair value through profit or loss, they are recognised on a trade date basis. For unrealised gains and losses on financial assets measured at fair value through profit or loss, they are recognised at the end of the reporting period on the changes in fair value. Fair value gain or loss does not include any dividend income and interest income from financial assets measured at fair value through profit or loss.

2.8 Finance cost

Finance cost incurred for the acquisition, construction or production of any qualifying asset during the period of time that is required to complete and prepare the asset for its intended use are capitalised as part of the cost of that asset. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other finance costs are expensed when incurred.

2.9 Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2.13).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets (other than goodwill)

Intangible assets acquired separately or in a business combination

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any impairment losses (see note 2.13).

Internally-developed intangible assets (Research and development expenditures)

Expenditures associated with research activities are expensed in profit or loss as they occur. Expenditures that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

- (a) demonstration of technical feasibility of the prospective product for internal use or sale;
- (b) there is intention to complete the intangible asset and use or sell it;
- (c) the Group's ability to use or sell the intangible asset is demonstrated;
- (d) the intangible asset will generate probable economic benefits through internal use or sale;
- (e) sufficient technical, financial and other resources are available for completion; and
- (f) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include staff costs incurred on development activities along with an appropriate portion of relevant overheads. The expenditure of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets and are recognised initially at cost. After initial recognition, they are carried at cost less accumulated amortisation and impairment losses (see note 2.13), if any. Development expenditures not satisfying the above criteria are expensed when incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets (other than goodwill) (Continued)

Amortisation of intangible assets

Amortisation of intangible assets with finite useful lives is provided on straight-line method over the estimated useful lives. The estimated useful lives of intangible assets are as follows:

| | |
|--|--------------------------|
| Development costs | 3–5 years |
| Film rights | Over the license periods |
| Mobile phone and computer applications | 5 years |
| Trading rights | 10 years |
| Corporate membership | Indefinite life |

Amortisation commence when the intangible assets are available for use. The asset's amortisation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets are not amortised where their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Property and equipment

Property and equipment, including right-of-use assets arising from leases of underlying property and equipment, are carried at cost less any accumulated depreciation and impairment losses (see note 2.13), if any.

Depreciation on property and equipment is provided to write off the cost less their estimated residual value over their estimated useful lives, using the straight-line method, as follows:

| | |
|-----------------------------------|---|
| Right-of-use assets | Over the lease terms |
| Leasehold improvements | 10 years or over the lease terms, whichever is shorter |
| Furniture, fixtures and equipment | 5 to 10 years |
| Motor vehicle | 5 years |

The assets' estimated residual value, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal of an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss on the date of retirement or disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss of the financial period in which they are incurred.

2.12 Investment property

Investment property is property held for capital appreciation. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gain and loss arising from changes in the fair value of investment property is included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property, calculated as the difference between the net disposal proceeds and the carrying amount of the property, is included in profit or loss in the period in which the property is derecognised.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of non-financial assets

Goodwill arising on acquisition of a subsidiary and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, and whenever there is any indication that they may be impaired. Property and equipment and interests in associates and joint ventures are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

Recoverable amount is the higher of fair value, reflecting market conditions 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 time value of money and the risk specific to the asset for which the future cash flow estimates have not been adjusted.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets or group of assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

An impairment loss is recognised as an expense immediately for the amount by which the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment loss recognised for CGU, to which goodwill has been allocated, is credited initially to the carrying amount of goodwill. Any remaining impairment loss is allocated pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, and value in use, if determinable.

An impairment loss recognised for goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased, there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. Reversal of impairment loss is recognised immediately in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily office equipment. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2.11 and 2.13), except for the right-of-use asset that meet the definition of investment property are carried at fair value in accordance with note 2.12.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Leases (Continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract (“lease modification”) that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the statement of financial position, the current portion of long-term lease liabilities is determined as the principal portion of contractual payments that are due to be settled within twelve months after the reporting period.

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

2.15 Financial assets

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets under a contract whose terms that require delivery of assets within the time frame established generally by regulation or convention in the marketplace concerned. Derecognition of financial assets occurs when, and only when, the contractual rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset to the extent of its continuing involvement.

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income; or fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and it is not designated as at fair value through profit or loss:

- (a) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading.

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. On derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is reclassified to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss. The capital distribution from financial assets measured at fair value through other comprehensive income, which represents recovery of part of the investment cost, is recognised in the investment revaluation reserve, which is not reclassified to profit or loss and is reclassified to retained profits represent a recovery of part of the cost of the investment.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Financial assets measured at fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial assets (see note 20). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss. If doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Interest income on debt instruments and dividend income on equity instruments at fair value through profit or loss is recognised in profit or loss. Fair value gain or loss does not include any dividend or interest earned on these financial assets.

Derivative financial instruments

Derivative financial instruments are recognised at fair value through profit or loss. At the end of each reporting period the fair value is remeasured. The change in fair value arising from the remeasurement is recognised immediately in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Credit losses and impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, bank balances held on behalf of clients, accounts receivable, other assets, deposits and other receivables, other loans, advances to customers for merger and acquisition activities, reverse repurchase agreements, unlisted debt securities measured at amortised cost).

Financial assets measured at fair value, including units in funds, equity and debt securities measured at fair value through profit or loss, equity securities designated at fair value through other comprehensive income (non-recycling) and derivative financial assets, are not subject to the E.C.L. assessment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Credit losses and impairment of financial assets (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. 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).

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

- fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof; and
- variable-rate financial assets: current effective interest rate.

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 E.C.L. model applies.

Impairment allowances for accounts receivable under HKFRS 15 are always measured at an amount equal to lifetime ECLs. For all other financial instruments, the Group recognises an impairment 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 impairment allowance is measured at an amount equal to lifetime ECLs.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument 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.

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 E.C.L. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Significant increases in credit risk (Continued)

Basis of calculation of interest income using effective interest rate method

Interest income from financial assets measured at amortised cost recognised in accordance with note 2.7 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 impairment 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. 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Income taxes

Income taxes comprise current tax and movement in deferred tax.

Current income tax assets and/or liabilities comprise those claims from or obligations to taxation authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow 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. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Current tax and changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity, respectively.

Current tax assets and current tax liabilities are presented in net if, and only if, (a) the Group has a legally enforceable right to set off the recognised amounts; and (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Income taxes (Continued)

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if, (a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for E.C.L. in accordance with the policy set out in note 2.15.

2.18 Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent that they are incremental costs directly attributable to the equity transaction.

2.19 Retirement benefit costs and short-term employee benefits

Retirement benefits

The Group participates in several staff retirement benefit schemes for employees in Hong Kong and Mainland China, comprising defined contribution retirement schemes and a Mandatory Provident Fund scheme ("MPF Scheme"). The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and the relevant group companies. The retirement benefit scheme expenses charged to profit or loss represent contributions payable by the Group to the schemes.

The subsidiaries operating in Mainland China are required to participate in the defined contribution retirement schemes for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement benefit schemes at a specified percentage of the employees' relevant income and there are no other further obligations to the Group.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Retirement benefit costs and short-term employee benefits (Continued)

Retirement benefits (Continued)

The Group contributes to the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance for all employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vested fully with the employees when contributed into the MPF Scheme.

Short-term employee benefits

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the reporting date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the reporting date for the expected future cost of such paid leave earned during the period by the employees and carried forward.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.20 Share-based payments

The Group operates a share award scheme for remuneration of its employees and/or consultants.

All services received in exchange for the grant of any awarded shares are measured at their fair value. These are indirectly determined by reference to the fair value of awarded shares granted. Their value is appraised at the grant date and excludes the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets).

All services received are ultimately recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the awarded shares granted vest immediately unless the expense qualifies for recognition as asset, with a corresponding increase in "Awarded share reserve" within equity. If service or non-market performance conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of awarded shares expected to vest. Non-market performance and service conditions are included in assumptions about the number of share options and awarded shares that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of awarded shares expected to vest differs from previous estimates. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to awarded share reserve.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (Continued)

The shares awarded under the share award scheme are acquired from open market. The net consideration paid, including any directly attributable incremental costs, is presented as “Shares held for Share Award Scheme” and deducted from total equity. When the awarded shares are transferred to the awardees upon vesting, the related weighted average cost of the awarded shares vested are credited to “Shares held for Share Award Scheme”, the related service costs of awarded shares vested are debited to the “Awarded share reserve”, and any difference will be transferred to retained profits. Where the shares held for Share Award Schemes are revoked and the revoked shares are disposed of, the related gain or loss is transferred to retained profits.

2.21 Financial liabilities

The Group’s financial liabilities include obligations under repurchase agreements, bank and other borrowings, trade and other payables and notes payable. Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group’s accounting policy for financing costs (see note 2.8 to the financial statements).

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss. A financial liability is classified as fair value through profit or loss if it is classified as held for trading or designated as such on initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

A financial liability is derecognised when, and only when, the obligation under the financial liability is discharged or cancelled, or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amount is recognised in profit or loss.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Financial liabilities (Continued)

Obligations under repurchase agreements

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 “Obligations under repurchase agreements” in the consolidated statement of financial position. Obligations under repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. Obligations under repurchase agreements are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost, any difference between the initial amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

Accounts payable and other payables

Accounts payable and other payables include accounts payable, accruals and other payables. They are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which cases they are stated at cost.

2.22 Warrants

The net proceeds received from the issue of warrants are recognised in warrants reserve within equity. Net proceeds received for warrants issued with notes are determined based on their relative fair value at the issue date. When the warrants are exercised, the amount recognised in warrants reserve will be transferred to share capital and share premium accounts. For warrants that are not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to retained profits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to be required to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the present obligation is disclosed as a contingent liability, unless the possibility of outflow of economic benefits is remote. Possible obligations that arise from past events, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the possibility of an outflow of economic benefits is remote.

2.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines.

The Group has identified the following reportable segments:

- (a) the corporate finance segment engages in securities placing and underwriting services, corporate finance advisory and general advisory services;
- (b) the asset management segment engages in fund management, discretionary portfolio management and portfolio management advisory services;
- (c) the brokerage segment engages in discretionary and non-discretionary dealing services for securities, futures and options, margin financing, insurance broking and wealth management services;
- (d) the interest income segment engages in money lending services and interest income arising from debt instruments measured at amortised cost;
- (e) the investments segment engages in investing and trading of various investment products; and
- (f) the others segment represents financial media services and other insignificant operating segments.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Segment reporting (Continued)

Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches. No operating segments identified have been aggregated in arriving at the reportable segments of the Group.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- (a) share of results of joint ventures and associate accounted for using the equity method;
- (b) revaluation on investment property;
- (c) income tax expense; and
- (d) corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segments. Inter-segment revenue are charged on the expenses incurred by the relevant subsidiaries plus certain percentages.

Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision maker.

2.25 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 of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of the Group's parent.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Related parties (Continued)

- (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.
 - (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 Group's parent.

Close family members 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.

2.26 Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2.7). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.15).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2.7).

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3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following amendments to HKFRSs issued by HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*
- Amendments to HKFRS 16, *COVID-19-Related Rent Concessions*

None of these developments have had a material effect on the Group's results and financial position for the current or prior accounting periods. Other than the amendment to HKFRS 16, the Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions in applying the Group's accounting policies

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

(i) Provision for impairment loss of financial assets measured at amortised cost

In determining E.C.L. for financial assets measured at amortised cost, the most significant judgements relate to defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. A high degree of uncertainty is involved in making estimations using assumptions that are highly subjective and very sensitive to the risk factors. Management reviews the provision on a regular basis.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions in applying the Group's accounting policies (Continued)

(ii) Impairment loss of non-financial assets

At each reporting date, goodwill are tested for impairment. The Group also reviews internal and external sources of information to identify indications that any of the property and equipment, other intangible assets (including development costs), interests in joint ventures and associates may be impaired or an impairment loss previously recognised no longer exists or may have decreased. The sources utilised to identify indications of impairment are often subjective in nature and the directors of the Group are required to use judgement in applying such information to its business. Their interpretation of such information has a direct impact on whether an impairment assessment is performed as at any given reporting date.

Determining whether an asset or a CGU is impaired requires an estimation of their recoverable amount. Depending on the assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable amount, the Group may perform such assessment utilising internal resources or may engage external advisers in making this assessment. Regardless of the resources utilised, the Group is required to make assumptions in this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable amount of these assets.

(iii) Fair value of financial assets in unlisted debt and equity instruments and fund investments

The investments in unlisted debt and equity instruments and fund investments that are accounted for as "financial assets measured at fair value through other comprehensive income" and "financial assets measured at fair value through profit or loss" are stated at fair value. The fair value of these financial assets is determined by using valuation techniques. Specific valuation techniques used to value these financial assets included value as reported by the fund administrators or other techniques, such as discounted cash flow analysis. The assumptions and discount rates used to prepare the cash flow analysis involve significant estimates and judgements and hence the fair value of these financial assets is subject to uncertainty. As at 31 December 2020, the carrying amount of the Group's investments in unlisted debt and equity instruments and fund investments was approximately HK\$699,754,000 (31 December 2019: HK\$761,515,000), HK\$435,772,000 (31 December 2019: HK\$239,566,000) and HK\$204,106,000 (31 December 2019: HK\$216,122,000), respectively.

Notes to the Consolidated Financial Statements

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions in applying the Group's accounting policies (Continued)

(iv) Fair value of investment property

Investment property is carried in the consolidated statement of financial position at their fair value of HK\$9,600,000 (31 December 2019: HK\$11,700,000) as at 31 December 2020. The fair value was based on a valuation conducted by an independent firm of professional valuers, who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued, using direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property. Favourable or unfavourable changes to these adjustments would result in changes in the fair value of the Group's investment property and corresponding adjustments to the amount of gain or loss reported in the consolidated profit or loss.

(b) Critical judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, the directors are required to make judgements, apart from those involving estimates. The judgements that have been made and can significantly affect the amounts recognised in the financial statements are discussed below:

Determination of control over an investment fund

The Group invested in certain investment funds with primary objectives for capital appreciation, investment income and selling in the near future for profit. Pursuant to subscription agreement or equivalent documents, the beneficial interests in these investment funds held by the Group are in the form of participating shares or interests which primarily provide the Group with the share of returns from the investment funds.

These investment funds are managed by respective investment manager who has the power and authority to manage the investment funds and make investment decisions. Among those investment funds held by the Group where the Group acted as an investment manager, the Group regularly assesses and determines whether:

- the Group is acting as an agent or a principal to these investment funds;
- substantive removal rights held by other parties may remove the Group from acting as an investment manager; and
- the investment held together with its remuneration from managing these investment funds create significant exposure to variability of returns in these investment funds.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Critical judgement in applying the Group's accounting policies (Continued)

Determination of control over an investment fund (Continued)

When the Group assesses that the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that indicates the Group is a principal, the Group had consolidated these investment funds. The Group classifies the financial instrument as financial liability and equity in accordance with the substance of the contractual terms. With redeemability, the fund holders have the right to put their attributable shares back to the fund for cash. Puttable financial instrument is a financial liability. Third-party interests in consolidated investment funds are thus categorised as financial liability and included in "Accruals and other payables". Changes in net assets attributable to other holders of consolidated investment fund are included in "Other income/(loss)" in the consolidated statement of profit or loss and other comprehensive income. The carrying amount included in "Accruals and other payables" as at 31 December 2020 is HK\$33,251,000 (31 December 2019: HK\$43,236,000).

When the variable returns of these investment funds to the Group are not significant or the Group is subject to substantive removal rights held by other parties who may remove the Group as an investment manager, the Group did not consolidate these investment funds and classified them as "Financial assets measured at fair value through profit or loss" in accordance with the Group's accounting policies. Further details in respect of those investment funds in which the Group had an interest are disclosed in note 18 to these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Hong Kong dollars unless otherwise indicated)

5 REVENUE

(a) Revenue analysis

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Corporate finance business | | |
| <i>Fee and commission income:</i> | | |
| — Placing and underwriting commission income | 7,775 | 26,551 |
| — Financial and compliance advisory services fee income | 6,631 | 18,347 |
| | 14,406 | 44,898 |
| Asset management business | | |
| <i>Fee and commission income:</i> | | |
| — Management fee income | 15,268 | 18,223 |
| — Performance fee income | 26,412 | 4,940 |
| | 41,680 | 23,163 |
| Brokerage business | | |
| <i>Fee and commission income:</i> | | |
| — Commission on dealings in securities | | |
| — Hong Kong securities | 67,410 | 59,201 |
| — Other than Hong Kong securities | 7,221 | 5,481 |
| — Commission on dealings in futures and options contracts | 73,528 | 77,459 |
| — Handling, custodian and other service fee income | 21,887 | 24,313 |
| | 170,046 | 166,454 |
| Interest income business | | |
| <i>Interest income calculated using the effective interest method:</i> | | |
| — Interest income from other loans | 368,079 | 304,662 |
| — Interest income from cash clients receivables | 1,709 | 2,216 |
| — Interest income from trust bank deposits | 11,521 | 13,527 |
| — Interest income from initial public offering loans | 2,970 | 530 |
| — Interest income from house money bank deposits and others | 40,273 | 19,884 |
| <i>Interest income calculated using other method:</i> | | |
| — Interest income from loans to margin clients | 159,152 | 192,881 |
| — Interest income from bonds measured at fair value through profit or loss and others | 83,254 | 77,221 |
| | 666,958 | 610,921 |
| Investments and others business | | |
| <i>Fee and commission income:</i> | | |
| — Financial media service fee income | 8,110 | 9,676 |
| <i>Net investment gain/(loss):</i> | | |
| — Net realised loss on financial assets measured at amortised cost | (394) | (268) |
| — Net realised and unrealised gain/(loss) on financial assets measured at fair value through profit or loss | 185,107 | (84,493) |
| — Dividend income from financial assets measured at fair value through profit or loss | 18,702 | 9,081 |
| | 211,525 | (66,004) |
| Total revenue | 1,104,615 | 779,432 |

5 REVENUE (CONTINUED)

(b) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its contracts with customers and did not disclose information about the remaining performance obligations under the contracts that had an original expected duration of one year or less.

6 OTHER INCOME/(LOSS)

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Changes in net asset value attributable to other holders of consolidated investment funds (note 16(b)) | (1,386) | (6,282) |
| Exchange gains, net | 4,660 | 585 |
| (Loss)/gain on revaluation of investment property (note 30) | (2,100) | 500 |
| Government subsidies (note (i)) | 12,985 | — |
| Write-back of other payables | — | 1,400 |
| Sundry income | 1,743 | 1,522 |
| | 15,902 | (2,275) |

Note:

- (i) In 2020, the Group successfully applied for funding support from the Employment Support Scheme (E.S.S.) under the Anti-epidemic Fund, set up by the Hong Kong SAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the E.S.S., the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

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7 SEGMENT INFORMATION

The executive directors have identified the Group's six service lines as operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

| | Corporate finance HK\$'000 | Asset management HK\$'000 | Brokerage HK\$'000 | Interest income HK\$'000 | Investments HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|--|----------------------------------|---------------------------------|-----------------------|--------------------------------|-------------------------|--------------------|-------------------|
| 2020 | | | | | | | |
| Reportable segment revenue | | | | | | | |
| Fee and commission income | 14,406 | 41,680 | 170,046 | — | — | 8,110 | 234,242 |
| Interest income | — | — | 216,428 | 368,087 | 82,443 | — | 666,958 |
| Net investment gain/(loss) | — | — | (41,434) | — | 244,849 | — | 203,415 |
| Segment revenue from external customers | 14,406 | 41,680 | 345,040 | 368,087 | 327,292 | 8,110 | 1,104,615 |
| Inter-segment revenue | 1,430 | 3,588 | 10 | — | — | 1,186 | 6,214 |
| Reportable segment revenue | 15,836 | 45,268 | 345,050 | 368,087 | 327,292 | 9,296 | 1,110,829 |
| Fee and commission income by timing of revenue recognition: | | | | | | | |
| Point in time | 7,775 | 26,412 | 170,046 | — | — | 2,069 | 206,302 |
| Over time | 6,631 | 15,268 | — | — | — | 6,041 | 27,940 |
| Fee and commission income | 14,406 | 41,680 | 170,046 | — | — | 8,110 | 234,242 |
| Reportable segment result | (13,420) | 10,083 | (15,460) | (90,595) | 235,738 | (2,965) | 123,381 |
| Depreciation and amortisation | 193 | 813 | 38,040 | — | 8,654 | 543 | 48,243 |
| Changes in net assets value attributable to other holders of consolidated investment funds | — | — | — | — | (1,386) | — | (1,386) |
| Finance cost | — | 50 | 27,857 | 60,676 | 21,241 | — | 109,824 |
| E.C.L. provisions | 1,263 | 394 | 4,418 | 366,476 | — | 76 | 372,627 |

7 SEGMENT INFORMATION (CONTINUED)

| | Corporate finance HK\$'000 | Asset management HK\$'000 | Brokerage HK\$'000 | Interest income HK\$'000 | Investments HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|--|----------------------------------|---------------------------------|-----------------------|--------------------------------|-------------------------|--------------------|-------------------|
| 2019 | | | | | | | |
| Reportable segment revenue | | | | | | | |
| Fee and commission income | 44,898 | 23,163 | 166,454 | — | — | 9,676 | 244,191 |
| Interest income | — | — | 230,223 | 304,707 | 75,991 | — | 610,921 |
| Net investment loss | — | — | (16,544) | — | (59,136) | — | (75,680) |
| Segment revenue from external customers | | | | | | | |
| Inter-segment revenue | 44,898 | 23,163 | 380,133 | 304,707 | 16,855 | 9,676 | 779,432 |
| | 1,130 | 3,286 | — | — | — | 1,331 | 5,747 |
| Reportable segment revenue | 46,028 | 26,449 | 380,133 | 304,707 | 16,855 | 11,007 | 785,179 |
| Fee and commission income by timing of revenue recognition: | | | | | | | |
| Point in time | 27,052 | 4,940 | 166,454 | — | — | 2,668 | 201,114 |
| Over time | 17,846 | 18,223 | — | — | — | 7,008 | 43,077 |
| Fee and commission income | 44,898 | 23,163 | 166,454 | — | — | 9,676 | 244,191 |
| Reportable segment result | 698 | (329) | 9,531 | 50,903 | (49,162) | (130) | 11,511 |
| Depreciation and amortisation | 201 | 298 | 39,433 | — | 1,771 | 737 | 42,440 |
| Changes in net assets value attributable to other holders of consolidated investment funds | — | — | — | — | (6,282) | — | (6,282) |
| Finance cost | — | 19 | 35,627 | 52,017 | 24,468 | — | 112,131 |
| E.C.L. provisions/(reversal of E.C.L. provisions) | 938 | — | 3,074 | 180,805 | — | (17) | 184,800 |

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7 SEGMENT INFORMATION (CONTINUED)

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the consolidated financial statements as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Reportable segment revenue | 1,110,829 | 785,179 |
| Elimination of inter-segment revenue | (6,214) | (5,747) |
| Consolidated revenue | 1,104,615 | 779,432 |
| Reportable segment result | 123,381 | 11,511 |
| (Loss)/gain on revaluation of investment property | (2,100) | 500 |
| Share of result of an associate | (206) | (212) |
| Share of results of joint ventures | (1,873) | (2,036) |
| Unallocated corporate expenses | (6,082) | (6,154) |
| Consolidated profit before tax | 113,120 | 3,609 |

Geographical information

The Group's operations are substantially located in Hong Kong and substantiating all non-current assets of the Group are located in Hong Kong. Therefore, no detailed analysis of geographical information is required.

The Group's customers include the following with whom transactions have exceeded 10% of the Groups' revenue:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-------------|------------------|------------------|
| Customer A* | 145,623 | 109,379 |

* Revenue from this customer, a connected party to our Company, is attributable to interest income segment.

8 FINANCE COST

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Interest on bank borrowings | 67,028 | 95,319 |
| Interest on private notes | 38,666 | 12,174 |
| Interest on obligations under repurchase agreements | 19 | 27 |
| Interest on lease liabilities | 4,111 | 4,611 |
| | 109,824 | 112,131 |

9 STAFF COST

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Directors' emoluments (note 15) | | |
| — Fees, salaries, allowances and benefits in kind | 9,747 | 10,006 |
| — Discretionary bonuses | 5,625 | 1,577 |
| — Retirement benefits scheme contributions | 15 | 18 |
| | 15,387 | 11,601 |
| Other staff cost | | |
| — Salaries, allowances and bonuses | 229,001 | 183,444 |
| — Employee sales commission | 5,810 | 14,259 |
| — Retirement benefits scheme contributions | 4,519 | 4,657 |
| — Other staff benefits | 498 | 889 |
| | 239,828 | 203,249 |
| | 255,215 | 214,850 |

10 PROFIT BEFORE TAX

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------|------------------|------------------|
| Profit before tax is arrived at after charging: | | | |
| Depreciation and amortisation | | | |
| — Other intangible assets | 28 | 1,823 | 2,446 |
| — Property and equipment | 30 | 46,420 | 39,994 |
| | | 48,243 | 42,440 |
| Other items | | | |
| — Net losses on disposals of property and equipment | | 60 | 53 |
| — Expenses relating to short-term leases and other leases with remaining lease term ending within 12 months (note 16(c)) | | 442 | 671 |
| — Direct operating expenses related to investment property | | 24 | 27 |

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11 OTHER OPERATING EXPENSES

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Advertising and promotion expenses | 7,490 | 10,703 |
| Auditors' remuneration | 3,923 | 3,174 |
| Bank charges | 2,179 | 1,676 |
| Entertainments | 1,079 | 1,442 |
| General office expenses | 5,236 | 4,887 |
| Insurance | 3,166 | 2,342 |
| Legal and professional fee | 13,147 | 12,937 |
| Short-term leases, rates and building management fee | 7,946 | 7,247 |
| Repairs and maintenance | 3,268 | 4,081 |
| Staff recruitment cost | 1,304 | 2,196 |
| Travelling and transportation expenses | 1,388 | 4,209 |
| Others | 3,536 | 1,989 |
| | 53,662 | 56,883 |

12 TAX EXPENSE/(CREDIT)

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Current tax — Hong Kong profits tax | | |
| — Current year | 29,085 | 42,310 |
| — Over provision in prior year | (20,215) | (4,173) |
| | 8,870 | 38,137 |
| Deferred tax (note 36) | 1,000 | (39,875) |
| Total tax expense/(credit) | 9,870 | (1,738) |

The provision for Hong Kong profits tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year ended 31 December 2020, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong profits tax for this subsidiary was calculated at the same basis in 2019.

12 TAX EXPENSE/(CREDIT) (CONTINUED)

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

Taxation for subsidiaries operating in other jurisdictions is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Profit before tax | 113,120 | 3,609 |
| Notional tax at Hong Kong profits tax rate of 8.25% on the first HK\$2 million profit | 165 | 165 |
| Notional tax at Hong Kong profits tax rate of 16.5% on remaining profit | 18,335 | 266 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (5) | 101 |
| Tax effect of non-deductible expenses | 5,178 | 5,046 |
| Tax effect of non-taxable income | (22,949) | (2,420) |
| Tax effect of unused tax losses not recognised as deferred tax assets | 9,484 | 1,225 |
| Tax effect of prior years' unrecognised tax losses utilised this year | (1,325) | (507) |
| Tax effect of prior years' unrecognised tax losses recognised as deferred tax assets | (57) | (789) |
| Tax effect of temporary differences | 21,259 | (652) |
| Over provision in prior year | (20,215) | (4,173) |
| Total tax expense/(credit) | 9,870 | (1,738) |

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13 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to equity holders of the Company is based on the followings:

Earnings

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| For purpose of basic and diluted earnings per share | 103,250 | 5,347 |

Weighted average number of ordinary shares in issue less shares held for Share Award Scheme

| | 2020 | 2019 |
|---|---------------|---------------|
| For purpose of basic and diluted earnings per share | 6,145,877,218 | 6,163,561,547 |

Earnings per share for net profit attributable to equity holders of the Company for the year

| | 2020 HK cents | 2019 HK cents |
|-------------------|------------------|------------------|
| Basic and diluted | 1.680 | 0.087 |

14 DIVIDENDS

Dividends payable to equity holders of the Company attributable to the year

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Final dividend proposed after the end of the reporting period of HK0.5 cent per ordinary share (2019: Nil) | 30,985 | — |

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

15 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows:

| | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Retirement benefits scheme contributions HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|-----------------------------------|--|-------------------|
| Year ended 31 December 2020 | | | | | |
| <i>Executive Directors</i> | | | | | |
| Mr. HAN Xiaosheng | — | — | — | — | — |
| Mr. FANG Zhou (note (i)) | 400 | — | — | — | 400 |
| Mr. ZHANG Xifang | — | — | — | — | — |
| Mr. LIU Hongwei | — | — | — | — | — |
| Mr. Kenneth LAM Kin Hing | — | 5,508 | 5,625 | — | 11,133 |
| Mr. ZHANG Bo (note (ii)) | — | 2,350 | — | 15 | 2,365 |
| Mr. FENG Henian (note (iii)) | — | — | — | — | — |
| <i>Non-executive Directors</i> | | | | | |
| Mr. LIU Bing | — | — | — | — | — |
| Mr. ZHAO Yingwei | — | — | — | — | — |
| Mr. ZHAO Xiaoxia | — | — | — | — | — |
| Mr. Bernard POULIOT (note (iv)) | 93 | 146 | — | — | 239 |
| <i>Independent Non-executive Directors</i> | | | | | |
| Mr. Roy LO Wa Kei | 250 | — | — | — | 250 |
| Mr. KONG Aiguo | 250 | — | — | — | 250 |
| Mr. LIU Jipeng | 250 | — | — | — | 250 |
| Mr. HE Xuehui | 250 | — | — | — | 250 |
| Mr. HUANG Yajun | 250 | — | — | — | 250 |
| | 1,743 | 8,004 | 5,625 | 15 | 15,387 |

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15 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

Directors' emoluments (Continued)

| | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Retirement benefits scheme contributions HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|-----------------------------------|--|-------------------|
| Year ended 31 December 2019 | | | | | |
| <i>Executive Directors</i> | | | | | |
| Mr. HAN Xiaosheng | — | — | — | — | — |
| Mr. ZHANG Xifang | — | — | — | — | — |
| Mr. LIU Hongwei | — | — | — | — | — |
| Mr. Kenneth LAM Kin Hing | — | 5,247 | 1,577 | — | 6,824 |
| Mr. ZHANG Bo (note (ii)) | — | 2,820 | — | 18 | 2,838 |
| Mr. FENG Henian (note (iii)) | — | — | — | — | — |
| <i>Non-executive Directors</i> | | | | | |
| Mr. LIU Bing | — | — | — | — | — |
| Mr. ZHAO Yingwei | — | — | — | — | — |
| Mr. ZHAO Xiaoxia | — | — | — | — | — |
| Mr. Bernard POULIOT (note (iv)) | 492 | — | — | — | 492 |
| <i>Independent Non-executive Directors</i> | | | | | |
| Mr. Roy LO Wa Kei | 294 | — | — | — | 294 |
| Mr. KONG Aiguo | 294 | — | — | — | 294 |
| Mr. LIU Jipeng | 271 | — | — | — | 271 |
| Mr. HE Xuehui | 294 | — | — | — | 294 |
| Mr. HUANG Yajun | 294 | — | — | — | 294 |
| | 1,939 | 8,067 | 1,577 | 18 | 11,601 |

Notes:

- (i) appointed as an executive director with effect from 16 October 2020.
- (ii) resigned as an executive director with effect from 23 November 2020.
- (iii) resigned as an executive director with effect from 16 December 2020.
- (iv) retired as a non-executive director with effect from 26 June 2020.

There was no arrangement under which a director waived or agreed to waive any emoluments in respect of the years ended 31 December 2020 and 2019. No emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

15 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

Emoluments of five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 included one (2019: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2019: four) individuals during the year ended 31 December 2020 are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Salaries and allowances | 14,201 | 14,099 |
| Discretionary bonuses | 12,685 | 4,246 |
| Retirement benefits scheme contributions | 72 | 72 |
| | 26,958 | 18,417 |

The emoluments of these remaining four (2019: four) highest paid individuals fell within the following bands:

| | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2020 | 2019 |
| HK\$3,500,001 — HK\$4,000,000 | — | 1 |
| HK\$4,000,001 — HK\$4,500,000 | — | 1 |
| HK\$4,500,001 — HK\$5,000,000 | 1 | 1 |
| HK\$5,000,001 — HK\$5,500,000 | 1 | — |
| HK\$5,500,001 — HK\$6,000,000 | — | 1 |
| HK\$7,500,001 — HK\$8,000,000 | 1 | — |
| HK\$9,000,001 — HK\$9,500,000 | 1 | — |
| | 4 | 4 |

During the years ended 31 December 2020 and 2019, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

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16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|----------------------------------|--|--|
| Demand deposits and cash on hand | 214,461 | 182,449 |

Notes:

- (a) Demand deposits earn interest at floating rates based on daily bank deposit rates.
- (b) Included in cash and cash equivalents of the Group is RMB of HK\$9,023,000 (31 December 2019: HK\$9,248,000) placed with banks in Mainland China. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks that are authorised to conduct foreign exchange business.
- (c) As at 31 December 2020, HK\$58,909,000 (31 December 2019: HK\$3,828,000) of cash and cash equivalents were placed with a bank in which the ultimate controlling shareholder of the Company is also a director of its parent company.

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

| | Third party interests in consolidated investment funds HK\$'000 Note 4(b) | Obligations under repurchase agreements HK\$'000 Note 32 | Bank and other borrowings HK\$'000 Note 33 | Lease liabilities HK\$'000 Note 35 | Total HK\$'000 |
|---|--|--|---|--|-------------------|
| At 1 January 2020 | 43,236 | — | 2,037,029 | 90,268 | 2,170,533 |
| Changes from financing cash flows | | | | | |
| — Interest paid for private notes | — | — | (26,301) | — | (26,301) |
| — Interest paid for bank borrowings | — | — | (78,495) | — | (78,495) |
| — Interest paid for obligations under repurchase agreements | — | (10) | — | — | (10) |
| — Payments on redemption of shares by other holders of consolidated investment funds | (12,203) | — | — | — | (12,203) |
| — Net proceeds from obligations under repurchase agreements | — | 1,956 | — | — | 1,956 |
| — Capital element of lease rentals paid | — | — | — | (35,216) | (35,216) |
| — Interest element of lease rentals paid | — | — | — | (4,111) | (4,111) |
| — Net proceeds from private notes | — | — | 147,000 | — | 147,000 |
| — Net repayment of bank borrowings | — | — | (312,089) | — | (312,089) |
| | (12,203) | 1,946 | (269,885) | (39,327) | (319,469) |
| Non-cash changes | | | | | |
| — Changes in net asset value attributable to other holders of consolidated investment funds (note 6) | 1,386 | — | — | — | 1,386 |
| — Increase in lease liabilities from entering into new leases during the year | — | — | — | 24,958 | 24,958 |
| — Interest on lease liabilities (note 8) | — | — | — | 4,111 | 4,111 |
| — Interest on obligations under repurchase agreements (note 8) | — | 19 | — | — | 19 |
| — Interest on private notes (note 8) | — | — | 38,666 | — | 38,666 |
| — Interest on bank borrowings (note 8) | — | — | 67,028 | — | 67,028 |
| — Exchange adjustment | 832 | — | — | — | 832 |
| | 2,218 | 19 | 105,694 | 29,069 | 137,000 |
| At 31 December 2020 | 33,251 | 1,965 | 1,872,838 | 80,010 | 1,988,064 |

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16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (Continued)

| | Third party interests in consolidated investment funds HK\$'000 Note 4(b) | Obligations under repurchase agreements HK\$'000 Note 32 | Bank and other borrowings HK\$'000 Note 33 | Lease liabilities HK\$'000 Note 35 | Total HK\$'000 |
|--|--|--|---|--|-------------------|
| At 31 December 2018 | 50,666 | 34,634 | 2,358,573 | — | 2,443,873 |
| Impact on initial application of HKFRS 16 | — | — | — | 109,066 | 109,066 |
| At 1 January 2019 | 50,666 | 34,634 | 2,358,573 | 109,066 | 2,552,939 |
| Changes from financing cash flows | | | | | |
| — Interest paid for private notes | — | — | (10,939) | — | (10,939) |
| — Interest paid for bank borrowings | — | — | (102,076) | — | (102,076) |
| — Interest paid for obligations under repurchase agreements | — | (149) | — | — | (149) |
| — Payments on redemption of shares by other holders of a consolidated investment fund | (14,107) | — | — | — | (14,107) |
| — Proceeds from shares issued to other holders of a consolidated investment fund | 784 | — | — | — | 784 |
| — Net repayment of obligations under repurchase agreements | — | (34,779) | — | — | (34,779) |
| — Capital element of lease rentals paid | — | — | — | (29,998) | (29,998) |
| — Interest element of lease rentals paid | — | — | — | (4,611) | (4,611) |
| — Repayment of private notes | — | — | (50,000) | — | (50,000) |
| — Net repayment of bank borrowings | — | — | (266,022) | — | (266,022) |
| | (13,323) | (34,928) | (429,037) | (34,609) | (511,897) |
| Non-cash changes | | | | | |
| — Changes in net asset value attributable to other holders of consolidated investment funds (note 6) | 6,282 | — | — | — | 6,282 |
| — Increase in lease liabilities from entering into new leases during the year | — | — | — | 11,200 | 11,200 |
| — Interest on lease liabilities (note 8) | — | — | — | 4,611 | 4,611 |
| — Interest on obligations under repurchase agreements (note 8) | — | 27 | — | — | 27 |
| — Interest on private notes (note 8) | — | — | 12,174 | — | 12,174 |
| — Interest on bank borrowings (note 8) | — | — | 95,319 | — | 95,319 |
| — Exchange adjustment | (389) | 267 | — | — | (122) |
| | 5,893 | 294 | 107,493 | 15,811 | 129,491 |
| At 31 December 2019 | 43,236 | — | 2,037,029 | 90,268 | 2,170,533 |

16 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within operating cash flows (note 10) | 442 | 671 |
| Within financing cash flows | 39,327 | 34,609 |
| | 39,769 | 35,280 |

17 BANK BALANCES HELD ON BEHALF OF CLIENTS

From the Group's ordinary business of securities, futures and options dealing, it receives and holds money deposited by clients in the course of conducting its regulated activities. These client's monies are maintained in one or more segregated bank accounts and bank time deposits. The Group has recognised the corresponding accounts payable to respective clients. As at 31 December 2020, HK\$120,030,000 (31 December 2019: HK\$201,825,000) of trust bank balances held on behalf of clients were placed with a bank in which the ultimate controlling shareholder of the Company is also a director of its parent company.

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18 FINANCIAL ASSETS HELD FOR TRADING AND MARKET MAKING ACTIVITIES

| | Notes | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|-------|--|--|
| Financial assets held for trading and market making activities measured at fair value through profit or loss | | | |
| Listed debt securities | | 11,358 | 15,530 |
| Listed equity securities | (a) | 726,267 | 592,334 |
| Unlisted debt securities | (b) | 699,754 | 761,515 |
| Unlisted equity securities | (c) | 427,722 | 233,493 |
| Unlisted mutual funds | (d) | 9,238 | 28,100 |
| Private equity funds | (e) | 194,868 | 188,022 |
| | | 2,069,207 | 1,818,994 |
| Analysis of the net amount into current and non-current portions: | | | |
| Current | | 1,956,168 | 1,630,972 |
| Non-current | | 113,039 | 188,022 |
| | | 2,069,207 | 1,818,994 |

Notes:

- (a) The Group invested around HK\$390,000,000 in the H shares of a Mainland broker firm listed in Hong Kong in June 2018. After several trading, the fair value of this investment was HK\$141,768,000 as at 31 December 2020 (2019: HK\$242,809,000). Details of the transaction were set out in the Company's announcement dated on 4 June 2018.
- (b) Unlisted debt securities of HK\$667,350,000 (2019: HK\$723,773,000) were issued by a fellow subsidiary.
- (c) The Group had entered into agreements for subscription of shares in two private entities in December 2017. Under the agreements, the Group subscribed 3,529,411 ordinary shares and 4,000,000 ordinary shares of the respective entities for a total consideration of approximately US\$60,000,000. Upon the completion of these shares subscriptions in January 2018, the Group's interests in each of these entities are less than 1% respectively. During the year ended 31 December 2019, one of the entities has been listed and re-classified as listed equity security. As at 31 December 2020, the fair value of the unlisted equity securities was HK\$403,177,000 (2019: HK\$233,493,000). The unlisted equity securities were pledged for a secured private notes issued by the Group as at 31 December 2019 (note 33(d)).

18 FINANCIAL ASSETS HELD FOR TRADING AND MARKET MAKING ACTIVITIES (CONTINUED)

Notes: (Continued)

- (d) Pursuant to the subscription agreement, the Group's interest in the above mutual fund is in the form of redeemable shares, which is puttable at the holder's option and entitles the Group to a proportionate stake in the fund's net assets. The mutual fund is managed by an investment manager who is empowered to manage its daily operations and apply various investment strategies to accomplish its investment objectives.

The Group served as an investment manager for the above mutual fund and generated management and performance fee income from managing assets on behalf of investors.

Total net asset value of the above mutual fund of which the Group is the investment manager as at 31 December 2020 was HK\$103,085,000 (2019: HK\$134,821,000). The Group's maximum exposure to loss from its interest in the mutual fund is limited to the carrying amount presented above. Change in fair value of the mutual fund is included in the consolidated statement of profit or loss in "Net realised and unrealised gain/(loss) on financial assets measured at fair value through profit or loss" within "Revenue" and the amount attributable to this mutual fund of which the Group is the investment manager represented a gain of HK\$801,000 (2019: a gain of HK\$1,025,000).

- (e) The Group had committed to invest US\$20 million in Oceanwide Pioneer Limited Partnership (the "Fund"), representing 25%* (2019: 25%*) of the aggregated capital committed by all partners in the Fund as at 31 December 2020. Following the acceptance of the subscription agreement by the general partner, the Group was admitted as a limited partner.

The Fund is a close-ended private equity fund structured as a Cayman Islands exempted limited partnership with an investment objective to achieve long-term capital appreciation through equity and equity-related investments in selected good-quality enterprises and projects as pioneers in the relevant industries. Under the subscription agreement, the limited partners do not have the power to participate in the financial and operating policy decisions of the Fund, whilst the general partner has the rights and power to administer the affairs of the Fund and include all powers statutory and otherwise, which may be possessed under the laws of Cayman Islands. Though the Group had served as an investment manager and generated management fee income from managing assets on behalf of investors, as the Group as an investment manager can be terminated without cause by the general partner, and the Group did not have any control or significant influence over the general partner, the Group did not consolidate or account for the Fund as an associate despite its equity interest of 25%* (2019: 25%*).

The Fund is controlled by the general partner, which is indirectly owned by the ultimate controlling shareholder of the Group.

Total net asset value of the above private equity fund of which the Group is the investment manager as at 31 December 2020 was HK\$452,844,000 (2019: HK\$746,486,000). The Group's maximum exposure to loss from its interest in the private equity fund is limited to the carrying amount presented above. As at 31 December 2020, the fair value of the Fund was HK\$113,039,000 (2019: HK\$188,022,000). Change in fair value of the private equity fund is included in the consolidated statement of profit or loss in "Net realised and unrealised gain/(loss) on financial assets measured at fair value through profit or loss" within "Revenue" and the amount attributable to the private equity fund of which the Group is the investment manager represented gain of HK\$63,815,000 (2019: loss of HK\$40,869,000).

* rounded to the nearest one percent

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19 FINANCIAL ASSETS NOT HELD FOR TRADING AND MARKET MAKING ACTIVITIES

| | Notes | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|----------|--|--|
| Financial assets measured at amortised cost | | | |
| Unlisted debt securities | (a), (d) | 127,805 | 258,102 |
| Less: E.C.L. provisions | (c) | (10,311) | (106,043) |
| | | 117,494 | 152,059 |
| Financial assets measured at fair value through other comprehensive income | | | |
| Unlisted equity securities | (b) | 8,050 | 6,073 |
| | | 125,544 | 158,132 |
| Analysis of the net amount into current and non-current portions: | | | |
| Current | | 117,494 | 152,059 |
| Non-current | | 8,050 | 6,073 |
| | | 125,544 | 158,132 |

Notes:

- (a) Unlisted debt securities of HK\$99,178,000 (2019: HK\$98,720,000) were issued by a fellow subsidiary and carry interest at 11.5% (2019: 10%) per annum and due in June 2021.

19 FINANCIAL ASSETS NOT HELD FOR TRADING AND MARKET MAKING ACTIVITIES (CONTINUED)

Notes: (Continued)

(b) Movement of unlisted equity securities is as follows:

| | McMillen Advantage Capital Limited ("MAC") (note (i)) HK\$'000 | Capital Financial Holding Ltd. ("CFH") HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---|---|--|----------------------------|---------------------------|
| At 1 January 2019 | 1,681 | 4,640 | — | 6,321 |
| Fair value changes recognised in other comprehensive income | (168) | (80) | 78 | (170) |
| Disposal | — | — | (78) | (78) |
| At 31 December 2019 and 1 January 2020 | 1,513 | 4,560 | — | 6,073 |
| Fair value changes recognised in other comprehensive income | (147) | 2,124 | — | 1,977 |
| At 31 December 2020 | 1,366 | 6,684 | — | 8,050 |

Notes:

- (i) MAC is a limited liability company incorporated in Hong Kong, which is controlled by a director of a subsidiary of the Company. The Group had not accounted for MAC as an associate despite its ownership interest because the Group does not have any power to participate in its financial and operating policy decisions nor any right to appoint a director of MAC.
- (ii) The above financial assets are unlisted equity securities which are not held for trading. Instead, they are held for medium or long-term strategic purpose. The Group has designated these investments in equity securities as at fair value through other comprehensive income as the directors believe that this provides a more meaningful presentation for medium or long-term strategic investments, than reflecting changes in fair value immediately in profit or loss.

(c) Movement in the E.C.L. provisions of financial assets measured at amortised cost is as follows:

| | HK\$'000 |
|--|-----------------|
| At 1 January 2019 | 78,408 |
| E.C.L. provisions recognised | 27,635 |
| At 31 December 2019 and 1 January 2020 | 106,043 |
| E.C.L. provisions recognised | 4,253 |
| Written-off | (99,985) |
| At 31 December 2020 | 10,311 |

(d) During the year ended 31 December 2020, HK\$394,000 (2019: HK\$268,000) was recognised as realised loss arising from disposal of financial assets measured at amortised cost.

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20 DERIVATIVE FINANCIAL INSTRUMENTS

| | Note | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|------|--|--|
| Financial assets measured at fair value through profit or loss | | | |
| Total return swap | (a) | 31,739 | 17,119 |
| Unlisted option | | 63,160 | — |
| | | 94,899 | 17,119 |

Note:

(a) Total return swap of HK\$31,739,000 (2019: HK\$17,119,000) was entered into with a fellow subsidiary in June 2019.

21 LOANS TO MARGIN CLIENTS

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|--|--|
| Loans to margin clients | | |
| — Measured at fair value through profit or loss | 1,371,861 | 1,977,795 |

Note:

Margin clients are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a comprehensive analysis including but not limited to loan-to-market and loan-to-marginable value ratios ("lending ratios"), concentration risk, illiquid collaterals and overall availability of funds. The Group exercises continuous monitoring on outstanding margin loans to see if the actual lending ratios have exceeded the pre-determined levels as a credit risk control mechanism. Any excess in the lending ratios will trigger a margin call where the clients have to make good the shortfall. As at 31 December 2020, the market value of securities pledged by margin clients to the Group as collateral was HK\$8,701,907,000 (31 December 2019: HK\$10,668,974,000) and the Group is permitted to sell collaterals provided by clients if they fail to fulfil margin calls. Loans to margin clients are repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

22 ADVANCES TO CUSTOMERS FOR MERGER AND ACQUISITION ACTIVITIES

| | Note | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|------|--|--|
| Financial assets measured at amortised cost | | 202,177 | 227,529 |
| Less: E.C.L. provisions | (a) | (12,729) | (6,128) |
| | | 189,448 | 221,401 |
| Analysis of the net amount into current and non-current portions: | | | |
| Current | | 189,448 | 54,813 |
| Non-current | | — | 166,588 |
| | | 189,448 | 221,401 |

Note:

- (a) Movement in the E.C.L. provisions of financial assets measured at amortised cost is as follows:

| | HK\$'000 |
|--|---------------|
| At 1 January 2019 | — |
| E.C.L. provisions recognised | 6,128 |
| At 31 December 2019 and 1 January 2020 | 6,128 |
| E.C.L. provisions recognised | 6,601 |
| At 31 December 2020 | 12,729 |

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23 OTHER LOANS

| | Notes | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|----------|--|--|
| Other loans | | | |
| — Unsecured | (a) | 3,295,230 | 2,748,743 |
| — Secured | (a), (b) | 562,285 | 684,147 |
| | | 3,857,515 | 3,432,890 |
| Less: E.C.L. provisions | (c) | (518,615) | (165,799) |
| | | 3,338,900 | 3,267,091 |
| Analysis of the net amount into current and non-current portions: | | | |
| Current | | 3,190,070 | 3,204,578 |
| Non-current | | 148,830 | 62,513 |
| | | 3,338,900 | 3,267,091 |

Notes:

- (a) The loans bear interest at fixed rates ranging from 6.5% to 15.0% (31 December 2019: 5.5% to 20.0%) per annum. HK\$1,890,260,000 (31 December 2019: HK\$1,542,771,000) of the carrying amounts of the loans are from fellow subsidiaries of our ultimate beneficiary shareholder. As at 31 December 2020, HK\$Nil (31 December 2019: HK\$100,000,000) of the carrying amounts of the loan is from a company in which the ultimate controlling shareholder of the Company has shareholding less than 10%.
- (b) As at 31 December 2020 and 2019, the collaterals held by the Group for the secured loans mainly include shares of listed companies, shares and assets of private companies.
- (c) Movement in the E.C.L. provisions of other loans is as follows:

| | HK\$'000 |
|--|----------------|
| At 1 January 2019 | 17,751 |
| E.C.L. provisions recognised | 148,048 |
| At 31 December 2019 and 1 January 2020 | 165,799 |
| E.C.L. provisions recognised | 354,169 |
| Written-off | (1,353) |
| At 31 December 2020 | 518,615 |

24 REVERSE REPURCHASE AGREEMENTS

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|------------------------------|--|--|
| Analysed by collateral type: | | |
| — Bonds | 164,762 | — |
| Less: E.C.L. provisions | (913) | — |
| | 163,849 | — |

Reverse repurchase agreements are transactions in which the external investors sell a security to the Group and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the consolidated financial statements but regarded as “collateral” because the external investors retain substantially all the risks and rewards of these securities.

As at 31 December 2020, the fair value of the collaterals was HK\$245,386,000 (31 December 2019: HK\$Nil).

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25 ACCOUNTS RECEIVABLE

| | Notes | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|----------|--|--|
| <i>Accounts receivable from dealings in securities, futures and options contracts</i> | | | |
| — Brokers and clearing houses | (a) | 513,742 | 475,517 |
| — Cash clients | (a) | 15,580 | 10,003 |
| — Clients for subscription of securities | (a) | 7,515 | 1,094 |
| Less: E.C.L. provisions | (c) | (8,794) | (6,588) |
| | | 528,043 | 480,026 |
| <i>Accounts receivable from asset management, corporate finance and other businesses</i> | | | |
| — Clients | (a) | 27,120 | 26,108 |
| Less: E.C.L. provisions | (c) | (9,938) | (7,972) |
| | | 17,182 | 18,136 |
| Net accounts receivable | (b), (d) | 545,225 | 498,162 |

Notes:

- (a) Amounts due from brokers, clearing houses and cash clients for the dealings in securities are required to be settled on the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) and the amounts due from clients for subscription of securities are required to be settled upon the allotment of the securities subscribed. Amounts due from brokers and clearing houses for the dealings in futures and options contracts are repayable on demand (except for the required margin deposits for the trading of futures and options contracts). There are no credit periods granted to clients for its asset management, corporate finance and other businesses. The amounts due from cash clients after the settlement dates bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread) and the amounts due from clients for subscription of securities as at 31 December 2020 bear interest at a fixed rate of 4.5% (31 December 2019: 4.5%) per annum.
- (b) Included in accounts receivable is the following amounts with related parties:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|--|--|
| Director of the Company | 19 | — |
| Fellow subsidiaries | 370 | — |
| Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company | 250 | — |
| | 639 | — |

25 ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(c) Movement in the E.C.L. provisions of accounts receivable is as follows:

| | HK\$'000 |
|--|---------------|
| At 1 January 2019 | 11,576 |
| E.C.L. provisions recognised | 2,989 |
| Written-off | (5) |
| At 31 December 2019 and 1 January 2020 | 14,560 |
| E.C.L. provisions recognised | 4,193 |
| Written-off | (21) |
| At 31 December 2020 | 18,732 |

(d) Ageing analysis of accounts receivable based on due date and net of E.C.L. provisions is as follows:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|-------------------------|--|--|
| Current (not past due) | 10,426 | 4,276 |
| 1–30 days | 533,043 | 489,554 |
| 31–90 days | 951 | 3,230 |
| Over 90 days | 805 | 1,102 |
| Net accounts receivable | 545,225 | 498,162 |

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26 INTEREST IN AN ASSOCIATE

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---------------------|--|--|
| Share of net assets | 1,904 | 2,110 |

Particulars of an associate, which is accounted for using the equity method in the consolidated financial statements, as at 31 December 2020 are as follows:

| Name | Place of incorporation | Particulars of paid-up capital | Percentage of effective interest held by the Group* | Principal activity |
|-------------------------------------|------------------------|--------------------------------|---|-----------------------------------|
| Iddy Financial Technologies Limited | Hong Kong | 13,873 ordinary shares | 17%* | Provision of IT software services |

The following table illustrates the financial information of the Group's associate, extracted from their unaudited management accounts and reconciliation to the carrying amount recognised in the consolidated statement of financial position:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Revenue, excluding other revenue | 3,901 | 2,170 |
| Other revenue | 4 | 4 |
| Other operating expenses | (5,106) | (3,329) |
| Loss from continuing operations and total comprehensive income for the year | (1,201) | (1,155) |

* rounded to the nearest one percent

26 INTEREST IN AN ASSOCIATE (CONTINUED)

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|--|--|
| Current assets | 3,883 | 2,545 |
| Non-current assets | 354 | 329 |
| Current liabilities | (2,653) | (89) |
| Non-current liabilities | — | — |
| Net assets | 1,584 | 2,785 |
| Percentage of effective interests held by the Group* | 17% | 17% |
| Group's share of net assets of an associate | 273 | 479 |
| Goodwill | 1,631 | 1,631 |
| Carrying amount recognised in the consolidated statement of financial position | 1,904 | 2,110 |

No dividend was received from an associate during the current year and previous year. The above associate also did not have any financial liabilities other than account and other payables as at 31 December 2020 and 31 December 2019 and did not incur any interest and tax expenses for the current year.

* rounded to the nearest one percent

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27 INTERESTS IN JOINT VENTURES

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---------------------|--|--|
| Share of net assets | 39,118 | 38,615 |

Particulars of the joint ventures, which are accounted for using the equity method in the consolidated financial statements, as at 31 December 2020 are as follows:

| Name | Place of incorporation | Particulars of paid-up capital | Percentage of effective interests held by the Group* | Principal activity |
|--|------------------------|--------------------------------|--|--------------------------------|
| Suzhou Gaohua Venture Investment Management Ltd. ("SGVIM") | PRC | Renminbi ("RMB") 7,000,000 | 73%* | Financial advisory consultancy |
| Suzhou QUAM-SND Venture Capital Enterprise ("SQVCE") | PRC | RMB71,000,000 | 73%* | Financial advisory consultancy |

SGVIM and SQVCE were established by the Group with another investor in 2009 and 2010 respectively to expand the Group in RMB-dedicated private equity ventures. Both entities are unlisted corporate entity whose quoted market price is not available. These entities were classified as joint ventures of the Group because the Group does not have control over the significant financial and operating policies of the above entities despite its 73%* ownership interest, as unanimous consent with the minority equity holders is required for any major financial and operating decisions.

* rounded to the nearest one percent

27 INTERESTS IN JOINT VENTURES (CONTINUED)

The following table illustrates the financial information of the Group's joint ventures, extracted from their unaudited management accounts and reconciliation to the carrying amount recognised in the consolidated statement of financial position:

| | 2020 | | 2019 | |
|--|------------------------|-------------------|------------------------|-------------------|
| | SGVIM HK\$'000 | SQVCE HK\$'000 | SGVIM HK\$'000 | SQVCE HK\$'000 |
| Revenue, excluding interest income | 3 | — | 3 | — |
| Interest income | 1 | 15 | 1 | 7 |
| Other gains less losses | — | (2,547) | — | 856 |
| Other operating expenses | (40) | (2) | (49) | (3,612) |
| Loss from continuing operations and total comprehensive income for the year | (36) | (2,534) | (45) | (2,749) |
| | | | | |
| | As at 31 December 2020 | | As at 31 December 2019 | |
| | SGVIM HK\$'000 | SQVCE HK\$'000 | SGVIM HK\$'000 | SQVCE HK\$'000 |
| Cash and cash equivalents | 245 | 56,059 | 231 | 51,500 |
| Other current assets | — | 2,042 | — | 1,919 |
| Current assets | 245 | 58,101 | 231 | 53,419 |
| Non-current assets | 747 | — | 737 | — |
| Current liabilities | — | (5,405) | — | (1,390) |
| Non-current liabilities | — | — | — | — |
| Net assets | 992 | 52,696 | 968 | 52,029 |
| | | | | |
| Percentage of effective interests held by the Group* | 73% | 73% | 73% | 73% |
| | | | | |
| Carrying amount recognised in the consolidated statement of financial position | 724 | 38,394 | 707 | 37,908 |

No dividend was received from the joint ventures during the current and previous year. The above joint ventures also did not have any financial liabilities other than account and other payables, as at 31 December 2020 and 31 December 2019 and did not incur any interest and tax expense for the current period and previous year.

* rounded to the nearest one percent

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28 GOODWILL AND OTHER INTANGIBLE ASSETS

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|-------------------------|--|--|
| Goodwill | 14,695 | 14,695 |
| Other intangible assets | 3,087 | 4,863 |
| | 17,782 | 19,558 |

Goodwill

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---|--|--|
| At the beginning and the end of the year | | |
| Gross carrying amount | 14,738 | 14,738 |
| Accumulated impairment | (43) | (43) |
| Net carrying amount | 14,695 | 14,695 |

The net carrying amount of goodwill of HK\$14,695,000 (2019: HK\$14,695,000) relates to the CGU which is principally engaged in the dealing services for securities, futures and options contracts and the securities placing and underwriting services. For the purpose of the annual impairment testing, the recoverable amount was determined based on value-in-use, using a discounted cash flows projection, covering a detailed five-year budget plan with a discount rate of 8% (2019: 11%).

The key assumptions used in the budget plan are:

- (a) revenue will grow by 5% per annum up to financial year 2025; and
- (b) gross margin will be maintained at its current level throughout the five-year budget plan.

The Group management's key assumptions have been determined based on past performance and its expectations for the market's development. The discount rate used reflects specific risks relating to the relevant businesses. Based on the above key assumptions and detailed five-year budget plan, the Group's management concluded there was no impairment to goodwill as the carrying amount of the CGU did not exceed its recoverable amount.

The Group's management is currently not aware of any foreseeable change in the above key assumptions on which the recoverable amount is based would cause the carrying amount of the CGU to exceed its recoverable amount.

28 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Other intangible assets

| | Development costs HK\$'000 | Film rights HK\$'000 | Mobile phone and computer applications HK\$'000 | Corporate membership HK\$'000 | Trading rights HK\$'000 | Total HK\$'000 |
|-----------------------------|-------------------------------|-------------------------|--|----------------------------------|----------------------------|-------------------|
| At 1 January 2019 | | | | | | |
| Cost | 11,432 | 1,774 | 2,425 | 280 | 12,400 | 28,311 |
| Accumulated amortisation | (8,470) | (1,230) | (530) | — | (12,400) | (22,630) |
| Net carrying amount | 2,962 | 544 | 1,895 | 280 | — | 5,681 |
| Year ended 31 December 2019 | | | | | | |
| Opening net carrying amount | 2,962 | 544 | 1,895 | 280 | — | 5,681 |
| Additions | 1,435 | — | 193 | — | — | 1,628 |
| Amortisation | (1,409) | (541) | (496) | — | — | (2,446) |
| Closing net carrying amount | 2,988 | 3 | 1,592 | 280 | — | 4,863 |
| At 31 December 2019 | | | | | | |
| Cost | 12,867 | 1,774 | 2,618 | 280 | 12,400 | 29,939 |
| Accumulated amortisation | (9,879) | (1,771) | (1,026) | — | (12,400) | (25,076) |
| Net carrying amount | 2,988 | 3 | 1,592 | 280 | — | 4,863 |
| Year ended 31 December 2020 | | | | | | |
| Opening net carrying amount | 2,988 | 3 | 1,592 | 280 | — | 4,863 |
| Additions | — | — | 47 | — | — | 47 |
| Amortisation | (1,357) | (1) | (465) | — | — | (1,823) |
| Closing net carrying amount | 1,631 | 2 | 1,174 | 280 | — | 3,087 |
| At 31 December 2020 | | | | | | |
| Cost | 12,867 | 1,774 | 2,665 | 280 | 12,400 | 29,986 |
| Accumulated amortisation | (11,236) | (1,772) | (1,491) | — | (12,400) | (26,899) |
| Net carrying amount | 1,631 | 2 | 1,174 | 280 | — | 3,087 |

Development costs represent the in-house developed securities, futures and options settlement systems; and an online trading platform. Trading rights represent the eligibility rights acquired to trade on or through the Stock Exchange and Hong Kong Futures Exchange Limited. Mobile phone and computer applications represent the customer service platform purchased from independent application solution providers. All amortisation is included in "depreciation and amortisation" in the consolidated statement of profit or loss.

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29 OTHER ASSETS

Other assets mainly comprise long-term deposits for property and equipment, rental deposits and deposits with the Stock Exchange and clearing houses.

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|--|--|
| Deposits with exchange and clearing houses | 12,012 | 10,394 |
| Other deposits | 12,056 | 12,881 |
| | 24,068 | 23,275 |

30 PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

| | Property and equipment | | | | Subtotal HK\$'000 | Investment property HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|---|---------------------------|----------------------|------------------------------------|-------------------|
| | Right-of-use assets HK\$'000 (Note a) | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicle HK\$'000 | | | |
| At 1 January 2019 | | | | | | | |
| Cost | — | 18,624 | 42,009 | — | 60,633 | — | 60,633 |
| Valuation | — | — | — | — | — | 11,200 | 11,200 |
| Accumulated depreciation | — | (10,020) | (29,328) | — | (39,348) | — | (39,348) |
| Net carrying amount | — | 8,604 | 12,681 | — | 21,285 | 11,200 | 32,485 |
| For the year ended 31 December 2019 | | | | | | | |
| Opening net carrying amount | — | 8,604 | 12,681 | — | 21,285 | 11,200 | 32,485 |
| Impact on initial application of HKFRS 16 | 108,140 | — | — | — | 108,140 | — | 108,140 |
| Adjusted opening net carrying amount | 108,140 | 8,604 | 12,681 | — | 129,425 | 11,200 | 140,625 |
| Additions | 11,200 | 1,443 | 7,834 | 604 | 21,081 | — | 21,081 |
| Disposals | — | (29) | (24) | — | (53) | — | (53) |
| Depreciation | (31,963) | (2,831) | (5,089) | (111) | (39,994) | — | (39,994) |
| Fair value change | — | — | — | — | — | 500 | 500 |
| Translation differences | 16 | — | (7) | — | 9 | — | 9 |
| Closing net carrying amount | 87,393 | 7,187 | 15,395 | 493 | 110,468 | 11,700 | 122,168 |
| At 31 December 2019 | | | | | | | |
| Cost | 119,341 | 20,011 | 38,675 | 604 | 178,631 | — | 178,631 |
| Valuation | — | — | — | — | — | 11,700 | 11,700 |
| Accumulated depreciation | (31,948) | (12,824) | (23,280) | (111) | (68,163) | — | (68,163) |
| Net carrying amount | 87,393 | 7,187 | 15,395 | 493 | 110,468 | 11,700 | 122,168 |
| For the year ended 31 December 2020 | | | | | | | |
| Opening net carrying amount | 87,393 | 7,187 | 15,395 | 493 | 110,468 | 11,700 | 122,168 |
| Additions | 24,958 | 3,421 | 6,415 | — | 34,794 | — | 34,794 |
| Disposals | — | (41) | (19) | — | (60) | — | (60) |
| Depreciation | (37,305) | (3,288) | (5,706) | (121) | (46,420) | — | (46,420) |
| Fair value change | — | — | — | — | — | (2,100) | (2,100) |
| Translation differences | 217 | 19 | 102 | — | 338 | — | 338 |
| Closing net carrying amount | 75,263 | 7,298 | 16,187 | 372 | 99,120 | 9,600 | 108,720 |
| At 31 December 2020 | | | | | | | |
| Cost | 137,280 | 20,040 | 45,042 | 604 | 202,966 | — | 202,966 |
| Valuation | — | — | — | — | — | 9,600 | 9,600 |
| Accumulated depreciation | (62,017) | (12,742) | (28,855) | (232) | (103,846) | — | (103,846) |
| Net carrying amount | 75,263 | 7,298 | 16,187 | 372 | 99,120 | 9,600 | 108,720 |

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30 PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (CONTINUED)

Note:

- (a) During the year, additions to right-of-use assets were HK\$24,958,000 (2019: HK\$11,200,000). This amount primarily related to the capitalised lease payments payable under new tenancy agreements. Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 16 and 35, respectively.

The Group has obtained the right to use the properties as its offices through tenancy agreements. The leases typically run for an initial period of 1 to 3 years. Lease payments are usually increased every 3 years to reflect market rentals.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities.

As at 31 December 2020, the future lease payments during the extension periods are not included in the measurement of lease liabilities as the Group is not reasonably certain to exercise the extension options.

31 ACCOUNTS PAYABLE

| | Notes | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|----------|--|--|
| <i>Accounts payable from dealings in securities, futures and options contracts</i> | | | |
| — Brokers and clearing houses | (a) | 41,465 | 8,336 |
| — Cash and margin clients | (a) | 1,907,475 | 1,644,159 |
| <i>Accounts payable from other businesses</i> | | | |
| — Clients | | 5,591 | 12,466 |
| | (b), (c) | 1,954,531 | 1,664,961 |

Notes:

- (a) Accounts payable to brokers, clearing houses and cash clients are repayable on demand up to the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) except for the required margin deposits received from clients for their trading of futures and options contracts. Accounts payable to margin clients are repayable on demand.
- (b) No ageing analysis in respect of accounts payable is disclosed as, in the opinion of the Board, the ageing analysis does not give additional value in view of the business nature.

31 ACCOUNTS PAYABLE (CONTINUED)

Notes: (Continued)

(c) Included in accounts payable were the following amounts with related parties:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|--|--|
| Directors of the Company | 7,814 | 11,183 |
| Close family members of directors of the Company | 148 | 4,115 |
| Fellow subsidiaries | 1,632 | — |
| | 9,594 | 15,298 |

32 OBLIGATIONS UNDER REPURCHASE AGREEMENTS

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|------------------------------|--|--|
| Analysed by collateral type: | | |
| — Debt securities | 1,965 | — |

As at 31 December 2020, the Group sold securities under repurchase agreements at purchase prices of approximately US\$631,000 (31 December 2019: Nil) and the Group agreed to repurchase the securities on the scheduled repurchase dates for considerations equal to the respective purchase price and an amount representing the product of the relevant purchase price and a spread. As the Group retained substantially the risks and rewards of ownership of the transferred securities, these transactions were accounted for as financing arrangements to the Group with the transferred securities as collaterals. The Group recognised the consideration received on transfer as financial liabilities. The transferred securities are the collaterals under reverse repurchase agreements (see note 24). As at 31 December 2020, the fair value of the transferred securities was HK\$4,975,000 (31 December 2019: HK\$Nil).

In addition, the repurchase agreements contain clauses which give the buyers a right to require the Group to repurchase the transferred securities before the scheduled repurchase dates. Accordingly, the amounts are classified under current liabilities.

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33 BANK AND OTHER BORROWINGS

| | Notes | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---------------|----------|--|--|
| Bank loans | | | |
| — Secured | (a), (b) | 1,417,683 | 1,725,980 |
| — Unsecured | (c) | 85,091 | 100,350 |
| Private notes | | | |
| — Secured | (d) | — | 98,816 |
| — Unsecured | (e) | 370,064 | 111,883 |
| | | 1,872,838 | 2,037,029 |

Notes:

- (a) Bank loans of HK\$808,419,000 (31 December 2019: HK\$908,070,000) were guaranteed by the Company and secured by securities collateral pledged to the Group by margin clients and listed equity securities of the Group with market value of HK\$1,793,551,000 (31 December 2019: HK\$2,559,775,000) and HK\$302,215,000 (31 December 2019: HK\$242,809,000) respectively, and bear interest at floating rates ranging from 1.60% to 2.25% (31 December 2019: 3.90% to 6.75%) per annum. Specific written authorisations have been obtained by the Group from the margin clients for such use over the clients' securities.
- (b) Bank loans of HK\$609,264,000 (31 December 2019: HK\$817,910,000) were borrowed from a bank in which the ultimate controlling shareholder of the Company is also a director of its parent company, and were secured by corporate bonds, listed equity securities, private equity fund and bank deposits held by the Group with total carrying amounts of HK\$1,106,507,000 as at 31 December 2020 (31 December 2019: HK\$820,643,000), certain Company's listed shares held by the immediate controlling shareholder of the Company and certain fellow subsidiary's listed shares held by its immediate controlling shareholder. These bank loans were also guaranteed by the ultimate controlling shareholder and a wholly-owned subsidiary of the Company and bear interest at a floating rate of 4.08% (31 December 2019: 5.54%) per annum.
- (c) As at 31 December 2020, bank loans of HK\$85,091,000 (31 December 2019: HK\$100,350,000) were unsecured and unguaranteed. These bank loans bear interest at floating rates ranging from 2.23% to 2.76% (31 December 2019: 4.30% to 4.96%) per annum.
- (d) The notes of HK\$98,816,000 were issued in August 2019 and were secured by the unlisted equity security at carrying amounts of HK\$233,493,000 as at 31 December 2019. The notes bear interest at 8.00% per annum. The notes were fully repaid in February 2020.
- (e) The notes of HK\$370,064,000 (31 December 2019: HK\$111,883,000) bear interest at fixed rates ranging from 5.00% to 9.50% (31 December 2019: 5.30% to 9.50%) per annum.

34 CONTRACT LIABILITIES

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|----------------------|--|--|
| Contract liabilities | 5,864 | 4,988 |

Movements in contract liabilities

| | HK\$'000 |
|--|----------------|
| Balance at 1 January 2019 | 8,886 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (8,183) |
| Increase in contract liabilities as a result of advance consideration received from corporate finance contracts | 640 |
| Increase in contract liabilities as a result of advance consideration received from other contracts | 3,645 |
| Balance at 31 December 2019 and 1 January 2020 | 4,988 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (4,729) |
| Increase in contract liabilities as a result of advance consideration received from corporate finance contracts | 2,530 |
| Increase in contract liabilities as a result of advance consideration received from other contracts | 3,075 |
| Balance at 31 December 2020 | 5,864 |

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35 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|----------------------------------|--|--|
| Within 1 year | 35,196 | 31,626 |
| After 1 year but within 2 years | 32,403 | 26,005 |
| After 2 years but within 5 years | 12,411 | 32,637 |
| | 44,814 | 58,642 |
| | 80,010 | 90,268 |

36 DEFERRED TAX

(a) Deferred tax assets and (liabilities) recognised

| | Accelerated tax depreciation allowances HK\$'000 | Impairment of receivables HK\$'000 | Tax losses HK\$'000 | Changes in fair value of financial assets measured at fair value through profit or loss HK\$'000 | Total HK\$'000 |
|---|--|---|------------------------|--|-------------------|
| At 1 January 2019 | (1,685) | 5,404 | 8,130 | 14,066 | 25,915 |
| (Debited)/Credited to profit or loss (note 12) | (568) | 25,911 | 308 | 14,224 | 39,875 |
| At 31 December 2019 and 1 January 2020 | (2,253) | 31,315 | 8,438 | 28,290 | 65,790 |
| (Debited)/Credited to profit or loss (note 12) | 651 | 22,732 | (3,307) | (21,076) | (1,000) |
| At 31 December 2020 | (1,602) | 54,047 | 5,131 | 7,214 | 64,790 |

(b) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$113,622,000 (31 December 2019: HK\$55,999,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

36 DEFERRED TAX (CONTINUED)

(c) Deferred tax liabilities not recognised

As at 31 December 2020, temporary differences relating to the undistributed profits of subsidiaries amounted to HK\$237,000 (31 December 2019: HK\$183,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

37 SHARE CAPITAL

| | Number of ordinary shares of HK one third of one cent each | HK\$'000 |
|---|---|----------------|
| <i>Authorised</i> | | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 30,000,000,000 | 100,000 |
| <i>Issued and fully paid</i> | | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 6,197,049,220 | 20,657 |

All issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

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38 SHARE AWARD SCHEME

A restricted share award scheme (“Share Award Scheme”) was adopted by the Company on 19 August 2010. The purpose of the Share Award Scheme is to recognise and motivate the contribution of certain employees and/or consultants and to provide incentives and help the Group in retaining its existing employees or consultants and recruiting additional employees or consultants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

Pursuant to the rules of Share Award Scheme, the Board may, from time to time, at its absolute discretion select the employees and consultants as they deem appropriate for participation in the Share Award Scheme and determines the number of awarded shares to be granted. Existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected participants. The awarded shares of the Company will be vested only after satisfactory completion of time-based targets or time-and-performance-based targets.

The Share Award Scheme is subject to the administration of the Board in accordance with the rules of Share Award Scheme. The aggregate number of awarded shares granted by the Board throughout the duration of the Share Award Scheme should not in excess of 10% of the issued share capital of the Company as at the date of its adoption. The maximum number of awarded shares which may be granted to a selected participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the date of its adoption. Any grant of the awarded shares to any directors or senior management of the Company must first be approved by the remuneration committee of the Company.

Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years from the date of its adoption. However, the Board has the right to renew the Share Award Scheme up to three times and each time for another 5-year terms.

38 SHARE AWARD SCHEME (CONTINUED)

Movement in the number of shares held for Share Award Scheme and the awarded shares of the Company are as follows:

| | Number of shares held for Share Award Scheme | Number of awarded shares |
|---|--|--------------------------|
| At 1 January 2019 | 9,282,002 | — |
| Purchase | 41,890,000 | — |
| At 31 December 2019, 1 January 2020 and 31 December 2020 | 51,172,002 | — |

Pursuant to the Share Award Scheme, if there occurs an event of change in control of the Company, all the awarded shares shall immediately vest on the date when such change of control event becomes or is declared unconditional and such date shall be deemed the vesting date. Upon the change of the controlling shareholders as disclosed in the Company's announcement dated 26 January 2017, any unvested awarded shares at that date were vested.

As at 31 December 2020, Nil (31 December 2019: Nil) forfeited shares and Nil (31 December 2019: 41,890,000) newly purchased shares were held by the trustee under the Share Award Scheme and would be re-granted to eligible employees in future.

During the years ended 31 December 2020 and 2019, no share awards expense was recognised as no awarded shares were vested during the year.

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39 NATURE AND PURPOSE OF RESERVES

(a) Share premium and contributed surplus

Under the Bermuda Companies Act 1981, when the Company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to the share premium account.

During the year ended 31 December 2019, HK\$5,000,000,000 standing to the credit of the share premium account of the Company was transferred to the contributed surplus account of the Company pursuant to the special resolution passed on 24 May 2019.

The Group's contributed surplus as at 31 December 2020 comprises (a) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange thereof of HK\$2,225,000 (2019: HK\$2,225,000), and (b) amounts of HK\$5,350,355,000 (2019: HK\$5,350,355,000) transferred from share capital and share premium account less amounts distributed as dividends in prior years.

(b) Capital redemption reserve

The capital redemption reserve represents the nominal amount of the shares repurchased.

(c) Exchange reserve

The exchange reserve mainly comprises the foreign exchange differences arising from the translation of the financial statements of foreign operations, joint ventures and associates and the share of reserves of joint ventures and associates.

(d) Investment revaluation reserve (non-recycling)

The investment revaluation reserve (non-recycling) comprises the cumulative net change in the fair value of equity securities designated at fair value through other comprehensive income under HKFRS 9 held at the end of the reporting period (see note 2.15).

(e) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for property and equipment which becomes an investment property because its use has changed as evidenced by end of owner-occupation in note 2.11.

The property revaluation reserve of the Company is distributable to the extent of HK\$5,255,000 (31 December 2019: HK\$5,255,000).

(f) Shareholder's contribution

The shareholder's contribution represents contribution made by shareholders.

(g) Shares held for Share Award Scheme

The Shares held for Share Award Scheme have been set up and are dealt with in accordance with the accounting policies adopted for issue of share award respectively in note 2.20.

40 LOANS TO DIRECTORS

Loans to directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| Name/Relationship with directors | Notes | At 31 December 2020 HK\$'000 | Maximum outstanding during the year HK\$'000 | At 1 January 2020 HK\$'000 | Margin finance facilities approved HK\$'000 | Securities held |
|----------------------------------|----------|---------------------------------|---|-------------------------------|--|-----------------------|
| Mr. Kenneth LAM Kin Hing | (a) | — | 72,503 | — | 74,300 | Marketable securities |
| Mr. Bernard POULIOT | (a), (b) | — | 3,311 | 83 | 23,000 | Marketable securities |
| Mr. LIU Jipeng | (a) | 23,039 | 23,039 | 16,196 | 30,000 | Marketable securities |

| Name/Relationship with directors | Notes | At 31 December 2019 HK\$'000 | Maximum outstanding during the year HK\$'000 | At 1 January 2019 HK\$'000 | Margin finance facilities approved HK\$'000 | Securities held |
|----------------------------------|----------|---------------------------------|---|-------------------------------|--|-----------------------|
| Mr. Kenneth LAM Kin Hing | (a) | — | 26,321 | 26,013 | 40,000 | Marketable securities |
| Mr. Bernard POULIOT | (a), (b) | 83 | 17,541 | 14,493 | 23,000 | Marketable securities |
| Mr. LIU Jipeng | (a) | 16,196 | 23,730 | — | 25,000 | Marketable securities |

Notes:

- (a) The loans granted under margin finance facilities to three (2019: three) directors of the Company are secured by marketable securities collateral, bear interest at Hong Kong Dollar Prime Rate plus a spread and repayable on demand.
- (b) Mr. Bernard Pouliot retired as non-executive director of the Company with effect from 26 June 2020.
- (c) The margin loans are measured at fair value through profit or loss, no fair value loss has been made in respect of these loans during the years ended 31 December 2020 and 2019.

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41 COMMITMENTS

Capital commitments

At the reporting date, the Group had the following capital commitments which were contracted, but not provided for:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|--|--|
| Capital contributions payable to a private equity fund | 18 | 18 |
| Property and equipment | 300 | 3,572 |
| | 318 | 3,590 |

Loan commitment

At the reporting date, the Group had the following contractual amounts of loan commitment:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|------------------------------|--|--|
| Other loan commitment (Note) | 70,000 | 170,000 |

Note: As at 31 December 2020, the Group agreed to make available to the borrower credit loan facilities of a maximum amount up to HK\$70,000,000 for the purpose of partially financing its proposed privatisation. Details of the transaction were set out in the Company's circular date 25 January 2021 (31 December 2019: HK\$170,000,000 for the purpose of financing the payment for accepting a listed company's shares tendered under the mandatory unconditional cash offer).

42 RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties and connected persons during the current and previous years:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Part I. Continuing connected transactions with China Oceanwide Group, Oceanwide Holdings Group and Tohigh Group | | |
| (A) Service transactions (note (a), (d)) | | |
| Income from service transactions provided to: | | |
| China Oceanwide Group | | |
| — Interest income from financial assistance | 53,298 | — |
| Oceanwide Holdings Group | | |
| — Asset management fee income | 763 | 818 |
| — Commission fee income | — | 39 |
| — Interest income from financial assistance | 145,623 | — |
| — Performance fee income | 10,425 | 3,510 |
| Tohigh Group | | |
| — Arrangement fee income | — | 50 |
| — Asset management fee income | 7,638 | — |
| — Handling fee income | 60 | 66 |
| — Income from derivative financial instruments | 3,032 | 3,338 |
| — Interest income from financial assistance | 93,249 | — |
| — Interest income from margin financing | 2,900 | — |
| — Performance fee income | 2,878 | — |
| — Advisory fee income | 2 | — |
| | 319,868 | 7,821 |
| Expenses for service transactions provided by: | | |
| Oceanwide Holdings Group | | |
| — Advisory fee expense | 448 | 263 |
| — Rebate of asset management fee income | 496 | 413 |
| — Research fee expense | 900 | 1,120 |
| — Interest expense from financial assistance | 4,710 | — |
| Tohigh Group | | |
| — Advertising and marketing expenses | 900 | — |
| — Advisory fee expenses | 3,737 | — |
| — Consultancy fee expense | — | 313 |
| — Underwriting fee expense | — | 423 |
| | 11,191 | 2,532 |

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42 RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| (B) Investment and lending transactions (note (a)) | | |
| Maximum daily amount/outstanding balance from investment and lending transactions provided to: | | |
| China Oceanwide Group | | |
| — Financial assistance | 480,000 | 300,000 |
| Oceanwide Holdings Group | | |
| — Financial assistance | 1,289,547 | 1,163,941 |
| Tohigh Group | | |
| — Financial assistance | 998,241 | 883,741 |
| — Securities lending | — | 68,622 |
| | 2,767,788 | 2,416,304 |
| Maximum daily amount/outstanding balance from investment and lending transactions provided by: | | |
| Oceanwide Holdings Group | | |
| — Financial assistance | 50,000 | 50,000 |
| Tohigh Group | | |
| — Financial assistance | — | 30,000 |
| | 50,000 | 80,000 |

42 RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Part II. Continuing connected transactions from brokerage and interest income business | | |
| (A) Connected dealings services to connected persons (note (b), (d)) | | |
| Directors of the Company | | |
| — Commission income from securities and futures dealings | 216 | 187 |
| — Interest income from margin financing | 1,978 | 1,490 |
| Close family members of directors of the Company | | |
| — Commission income from securities and futures dealings | 34 | 22 |
| — Interest income from margin financing | 2 | 1 |
| Directors of subsidiaries and their close family members and company owned by a director of subsidiary | | |
| — Commission income from securities and futures dealings | 50 | 21 |
| — Interest income from margin financing | 177 | 183 |
| Fellow subsidiary | | |
| — Interest income from margin financing | 101 | — |
| | 2,558 | 1,904 |
| (B) Connected margin loans to connected persons (note (b)) | | |
| Connected persons | | |
| — Maximum daily outstanding balance of connected margin loans | 115,030 | 46,478 |
| Part III. Continuing connected transactions from asset management business (note (c), (d)) | | |
| Related company — Company indirectly owned by Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company | | |
| — Assets management fee income | — | 6,304 |
| Fellow subsidiary | | |
| — Advisory fee expenses | — | 976 |
| Related company — Subsidiary of China Oceanwide Holdings Group Company Limited, which Mr. LU Zhiqiang is the ultimate controlling shareholder | | |
| — Advisory fee expenses | — | 3,437 |

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42 RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Part IV. Other related party transactions | | |
| Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company | | |
| — Interest income (note (e)) | 1,739 | 2,133 |
| Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, had indirect significant influence | | |
| — Interest income (note (f)) | — | 588 |
| Fellow subsidiaries | | |
| — Asset management fee income | — | 3 |
| — Performance fee income | — | 699 |
| — Interest income (note (g)) | — | 206,693 |
| Related company owned by a director of a subsidiary of the Company | | |
| — Commission income | — | 189 |
| — Asset management fee income | — | 2,427 |
| Associate | | |
| — Interest income | — | 2 |
| Director of the Company | | |
| — Asset management fee income | 63 | — |
| | 1,802 | 212,734 |

42 RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company | | |
| — Interest expense (note (h)) | 40,862 | 56,443 |
| — Custodian fee | 236 | 369 |
| Fellow subsidiaries | | |
| — Interest expense (note (i)) | — | 4,072 |
| — Insurance expense | 1,958 | — |
| — Rental expenses | 18 | 18 |
| Director of the Company | | |
| — Motor vehicle expenses | 252 | 252 |
| Associate | | |
| — Consultancy fee | 1,200 | 400 |
| — Articles fee | 8 | — |
| | 44,534 | 61,554 |
| Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company | | |
| — Prepayments, deposits and other receivables | 1 | 255 |
| Fellow subsidiaries | | |
| — Prepayments, deposits and other receivables | 1,078 | — |

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42 RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

Notes:

- (a) The income and expense arising from connected transactions with China Oceanwide Group*, Oceanwide Holdings Group* and Tohigh Group* were charged based on the respective framework services agreement. Details of the annual caps of these income and expense and the maximum daily outstanding balances were set out in the Company's circulars dated 31 October 2017 and 24 September 2019. These transactions have been approved in the special general meeting held on 20 November 2017 and 11 October 2019.

* China Oceanwide Group includes China Oceanwide Holdings Limited and its subsidiaries. Oceanwide Holdings Group includes Oceanwide Holdings Co., Ltd and its subsidiaries, which excludes China Oceanwide Group and the Group. Tohigh Group includes Tohigh Holdings Co., Ltd and its subsidiaries, which excludes China Oceanwide Group, Oceanwide Holdings Group and the Group. The definitions of China Oceanwide Group, Oceanwide Holdings Group and Tohigh Group were set out in the Company's circulars dated 31 October 2017.

- (b) The income from connected transactions with directors of the Company and the subsidiaries and their close family members was based on the pricing stated in the letters stipulating the applicable service fees and interest rate for dealing services. Details of the annual caps of the connected dealings services and connected margin loans were set out in the Company's circulars dated 26 April 2016 and 20 February 2019. These transactions have been approved in the special general meeting held on 19 May 2016 and 8 March 2019.
- (c) The connected transactions from asset management business (including asset management fee income and advisory fee expenses) were based on the relevant management and advisory agreements. Details of the annual caps of the management fee income and advisory fee expenses were set out in the Company's announcement dated 20 September 2017 and 24 May 2019.
- (d) The transactions are also related party transactions under HKAS 24 (Revised) — Related Party Disclosures.
- (e) Interest income of HK\$1,739,000 (31 December 2019: HK\$2,133,000) received/receivable from a related company was in connection with demand and time deposits maintained with it during the year. The carrying amount of deposits with this entity as at 31 December 2020 amounted to HK\$58,909,000 (31 December 2019: HK\$3,828,000) and was included under "Cash and cash equivalents" (note 16). The deposits are unsecured, interest-bearing at relevant deposit rates and are repayable on demand.
- (f) Interest income of HK\$Nil (31 December 2019: HK\$588,000) receivable from a related company was in connection with the loan advanced to this entity during the period. The carrying amount of loan receivable from this entity as at 31 December 2020 amounted to HK\$Nil (31 December 2019: HK\$100,000,000) and was included under "Other loans" (note 23). The loan was secured, interest-bearing at 5.5% per annum.

42 RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

Notes: (Continued)

- (g) Interest income of HK\$122,864,000 for the year ended 31 December 2019 was charged based on the loan agreements and received/receivable from fellow subsidiaries. The loans are included in "Other loans" (note 23). The loans were unsecured, interest-bearing at 7.875% to 12% per annum and repayable in 2020 and 2022.

Interest income of HK\$82,896,000 for the year ended 31 December 2019 of unlisted senior notes and unsecured private notes was received/receivable from a fellow subsidiary. The unlisted senior notes and unsecured private notes are included in "Financial assets held for trading and market making activities" (note 18) and "Financial assets not held for trading and market making activities" (note 19) respectively. The unlisted senior notes and unsecured private note were unsecured, interest-bearing at 10.8% and 10% per annum respectively and repayable in 2020 and 2021.

Interest income of HK\$933,000 for the year ended 31 December 2019 was received/receivable from fellow subsidiaries. The loans are included in "Loans to margin clients" (note 21). Loans to margin clients were secured, repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

- (h) Interest expense of HK\$40,862,000 (31 December 2019: HK\$56,443,000) paid/payable to a related company was in connection with the loans granted by it during the year. The carrying amount of loans with this entity as at 31 December 2020 amounted to HK\$609,264,000 (31 December 2019: HK\$817,910,000) and was included under "Bank and other borrowings" (note 33).
- (i) Interest expense of HK\$4,072,000 for the year ended 31 December 2019 was charged based on loan agreement and paid/payable to fellow subsidiaries. The borrowing is included in "Bank and other borrowings" (note 33). The borrowing is unsecured, interest-bearing at 9.5% per annum and repayable in 2021.

Except as disclosed above, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, were entered into or subsisted at any time during financial year.

Compensation of key management personnel

Included in staff costs (note 9) are key management personnel compensation and comprises the following categories:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 37,038 | 20,695 |
| Post-employment benefits | 72 | 54 |
| | 37,110 | 20,749 |

Note: Key management personnel consists of the directors of the Company and senior management.

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43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debt and equity investments, other loans, accounts and other receivables, accounts and other payables, obligations under repurchase agreements and bank and other borrowings. 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 risk exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(a) Foreign currency risk

Foreign currency risk is the risk of losses due to adverse changes in foreign exchange rates mainly relating to receivables from or payables to clients and foreign brokers and foreign currency denominated investments as well as deposits with banks and borrowings from other financial institutions. To mitigate the foreign currency risk, treasury and settlement divisions work closely to manage and monitor the foreign exchange exposure arising from broking in foreign shares and commodities. The policies to manage foreign currency risk have been followed by the Group since prior periods and are considered to be effective.

The following table summarises the Group's major financial assets and liabilities denominated in currencies other than the functional currency of the entities to which they relate, as at 31 December 2020 and 31 December 2019.

| | Express in HK\$'000 | | | | | | | | |
|---|----------------------|--------------------------------------|----------------------------|---------------------------------|---------------------|-----------------------------|------------------|---------|-----------|
| | Thai Baht ("THB") | United States dollars ("US\$") | Japanese Yen ("JPY") | Singapore dollars ("SGD") | Renminbi ("RMB") | British Pound ("GBP") | Euros ("EUR") | Others | Total |
| At 31 December 2020 | | | | | | | | | |
| Financial assets not held for trading and market making activities | — | 94,066 | 6,684 | — | — | — | — | — | 100,750 |
| Other assets | — | — | — | — | 1,174 | — | — | — | 1,174 |
| Financial assets held for trading and market making activities | — | 1,674,353 | — | — | — | — | — | — | 1,674,353 |
| Reverse repurchase agreements | — | 163,849 | — | — | — | — | — | — | 163,849 |
| Accounts receivable | 229 | 228,088 | 3,837 | 54 | 9,593 | 6 | — | 2,098 | 243,905 |
| Prepayments, deposits and other receivables | — | 1,043 | — | — | 789 | — | — | — | 1,832 |
| Bank balances held on behalf of clients | 4,659 | 204,764 | 4,555 | 74 | 58,058 | 129 | 331 | 221 | 272,791 |
| Cash and cash equivalents | 832 | 114,272 | 111 | 582 | 12,536 | 618 | 3,493 | 1,369 | 133,813 |
| Accounts payable | (4,886) | (425,234) | (6,558) | (74) | (67,970) | (129) | (330) | (1,660) | (506,841) |
| Obligations under repurchase agreements | — | (1,965) | — | — | — | — | — | — | (1,965) |
| Accruals and other payables | — | (34,447) | — | (18) | (1,193) | — | (22) | — | (35,680) |
| Overall net exposure | 834 | 2,018,789 | 8,629 | 618 | 12,987 | 624 | 3,472 | 2,028 | 2,047,981 |

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

(a) Foreign currency risk (Continued)

| | Express in HK\$'000 | | | | | | | | Total |
|---|----------------------|--------------------------------------|----------------------------|---------------------------------|---------------------|-----------------------------|------------------|---------|-----------|
| | Thai Baht ("THB") | United States dollars ("US\$") | Japanese Yen ("JPY") | Singapore dollars ("SGD") | Renminbi ("RMB") | British Pound ("GBP") | Euros ("EUR") | Others | |
| At 31 December 2019 | | | | | | | | | |
| Financial assets not held for trading and | | | | | | | | | |
| market making activities | — | 104,204 | 4,560 | — | — | — | — | — | 108,764 |
| Other assets | — | — | — | — | 783 | — | — | — | 783 |
| Financial assets held for trading and | | | | | | | | | |
| market making activities | — | 1,489,334 | — | — | — | — | — | — | 1,489,334 |
| Accounts receivable | 2 | 137,701 | 7,273 | 30 | 5,910 | 527 | 1,396 | 1,215 | 154,054 |
| Prepayments, deposits and other | | | | | | | | | |
| receivables | — | 23,151 | — | — | 826 | — | — | 1,442 | 25,419 |
| Bank balances held on behalf of clients | 2,929 | 233,997 | 1,621 | 79 | 110,202 | 160 | 292 | 3,482 | 352,762 |
| Cash and cash equivalents | 410 | 44,834 | 997 | 268 | 18,267 | 1,008 | 847 | 2,001 | 68,632 |
| Accounts payable | (2,929) | (348,783) | (8,855) | (79) | (122,060) | (678) | (1,686) | (4,249) | (489,319) |
| Accruals and other payables | — | (1,859) | — | (9) | (1,399) | — | (1) | — | (3,268) |
| Overall net exposure | 412 | 1,682,579 | 5,596 | 289 | 12,529 | 1,017 | 848 | 3,891 | 1,707,161 |

The following table indicates the approximate changes in the Group's profit or loss for the year ended 31 December 2020 and equity in response to reasonably possible changes in foreign exchange rates to which the Group has significant exposure as at the reporting date. A positive number below indicates an increase in profit or a decrease in loss for the year ended 31 December 2020 (and an increase in equity). For a decrease in profit or an increase in loss for the year ended 31 December 2020 (and decrease in equity), the balances below would be negative. As US\$ is pegged to HK\$, the Group does not expect any significant changes in US\$/HK\$ exchange rates. No sensitivity analysis in respect of the Group's financial assets and liabilities denominated in US\$ is disclosed as in the opinion of the directors, such sensitivity analysis does not give additional value in view of insignificant change in the US\$/HK\$ exchange rates as at the reporting date.

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43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

(a) Foreign currency risk (Continued)

| | Increase in foreign exchange rates | | Effect on profit or loss | | Effect on equity | |
|-----|------------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | As at | As at | As at | As at | As at | As at |
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| | % | % | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THB | 5 | 5 | 42 | 21 | 42 | 21 |
| JPY | 5 | 5 | 97 | 52 | 431 | 280 |
| SGD | 5 | 5 | 31 | 14 | 31 | 14 |
| RMB | 5 | 5 | 649 | 626 | 649 | 626 |
| GBP | 5 | 5 | 31 | 51 | 31 | 51 |
| EUR | 5 | 5 | 174 | 42 | 174 | 42 |

Decrease in the above foreign exchange rates at each reporting date would have the equal but opposite effect to the amounts shown above, on the basis that all other variables were held constant.

The sensitivity analysis has been determined by assuming that the changes in foreign exchange rates had occurred at the reporting date and that all other variables were held constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(b) Price risk

The Group is exposed to equity price risk through its investments in listed debt and equity securities which are classified as financial assets measured at fair value through profit or loss. The directors manage this risk exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise if necessary. The policies to manage price risk have been followed by the Group since prior periods and are considered to be effective. The Group is not exposed to commodity price risk.

As at 31 December 2020, if debt and equity prices had increased/(decreased) by 10% (31 December 2019: 10%) and all other variables were held constant, profit for the year would increase/(decrease) by approximately HK\$73,762,000 (2019: HK\$60,786,000) and the equity other than retained profits would remain unchanged (31 December 2019: unchanged).

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

(b) Price risk (Continued)

The sensitivity analysis has been determined by assuming that the price change had occurred at the reporting date and has been applied to the Group's investments at that date. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(c) Interest rate risk

The Group is exposed to interest rate risk primarily through the impact of interest rate changes on cash and cash equivalents, bank balances held on behalf of clients, margin loans and cash client receivables and bank and other borrowings carrying interests at variable rates.

The following table illustrates the sensitivity of the profit/(loss) for the year to a change in interest rates of +1% and -1% (31 December 2019: +1% and -1%). The calculations are based on the Group's bank balances, loans to margin clients and accounts receivable and bank and other borrowings held at each reporting date. All other variables are held constant. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|--|--|
| If interest rates were 1% (31 December 2019: 1%) higher Increase in profit for the year | 6,277 | 5,590 |
| If interest rates were 1% (31 December 2019: 1%) lower Decrease in profit for the year | (6,277) | (5,590) |

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43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group's credit risk is primarily attributable to accounts receivable, and other loans and unlisted debt securities measured at amortised cost arising when the debtors, including brokers and clients from money lending services, fail to perform their obligations as at the reporting date. The Group's exposure to credit risk arising from cash and cash equivalents and bank balances held on behalf of clients is limited because the counterparties are banks and financial institution with a credit rating, for which the Group considers to have low credit risk.

In order to minimise the credit risk, loan ratios for corporate loans are based on a combination of factors, including indicative acceptable lending rates from the bankers, the quality of the assets and the company represented by the securities, the liquidity of the securities, and the concentration level of securities held. The credit committee meets regularly and prescribes from time to time the lending limits on individual stocks and/or the credit limits for each individual client, taking into account the loan and stock concentration exposures. The credit control department monitors and making margin calls to clients when limits have been exceeded and when concentration risks posed a strategic risk. It also runs stress tests on loan portfolios to determine the impact on the Group's financial position and exposure. In this regard, the directors consider that the Group's credit risk is effectively controlled and significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of counterparties and clients rather than the geographical area or industry in which these parties operate and therefore significant concentrations of credit risk arise primarily when the Group has significant exposure to individual counterparties or clients. The Group's credit risk exposure on accounts receivable is spread over a number of counterparties and clients. As at 31 December 2020, the Group's credit risk for loan receivables is concentrated as the amounts are due from 21 clients (2019: 17 clients).

The Group does not hold any collateral or other credit enhancement to cover its credit risk associated with its financial assets except for reverse repurchase agreements, margin loans and certain loans. Further quantitative data in respect of the collaterals and the Group's exposure to credit risk arising from accounts receivable, unlisted debt securities and other loans is disclosed in notes 19, 22, 23, 24 and 25 to the financial statements, respectively.

The credit policies have been followed by the Group since prior periods and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

The following table shows reconciliations from the opening to the closing balance of the E.C.L. provisions by class of financial instruments with significant balances as at reporting date.

43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Total HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| Accounts receivable from dealings in securities, futures and options contracts | | | | |
| Balance at 1 January 2019 | 1,826 | 164 | 3,780 | 5,770 |
| Transfer to Stage 3 | (1,341) | — | 1,341 | — |
| Net remeasurement of loss allowance | 14 | — | 1,439 | 1,453 |
| New financial assets originated or purchased | 2 | 7 | 31 | 40 |
| Financial assets that have been derecognised | (484) | (164) | (22) | (670) |
| Written-off | — | — | (5) | (5) |
| Balance at 31 December 2019 and 1 January 2020 | 17 | 7 | 6,564 | 6,588 |
| Transfer to Stage 3 | (2) | (5) | 7 | — |
| Net remeasurement of loss allowance | — | — | 2,180 | 2,180 |
| New financial assets originated or purchased | 62 | 1 | — | 63 |
| Financial assets that have been derecognised | (15) | (1) | — | (16) |
| Written-off | — | — | (21) | (21) |
| Balance at 31 December 2020 | 62 | 2 | 8,730 | 8,794 |
| Financial assets measured at amortised cost | | | | |
| Balance at 1 January 2019 | 21,177 | — | 74,982 | 96,159 |
| Transfer to Stage 3 | (7,034) | — | 7,034 | — |
| Net remeasurement of loss allowance | (768) | — | 162,535 | 161,767 |
| New financial assets originated or purchased | 29,260 | 3,481 | — | 32,741 |
| Financial assets that have been derecognised | (12,697) | — | — | (12,697) |
| Balance at 31 December 2019 and 1 January 2020 | 29,938 | 3,481 | 244,551 | 277,970 |
| Transfer to Stage 3 | (44) | (1,774) | 1,818 | — |
| Transfer to Stage 2 | (23,631) | 37,924 | (14,293) | — |
| Transfer to Stage 1 | 1,706 | (1,706) | — | — |
| Net remeasurement of loss allowance | (945) | 88,720 | 248,734 | 336,509 |
| New financial assets originated or purchased | 9,149 | 11,672 | 12,225 | 33,046 |
| Financial assets that have been derecognised | (3,619) | — | — | (3,619) |
| Written-off | — | — | (101,338) | (101,338) |
| Balance at 31 December 2020 | 12,554 | 138,317 | 391,697 | 542,568 |

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43 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from the timing differences between settlement with clearing houses or brokers and clients. The Group's operating units are also subject to various liquidity requirements as prescribed by the authorities and financial market regulators. The Group has put in place monitoring systems to ensure it maintains adequate liquid capital to fund its business commitments and to comply with the relevant rules including the Securities and Futures (Financial Resources) Rules. As a further safeguard, the Group has maintained banking facilities to meet contingencies in its operations. The Company will also consider raising fund to meet the business operations growth which require intensive capital buffer.

The liquidity policies have been followed by the Group since prior periods and are considered to be effective in managing liquidity risks.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2020 and 2019. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on which the Group can be required to pay. "Obligations under repurchase agreements" with a repayment on demand clause are included in the earliest time band regardless of the probability of the counterparties choose to exercise their rights within one year after the reporting date. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

| | Carrying amount HK\$'000 | Total contractual undiscounted cash flows HK\$'000 | On demand or within 1 year HK\$'000 | More than 1 year but less than 5 years HK\$'000 |
|---|-----------------------------|---|--|--|
| At 31 December 2020 | | | | |
| Accounts payable | 1,954,531 | 1,954,531 | 1,954,531 | — |
| Bank and other borrowings | 1,872,838 | 1,886,775 | 1,886,775 | — |
| Obligations under repurchase agreements | 1,965 | 1,966 | 1,966 | — |
| Lease liabilities | 80,010 | 84,010 | 37,886 | 46,124 |
| Accruals and other payables | 110,094 | 110,094 | 110,094 | — |
| Tax payables | 20,403 | 20,403 | 20,403 | — |
| | 4,039,841 | 4,057,779 | 4,011,655 | 46,124 |
| At 31 December 2019 | | | | |
| Accounts payable | 1,664,961 | 1,664,961 | 1,664,961 | — |
| Bank and other borrowings | 2,037,029 | 2,065,720 | 2,065,720 | — |
| Lease liabilities | 90,268 | 96,919 | 35,088 | 61,831 |
| Accruals and other payables | 86,629 | 86,629 | 86,629 | — |
| Tax payables | 58,615 | 58,615 | 58,615 | — |
| | 3,937,502 | 3,972,844 | 3,911,013 | 61,831 |

44 FAIR VALUE MEASUREMENT

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period, 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 and 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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses its own internal expertise or engages third party qualified valuers to perform the valuation. Valuation is prepared at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

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44 FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value

The following table presents financial instruments measured at fair value on a recurring basis in the consolidated statement of financial position according to the fair value hierarchy:

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| At 31 December 2020 | | | | |
| Financial assets held for trading and market making activities | | | | |
| — Listed debt securities (note (i)) | — | 11,358 | — | 11,358 |
| — Unlisted debt securities (notes (ii), (vi)) | — | 667,350 | 32,404 | 699,754 |
| — Listed equity securities (note (i)) | 726,088 | 179 | — | 726,267 |
| — Unlisted equity securities (note (iii)) | — | — | 427,722 | 427,722 |
| — Unlisted mutual funds (note (v)) | — | 9,238 | — | 9,238 |
| — Private equity funds (note (iv)) | — | — | 194,868 | 194,868 |
| Derivative financial instruments (note (viii)) | — | 94,899 | — | 94,899 |
| Loans to margin clients (note (vii)) | — | 1,371,861 | — | 1,371,861 |
| Financial assets not held for trading and market making activities | | | | |
| — Unlisted equity securities (note (ix)) | — | — | 8,050 | 8,050 |
| | 726,088 | 2,154,885 | 663,044 | 3,544,017 |
| Financial liabilities measured at fair value through profit or loss | | | | |
| — Accruals and other payables (note (x)) | — | 33,251 | — | 33,251 |

44 FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| At 31 December 2019 | | | | |
| Financial assets held for trading and market making activities | | | | |
| — Listed debt securities (note (i)) | — | 15,530 | — | 15,530 |
| — Unlisted debt securities (notes (ii), (vi)) | — | 723,773 | 37,742 | 761,515 |
| — Listed equity securities (note (i)) | 592,135 | 199 | — | 592,334 |
| — Unlisted equity securities (note (iii)) | — | — | 233,493 | 233,493 |
| — Unlisted mutual funds (note (v)) | — | 28,100 | — | 28,100 |
| — Private equity funds (note (iv)) | — | — | 188,022 | 188,022 |
| Derivative financial instruments (note (viii)) | — | — | 17,119 | 17,119 |
| Loans to margin clients (note (vii)) | — | 1,977,795 | — | 1,977,795 |
| Financial assets not held for trading and market making activities | | | | |
| — Unlisted equity securities (note (ix)) | — | — | 6,073 | 6,073 |
| | 592,135 | 2,745,397 | 482,449 | 3,819,981 |
| Financial liabilities measured at fair value through profit or loss | | | | |
| — Accruals and other payables (note (x)) | — | 43,236 | — | 43,236 |

There were no transfers between Level 1 and Level 2 during the years ended 31 December 2020 and 2019 except the transfer of a derivative from Level 3 as at 31 December 2019 to Level 2 as at 31 December 2020. It is because management has adopted all market observable input during the valuation. For transfers into and out of Level 3 measurements see (xi) below. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer.

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44 FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

Notes:

- (i) The fair value of the listed debt and equity securities has been determined by reference to their quoted bid prices at the reporting date and has been translated using the spot foreign currency rates at the end of the reporting period where appropriate.
- (ii) The fair value of the unlisted debt securities in Level 2 was estimated based on discounted cash flow analysis with discounted rate determined by reference to the listed bonds with similar credit terms and rating. The discount rate used to discount the future payments of the bond, depends on the risk free rate plus credit spread of the issuer which links to its sector and credit rating.
- (iii) The fair value of unlisted equity securities in Level 3 of HK\$403,177,000 (2019: HK\$233,493,000) and HK\$24,545,000 (2019: HK\$Nil) have been determined by option pricing model under equity allocation approach and recent transaction respectively. The option pricing model under equity allocation approach is based on main inputs, such as 100% equity value of target company through a backsolve analysis, exercise values, expected volatility of 42.7% (2019: 42.0%), risk free rate of 0.4% (2019: 1.7%) and expected time to expiration.
- (iv) The fair value of the private equity funds of HK\$113,039,000 (2019: HK\$188,022,000) and HK\$81,829,000 (2019: HK\$Nil) have been determined with reference to the unadjusted net asset value of the funds and recent transaction with liquidity discount of 5% respectively.
- (v) The fair value of the unlisted mutual funds have been determined with reference to the net asset value of the funds. The underlying investments held by the funds are all listed with unadjusted quoted prices in active markets, with immaterial assets and liabilities with unobservable prices.
- (vi) As at 31 December 2020, the fair value of the unlisted debt securities in Level 3 of HK\$9,735,000 (2019: HK\$17,078,000) and HK\$22,669,000 (2019: HK\$20,664,000) have been determined by discounted cash flow and binomial model respectively. The discounted cash flow is based on significant unobservable input, i.e. recovery rate of 50.1%, as key parameter. The binomial model is based on significant unobservable input, i.e. discount rate of 16.7%, as key parameter. As at 31 December 2019, the fair value of the unlisted debt securities in Level 3 was based on black-scholes model using discounted cash flows with market observable inputs, such as quoted market price, volatility, and significant unobservable input, i.e. discount rate of 14.4% as key parameters.

Generally, a change in the recovery rate is accompanied by a directionally similarly change to the fair value measurement whilst a change in the discount rate is accompanied by a directionally opposite change to the fair value measurement.
- (vii) The fair value of the margin loans has been determined with reference to the market value of securities pledged by margin clients at the reporting date.
- (viii) As at 31 December 2020, the total return swap derivative is derived from model using the stock price and historical volatility observable from market. The unlisted option is valued using black-scholes option with observable market input. As at 31 December 2019, valuation technique was applied to predict the paths of underlying stock price through to final maturity date. Volatility was a significant unobservable input used in the valuation, which is calculated by reference to historical stock prices over the period commensurate with remaining tenor of the derivative (also known as "historical volatility").
- (ix) As at 31 December 2020, the fair values of the unlisted equity securities of HK\$1,366,000 (2019: HK\$1,513,000) and HK\$6,684,000 (2019: HK\$4,560,000) have been determined by using the net asset value and discounted cash flow valuation technique respectively.

The discounted cash flow valuations are based on the following significant unobservable inputs:

| Significant unobservable inputs | As at 31 December 2020 | As at 31 December 2019 |
|------------------------------------|---------------------------|---------------------------|
| Discount for lack of marketability | 25% | 25% |
| Discount for lack of control | 10% | 10% |
| Weighted average cost of capital | 12% | 11% |
| Long-term revenue growth rate | 2% | 2% |

44 FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

Notes: (Continued)

(ix) (Continued)

Generally, a change in the discount for lack of marketability and control and weighted average cost of capital is accompanied by a directionally opposite change to the fair value measurement whilst a change in the long-term revenue growth rate is accompanied by a directionally similar change to the fair value measurement.

(x) The financial liabilities represent net asset value attributable to third party interest of funds. The fair value has been determined by reference to the net asset value of the funds. The underlying investments held by the funds are all listed with unadjusted quoted prices in active markets, with immaterial assets and liabilities with unobservable prices.

(xi) The movement of the financial instruments measured at fair value based on significant unobservable inputs (i.e. Level 3) is as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Financial assets held for trading and market making activities | | |
| At the beginning of the year | 459,257 | 716,163 |
| Reclassification to interest in an associate | — | (1,875) |
| Transfer to Level 1 | — | (234,942) |
| Purchases | 102,149 | 19,612 |
| Fair value changes recognised in profit or loss | 232,385 | (39,076) |
| Disposals | (138,797) | (625) |
| At the end of the year | 654,994 | 459,257 |
| Financial assets not held for trading and market making activities | | |
| At the beginning of the year | 6,073 | 6,321 |
| Fair value changes recognised in other comprehensive income (note 19(b)) | 1,977 | (170) |
| Disposals (note 19(b)) | — | (78) |
| At the end of the year | 8,050 | 6,073 |
| Derivative financial instruments | | |
| At the beginning of the year | 17,119 | 10,000 |
| Transfer to Level 2 | (17,119) | — |
| Fair value changes recognised in profit or loss | — | 10,119 |
| Disposals | — | (3,000) |
| At the end of the year | — | 17,119 |
| Total unrealised gain/(loss) recognised in profit or loss for assets held at the end of the reporting period | 232,385 | (22,821) |

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44 FAIR VALUE MEASUREMENT (CONTINUED)

(b) Fair value of investment property measured at fair value

Investment property represented commercial office premises in Hong Kong and are categorised within Level 2 of fair value hierarchy. There have been no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in the years ended 31 December 2020 and 2019. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer. The fair value of the investment property as at 31 December 2020 and 2019 has been arrived at on the basis of valuation carried out by independent valuers, who holds recognised and relevant professional qualifications and has recent experience in the location and category of the investment property being valued. The fair value has been determined using market comparable approach by reference to transaction price of comparable properties on a price per saleable area basis using market data which is publicly available.

45 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group currently has a legally enforceable right to set off the Continuous Net Settlement ("CNS") money obligations receivable and trade payables with Hong Kong Securities Clearing Company Limited ("HKSCC"), which are included in "accounts receivable", "loans to margin clients" and "accounts payable" as presented in the consolidated statement of financial position, respectively. It intends to settle on a net basis as accounts payable from or accounts payable to the Stock Exchange. The net amount of CNS money obligations receivable or payable with HKSCC and guarantee fund placed in HKSCC do not meet the criteria for offsetting against each other in the financial statements and the Group does not intend to settle the balances on a net basis.

| | As at 31 December 2020 | | | | | |
|-------------------------|--|---|--|---|---|------------------------|
| | Gross amounts of recognised financial assets HK\$'000 | Gross amounts of recognised financial liabilities set off 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 | | Net amount HK\$'000 |
| | | | | Financial instruments HK\$'000 | Cash collateral received HK\$'000 | |
| Assets | | | | | | |
| Accounts receivable | 848,239 | (303,014) | 545,225 | (875) | — | 544,350 |
| Loans to margin clients | 1,394,918 | (23,057) | 1,371,861 | — | — | 1,371,861 |

45 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

| | As at 31 December 2020 | | | | | |
|--------------------|---|--|---|---|--|------------------------|
| | Gross amounts of recognised financial liabilities HK\$'000 | Gross amounts of recognised financial assets set off 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 | | Net amount HK\$'000 |
| | | | | Financial instruments HK\$'000 | Cash collateral pledged HK\$'000 | |
| | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | 2,280,602 | (326,071) | 1,954,531 | (875) | — | 1,953,656 |

As at 31 December 2019

| | As at 31 December 2019 | | | | | |
|-------------------------|--|---|--|---|---|------------------------|
| | Gross amounts of recognised financial assets HK\$'000 | Gross amounts of recognised financial liabilities set off 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 | | Net amount HK\$'000 |
| | | | | Financial instruments HK\$'000 | Cash collateral received HK\$'000 | |
| | | | | | | |
| Assets | | | | | | |
| Accounts receivable | 695,557 | (197,395) | 498,162 | — | — | 498,162 |
| Loans to margin clients | 1,983,503 | (5,708) | 1,977,795 | — | — | 1,977,795 |

| | As at 31 December 2019 | | | | | |
|--------------------|---|--|---|---|--|------------------------|
| | Gross amounts of recognised financial liabilities HK\$'000 | Gross amounts of recognised financial assets set off 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 | | Net amount HK\$'000 |
| | | | | Financial instruments HK\$'000 | Cash collateral pledged HK\$'000 | |
| | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | 1,868,064 | (203,103) | 1,664,961 | — | — | 1,664,961 |

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46 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting date may be categorised as follows. See notes 2.15 and 2.21 to the financial statements for explanations about how the category of financial instruments affects their subsequent measurement.

| | 31 December 2020 HK\$'000 | 31 December 2019 HK\$'000 |
|--|--|---------------------------------|
| Financial assets | | |
| Financial assets measured at fair value through profit or loss | | |
| — Financial assets held for trading and market making activities | 2,069,207 | 1,818,994 |
| — Derivative financial instruments | 94,899 | 17,119 |
| — Loans to margin clients | 1,371,861 | 1,977,795 |
| Financial assets measured at fair value through other comprehensive income | | |
| — Financial assets not held for trading and market making activities | 8,050 | 6,073 |
| Financial assets measured at amortised cost | | |
| — Financial assets not held for trading and market making activities | 117,494 | 152,059 |
| — Advances to customers for merger and acquisition activities | 189,448 | 221,401 |
| — Other assets | 20,168 | 19,895 |
| — Accounts receivable | 545,225 | 498,162 |
| — Other loans | 3,338,900 | 3,267,091 |
| — Reverse repurchase agreements | 163,849 | — |
| — Deposits and other receivables | 107,923 | 49,155 |
| — Bank balances held on behalf of clients | 1,448,532 | 1,253,410 |
| — Cash and cash equivalents | 214,461 | 182,449 |
| | 9,690,017 | 9,463,603 |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | | |
| — Accounts payable | 1,954,531 | 1,664,961 |
| — Obligations under repurchase agreements | 1,965 | — |
| — Bank and other borrowings | 1,872,838 | 2,037,029 |
| — Accruals and other payables | 76,843 | 43,393 |
| Financial liabilities measured at fair value through profit or loss | | |
| — Accruals and other payables | 33,251 | 43,236 |
| | 3,939,428 | 3,788,619 |

47 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Certain subsidiaries of the Company are regulated by the Securities and Futures Commission or Hong Kong Insurance Authority. These subsidiaries are required to maintain certain minimum liquid capital; and net asset value and paid-up capital according to the Securities and Futures Ordinance and the Insurance Ordinance, respectively. Management monitors these subsidiaries' liquid capital or net asset value and paid-up capital to ensure they meet the minimum requirement in accordance with the Securities and Futures (Financial Resources) Rules or the Insurance Companies Ordinance. These externally imposed capital requirements have been complied with by the relevant group entities for the years ended 31 December 2020 and 2019.

The Group monitors its capital using a gearing ratio, which is total debts divided by total equity. For this purpose, total debts include obligations under repurchase agreements, bank and other borrowings and lease liabilities as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratio as at the reporting date was as follows:

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|---------------|--|--|
| Total debt | 1,954,813 | 2,127,297 |
| Net assets | 5,891,217 | 5,783,554 |
| Gearing ratio | 33% | 37% |

Gearing ratio of the Group decreased from 37% as at 31 December 2019 to 33% as at 31 December 2020 as the Group has been reducing the balance of bank and other borrowings.

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(Expressed in Hong Kong dollars unless otherwise indicated)

48 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
|--|--|--|
| ASSETS AND LIABILITIES | | |
| Non-current assets | | |
| Intangible assets | 1,156 | 1,598 |
| Property and equipment | 7,035 | 7,904 |
| Investments in subsidiaries | 119,870 | 179,927 |
| Financial assets measured at fair value through other comprehensive income | 8,050 | 6,073 |
| Deferred tax assets | 2,665 | 3,697 |
| | 138,776 | 199,199 |
| Current assets | | |
| Other loans | — | 118,984 |
| Financial assets measured at fair value through profit or loss | 24,545 | — |
| Prepayments, deposits and other receivables | 58,651 | 44,730 |
| Amounts due from subsidiaries | 6,512,477 | 6,609,097 |
| Cash and cash equivalents | 5,303 | 7,055 |
| | 6,600,976 | 6,779,866 |
| Current liabilities | | |
| Bank and other borrowings | 1,064,418 | 1,363,490 |
| Accruals and other payables | 9,468 | 6,585 |
| Amounts due to subsidiaries | 17,536 | 17,536 |
| | 1,091,422 | 1,387,611 |
| Net current assets | 5,509,554 | 5,392,255 |
| Net assets | 5,648,330 | 5,591,454 |
| EQUITY | | |
| Share capital | 20,657 | 20,657 |
| Reserves (note) | 5,627,673 | 5,570,797 |
| Total equity | 5,648,330 | 5,591,454 |

Approved and authorised for issue by the Board on 25 March 2021.

On behalf of the Board

HAN Xiaosheng
Director

Kenneth LAM Kin Hing
Director

48 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

| | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Investment revaluation reserve HK\$'000 | Shareholder's contribution HK\$'000 | Shares held for Share Award Scheme HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---------------------------|--|---------------------------------|--|--|--|------------------------------|-------------------|
| At 1 January 2019 | 5,117,070 | 1,019 | 401,693 | (17,818) | 1,811 | (5,419) | 41,530 | 5,539,886 |
| Shares purchased for share award scheme | — | — | — | — | — | (17,379) | — | (17,379) |
| Transactions with equity holders | — | — | — | — | — | (17,379) | — | (17,379) |
| Net profit for the year | — | — | — | — | — | — | 48,538 | 48,538 |
| Other comprehensive income | — | — | — | — | — | — | — | — |
| — Changes in fair value of financial assets measured at fair value through other comprehensive income | — | — | — | (248) | — | — | — | (248) |
| Total comprehensive income for the year | — | — | — | (248) | — | — | 48,538 | 48,290 |
| Transfer from share premium to contributed surplus | (5,000,000) | — | 5,000,000 | — | — | — | — | — |
| At 31 December 2019 | 117,070 | 1,019 | 5,401,693 | (18,066) | 1,811 | (22,798) | 90,068 | 5,570,797 |

| | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Investment revaluation reserve HK\$'000 | Shareholder's contribution HK\$'000 | Shares held for Share Award Scheme HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---------------------------|--|---------------------------------|--|--|--|------------------------------|-------------------|
| At 1 January 2020 | 117,070 | 1,019 | 5,401,693 | (18,066) | 1,811 | (22,798) | 90,068 | 5,570,797 |
| Net profit for the year | — | — | — | — | — | — | 54,899 | 54,899 |
| Other comprehensive income | — | — | — | — | — | — | — | — |
| — Changes in fair value of financial assets measured at fair value through other comprehensive income | — | — | — | 1,977 | — | — | — | 1,977 |
| Total comprehensive income for the year | — | — | — | 1,977 | — | — | 54,899 | 56,876 |
| At 31 December 2020 | 117,070 | 1,019 | 5,401,693 | (16,089) | 1,811 | (22,798) | 144,967 | 5,627,673 |

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49 PARTICULARS OF THE SUBSIDIARIES OF THE GROUP

Particulars of the principal subsidiaries as at 31 December 2020 are as follows:

| Name | Place of incorporation | Particulars of issued capital | Percentage of interests | | Principal activities and place of operations |
|---|------------------------|--------------------------------------|-------------------------|--------------------------|--|
| | | | Held by the Company | Held by the subsidiaries | |
| China Tonghai Asset Management Limited | Hong Kong | Ordinary shares of HK\$25,000,000 | 100 | — | Investment adviser and asset management/Hong Kong |
| China Tonghai Asset Management (BVI) Ltd. | BVI | 5,000 ordinary shares of US\$1 each | — | 100 | Provision of fund management services/Hong Kong |
| China Tonghai Capital (Holdings) Limited | Hong Kong | Ordinary shares of HK\$78,260,002 | 100 | — | Investment holding and import/export trading liaison/Hong Kong |
| China Tonghai Capital Limited | Hong Kong | Ordinary shares of HK\$84,000,000 | — | 100 | Corporate finance and investment adviser/Hong Kong |
| China Tonghai Finance Limited | Hong Kong | Ordinary shares of HK\$54,200,000 | — | 100 | Finance and money lending/Hong Kong |
| China Tonghai Private Equity Limited | Hong Kong | Ordinary shares of HK\$1,500,000 | 100 | — | Investment holding/Hong Kong |
| China Tonghai Securities Limited | Hong Kong | Ordinary shares of HK\$2,170,000,000 | — | 100 | Securities dealing and futures and options broking/Hong Kong |
| China Tonghai Ventures (BVI) Limited | BVI | 1 ordinary share of US\$1 | — | 100 | Fund investments/Hong Kong |
| China Tonghai Ventures (HK) Limited | Hong Kong | Ordinary shares of HK\$6,000,000 | — | 100 | Investment holding/Hong Kong |
| China Tonghai Communications Limited | Hong Kong | Ordinary shares of HK\$76,520,664 | 100 | — | Investment holding/Hong Kong |
| China Tonghai Financial Media Limited | Hong Kong | Ordinary shares of HK\$6,000,000 | — | 100 | Website management and other related services/Hong Kong |
| Oceanwide Greater China UCITS Fund | Luxembourg | N/A | — | 85 | Investment in securities/Hong Kong |

The above table lists the material subsidiaries of the Company which, in the opinion of the directors, principally contribute the results for the year or hold a substantial portion of assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

50 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, in addition to the amendment to HKFRS 16, the HKICPA has issued a number of amendments, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to HKAS 37, <i>Onerous Contracts-Cost of Fulfilling a Contract</i> | 1 January 2022 |
| Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i> | 1 January 2022 |
| Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i> | 1 January 2022 |
| Annual Improvements to HKFRSs 2018–2020 Cycle | 1 January 2022 |

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

51 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) As at 31 December 2020, a term loan of approximately HK\$202.2 million and unlisted debt securities of approximately HK\$22.7 million, issued by the same borrower group, were matured on 7 March 2021 and 24 March 2021, respectively. The term loan is collateralised by the same unlisted debt securities with an amount of approximately HK\$294.2 million and 308,867,000 listed shares of the same borrower group at market value of approximately HK\$65.8 million as at 31 December 2020. Both balances have not been repaid as of the date of this report. As of 31 December 2020, an E.C.L. provision of balance was made against the aggregated exposures of approximately HK\$12.7 million.
- (b) In March 2021, the Group issued short-term senior notes of HK\$50.5 million with an interest rate of 7.5% per annum to investors, which shall be repaid on 31 March 2021. Part of the notes were subscribed by related parties of the Group.
- (c) The Group has revised up its Annual Caps on maximum daily outstanding balance of the financial assistance provided to the Tohigh Group and the Oceanwide Holdings Group for the years ending 31 December 2021 and 2022 by increasing total of HK\$400 million each year on 26 February 2021. Details of the transaction were set out in the Company's circular dated on 28 January 2021. As of the date of this report, the Group provided term loans in the amount of approximately HK\$200 million and HK\$190 million to companies under Tohigh Group and the Oceanwide Holdings Group, respectively. Details of the term loan to Tohigh Group were set out in the Company's circular dated on 1 March 2021.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Hong Kong dollars unless otherwise indicated)

51 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

- (d) On 17 March 2021, the Group and the buyer, an independent third party, entered into a conditional sale and purchase agreement, pursuant to which the Group has conditionally agreed to sell and the buyer agreed to purchase the loan and the call option for a consideration of approximately HK\$261 million. The E.C.L. provisions for the loan of approximately HK\$58.2 million has been recognised for the year ended 31 December 2020. Details of the transaction were set out in the Company's announcement dated on 17 March 2021, which the details were disclosed on the website of the Stock Exchange at www.hkexnews.hk.

52 RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, and reclassified as appropriate, is set out below.

| | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | Nine months from 1 April 2017 to 31 December 2017 HK\$'000 | Twelve months ended 31 March 2017 HK\$'000 |
|---|------------------|------------------|------------------|---|--|
| RESULTS | | | | | |
| Revenue | 1,104,615 | 779,432 | 672,310 | 352,155 | 350,346 |
| | 1,104,615 | 779,432 | 672,310 | 352,155 | 350,346 |
| Other income/(loss) | 15,902 | (2,275) | 23,261 | (403) | 3,394 |
| Direct cost | (165,747) | (160,196) | (181,304) | (136,505) | (167,932) |
| Staff cost | (255,215) | (214,850) | (164,967) | (98,006) | (155,237) |
| Depreciation and amortisation | (48,243) | (42,440) | (9,888) | (6,654) | (9,013) |
| E.C.L. provisions | (372,627) | (184,800) | (89,890) | (3,148) | (5,302) |
| Finance cost | (109,824) | (112,131) | (59,023) | (10,170) | (16,149) |
| Other operating expenses | (53,662) | (56,883) | (82,306) | (53,413) | (61,277) |
| Share of result of an associate | (206) | (212) | — | 5,263 | 383 |
| Share of results of joint ventures | (1,873) | (2,036) | 1,597 | (1,930) | 1,695 |
| Profit/(loss) before tax | 113,120 | 3,609 | 109,790 | 47,189 | (59,092) |
| Tax (expense)/credit | (9,870) | 1,738 | (9,615) | (3,904) | 1,145 |
| Net profit/(loss) attributable to the equity holders of the Company | 103,250 | 5,347 | 100,175 | 43,285 | (57,947) |

Five-Year Financial Summary

| | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 | As at 31 December 2018 HK\$'000 | As at 31 December 2017 HK\$'000 | As at 31 March 2017 HK\$'000 |
|-------------------------------|--|--|--|--|---------------------------------------|
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 9,936,922 | 9,726,044 | 10,177,613 | 8,601,804 | 3,403,502 |
| Total liabilities | (4,045,705) | (3,942,490) | (4,380,999) | (2,864,381) | (2,836,987) |
| | 5,891,217 | 5,783,554 | 5,796,614 | 5,737,423 | 566,515 |

Notes to the five year summary:

- As a result of the adoption of HKFRS 16, Leases, with effect from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.
- 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.
- 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.



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