



**中微金融**  
CHINA VÊRED FINANCIAL

**China Vered Financial  
Holding Corporation Limited**

**中微金融控股有限公司**

(Incorporated in Hong Kong with limited liability)

Stock Code: 245

**2020**  
**Annual Report**



# CONTENTS

CORPORATE INFORMATION	02
CHAIRMAN'S STATEMENT	03
MANAGEMENT DISCUSSION AND ANALYSIS	06
REPORT OF THE DIRECTORS	16
CORPORATE GOVERNANCE REPORT	30
DIRECTORS' PROFILES	43
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT	46
INDEPENDENT AUDITOR'S REPORT	62
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	68
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	69
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	70
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	72
CONSOLIDATED STATEMENT OF CASH FLOWS	74
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	76
FIVE YEAR FINANCIAL SUMMARY (UNAUDITED)	144



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Tomohiko Watanabe

*(Chairman and Chief Executive Officer)*

Ni Xinguang *(Vice Chairman)*

Li Wei

### Non-executive Directors

Wang Dongzhi *(Retired on 29 June 2020)*

Zhang Yang *(Appointed on 20 May 2020)*

### Independent Non-executive Directors

Zhou Hui

Wang Yongli

Dong Hao

## AUDIT COMMITTEE

Zhou Hui *(Chairperson)*

Wang Yongli

Dong Hao

## NOMINATION COMMITTEE

Tomohiko Watanabe *(Chairman)*

Wang Yongli

Zhou Hui

Dong Hao

## REMUNERATION COMMITTEE

Wang Yongli *(Chairman)*

Zhou Hui

Dong Hao

## COMPANY SECRETARY

Wong Wai Yee Ella

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

China Construction Bank Corporation

China Merchants Bank, Hong Kong Branch

China Merchants Bank, Off-shore Banking  
Department

China Everbright Bank, Hong Kong Branch

China Minsheng Bank, Hong Kong Branch

Chong Hing Bank Limited

Cathay Bank, Hong Kong Branch

Far Eastern International Bank, Hong Kong Branch

Industrial Bank Co., Ltd., Hong Kong Branch

## SOLICITORS

*Hong Kong Law*

Herbert Smith Freehills

## INDEPENDENT AUDITOR

PricewaterhouseCoopers

*Certified Public Accountants*

*Registered Public Interest Entity Auditor*

## REGISTERED OFFICE

22/F, China Taiping Tower

8 Sunning Road

Causeway Bay

Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

## STOCK CODE

245 HK

## WEBSITE

[www.chinavered.com](http://www.chinavered.com)



**Tomohiko Watanabe**  
Chairman

Dear Shareholders,

2020 was a year of unpredictability in the capital market due to the rampant COVID-19 pandemic. During the year, the Company changed its name to “China Vered Financial Holding Corporation Limited”, and under the leadership of the new management team, the Company was able to map out its background, identify its shortcomings, adjust its strategic direction, optimize its business and personnel structure, strengthen its corporate governance, tighten its risk control, and achieve market expansion. The Company defined 2020 as a year of “deployment + investment”, during which our business in Mainland China, Japan and Canada was launched one after another, with a significant increase in equity asset allocation and effective investment in secondary market. Meanwhile, the Company achieved a rapid increase in its assets under management and a steady development in the sell-side business.

### **I. IMPROVEMENT IN CORPORATE GOVERNANCE**

In 2020, the management of the Company clarified its own position and business direction, made a new division of responsibilities, and gave full authorization to qualified departments within the scope of authority, forming an internal management system with clear rights, responsibilities and benefits. Meanwhile, the Company has authorized its subsidiaries in the Mainland and Japan to establish their own investment decision-making process and internal management system. The Company has actively established a coordination system for the middle and back office to serve the front office and strived to form internal synergy. A more transparent performance appraisal system has been established to mobilize the initiative of employees, while a more practical, open, collaborative and efficient corporate culture has been gradually formed through weekly meetings and dynamic management monitoring.

# CHAIRMAN'S STATEMENT

## II. BUSINESS EXPANSION IN MAINLAND CHINA, JAPAN AND CANADA

In 2020, the Company actively expanded its business in Mainland China, Japan and Canada. During the year, the business in Mainland China was fully rolled out, achieved revenue through effective secondary market investment strategies, and launched the first Intermediary business. The Company is also in the process of setting up several industrial investment funds. Our Japan subsidiary has achieved profitability in the current period. The first JBC fund has invested in 3 growing Japanese companies. The financial license application has entered the pre-negotiation stage, and we are in the process of negotiating with several well-known companies in China for asset management business. The Company has established a subsidiary in Canada in September, which has already acquired some high net worth clients and is currently in the process of applying for a financial license. Thus, the Company is expecting preliminary collaborations between business in the Mainland China, Japan and Hong Kong.

## III. BREAKTHROUGHS IN ASSET MANAGEMENT BUSINESS

In 2020, the Company achieved breakthroughs in assets under management by completing the establishment of a number of external funds with additional assets under management of nearly HK\$2 billion, and developed an effective business expansion. By bringing in talents and strengthening external cooperation, the Company has improved its investment research capability and product sales capacity, and gradually formed its core competitiveness. The Company has actively seized market opportunities and achieved good returns on asset management.

## IV. CORPORATE IMAGE ENHANCEMENT

In 2020, the Company completed the change of its name and its subsidiaries, launched a brand-new company website and produced a new product brochure. The Company strengthened its corporate image and actively invited industry experts to participate in activities such as "China Vered Financial Lecture", which received good social response and were reported by the mainstream media in Hong Kong and the Mainland for many times. The Company's charity act of donating masks to Japan during the COVID-19 pandemic was recognized and affirmed by the Chinese government and Cabinet Ministers of Japan, reflecting the Company's internationalism and international social responsibility.

## V. INTRODUCTION OF TALENTS AND A MORE COMPETITIVE COMPENSATION SYSTEM

In 2020, the Company actively recruited talents and focused on improving the investment banking capability, investment research capability and risk management capability based on its strategic direction and business positioning. The Company strived to establish a compensation system combining equity and bonus to give full play to the incentive effect of such mechanism, so that the Company can "attract, retain and make full use" of talents.

### PROSPECT FOR 2021

In 2021, the global economy is still significantly affected by the COVID-19 pandemic, and there are many uncertainties in China's macro-economy. The construction of the equity market, however, is the inevitable outcome of development in history. The innovation of new economy and new industries are the trend of social progress with many opportunities emerging for the traditional investment banking business.

In 2021, the Company will focus on enhancing its asset management and wealth management capabilities, increasing the assets under management in China, Japan, Hong Kong and Canada, accelerating the process of acquiring financial licenses and promoting business collaborations in the above four regions. The Company will gradually form a mutual promotion of asset management business and capital-based business, improve its financing ability and increase leverage levels as appropriate. New business research will be developed and in-depth cooperation with new Internet brokerage firms will be actively initiated in order to achieve a second growth curve and enhance corporate value. The Company will leverage on its flexible performance mechanism to make the best use of talents. The Company will also adjust the business structure, aiming to form four major business segments, including proprietary investment, asset management, retail brokerage and investment banking capitalization, to strengthen business synergy, achieve full delegation of authority and improve operational efficiency.

The Company will further achieve a comprehensive upgrade of its corporate governance, business model, corporate culture and other aspects on the basis of the layout and investment in 2020, and strive to create more value for all shareholders.

**Tomohiko Watanabe**

*Chairman*

Hong Kong, 26 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In 2020, the global outbreak of the novel coronavirus pandemic and the prevention measures at different government delivered a rare economic shock to major economies, with the exception of China, which achieved 2.3% economic growth. China's economy also plunged 6.8% in the first quarter, but recovered quickly thanks to the effective prevention and control of the pandemic, continued expansion of monetary credit, and fiscal expansion in the form of tax cuts and subsidies. At the same time, China became the world's logistic base during the pandemic with its strong supply, thus able to filling the global supply gap and maintaining strong exports. Given these factors, beyond expectation economic growth was achieved.

Amid the pandemic, the financial market experienced severe volatility in the first quarter. As a result, the world's major economies, led by the United States, embarked on sizable quantitative easing to aggressively stimulate the economy, creating established fiscal policy and making debt monetization a norm. The effect of these policies on restoring financial market stability in the short term is obvious. As the Federal Reserve implemented a series of bailout measures, the stock market, bond market and money market partially regained stability and resumed normal operation from late March to mid-April, and the liquidity crisis was eased, bringing to the global bullish market after the second quarter. The Chinese stock market also benefited from the government's policy on supporting direct financing market, which ignited the bull market since the containment of the pandemic in the second quarter.

In 2020, the competition between the US and China reflects the characteristics of all-encompassing and globalization. As the impact of the pandemic expanded, the rivalry between the US and China extended across various fields including values, economic, cultural, technological, security areas and other aspects, and their influence further spread and broadened their global reach through ideological propaganda. Hong Kong's economy faced significant impact from the pandemic in terms of consumer consumption and tourism, with overall investment expenditure plunging further, resulting in the 6.1% record year on year drop in GDP, while the unemployment rate rose to 7% and retail sales plunged 24.3%, the largest yearly decline on record.

Despite the impact from the pandemic, the U.S.-China confrontation, Brexit and recession in major economies on market sentiment and investor confidence, the global capital markets remained strong in 2020. In terms of IPO markets, global IPO financing activities reached a ten-year high, with IPO fund raising increased by 42% over 2019 to US\$331 billion. 2020's top five exchanges in terms of fund raising were NYSE, NASDAQ, HKEx, SSE and SZSE. Of which: A-share IPO fund raising increased by 77% over 2019 to US\$64 billion; the number of IPO deals increased by 81% to 365, up from 202 in 2019. Meanwhile, the global top 10 IPO projects such as the JD.com, JD Health and NetEase were listed on the HKEx, driving a significant 26% increase in Hong Kong IPO fund raising as compared to 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

In terms of the bond market, the downward economic trend presents relatively certain market opportunities. In 2020, benefiting from the Federal Reserve's easing programme and fewer available outstanding investment targets, the Chinese USD bond issuance and subscription market remained active, with 616 new issuances and a total issuance size of US\$203.36 billion, which basically remained at the same level as in 2019. The amount of real estate enterprises issuance was US\$61.22 billion in 2020, down 15.8% year-on-year. The amount of urban investment issuance was US\$18.15 billion, down 32.6% year-on-year. New issuance from financial institutions and industrial sectors were active, with US\$60.11 billion and US\$63.87 billion issued in the year, up 11.6% and 24.5% year-on-year respectively. Issuance by high-yield issuers plummeted, accounted for approximately 25.8% of total issuance, down 26.8% year-over-year to US\$52.50 billion of bonds issued during the year. In 2020, a total of 32 bonds in the Chinese foreign bond market were in default, involving 16 issuers and US\$9.79 billion in default. There were a number of credit events in state-owned enterprises in the offshore market in 2020, particularly the Founder Group and the Yongcheng Coal.

### BUSINESS REVIEW

In 2020, against the backdrop of the rampant novel coronavirus pandemic and the unpredictable capital market, the Company focused on "deployment + investment" to define its strategic positioning and business direction, and increased the proportion of equity investments, so as to fully utilized the advantages of the capital market in Hong Kong and simultaneously linked up with overseas advantageous resources, in order to set up the aggressive business planning in Mainland China, Japan and Canada, thus achieve breakthroughs in the investment banking and capital management businesses. In terms of investment banking business, the Company acted as joint global coordinator, underwriter, joint bookrunner and joint lead manager in multiple occasions, and successfully assisted a number of institutions to list or issue US dollar bonds in Hong Kong, with an accumulated issuance size of over US\$1.5 billion; in terms of capital management business, the Company achieved a historic breakthrough with a management size of over HK\$4.0 billion, and significantly improved its investment research capability and asset utilization capacity; in terms of international business, the Company's business in Mainland China was fully rolled out and has achieved profitability in the first year, while several industrial investment funds were in the pipeline. The Japanese company also achieved profitability in the current period, the first industrial investment fund completed investment in three Japanese enterprises with potential growth, and the application for financial licenses duly reached the pre-negotiation stage. The Canadian company was established in September, and has already acquired certain high net worth clients, the company is now applying for a financial license. Initial testing of the business linkage between Mainland China, Japan, Hong Kong and Canada is afoot. In addition, the Company has established strategic partnerships with a number of domestic and foreign institutions to enhance its market awareness and comprehensive customer service capabilities.



# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECT

With the popularization of vaccination against novel coronavirus, herd immunity is expected to be achieved in 2 to 3 years, bringing hope for an end to the novel coronavirus pandemic, while the economic outlook is also expected to improve. The IMF estimated that the global economy will return to pre-pandemic 2019 output levels in 2021. In terms of U.S.-China relations, as Biden adopts a more moderate approach of a blended cooperation, competition and confrontation policy towards China, the economic, trade and financial order against the backdrop of international cooperation is expected to be restored, and the rift in international collaboration and ideology are expected to be rectified. Although the pandemic and the international situation have alleviated, uncertainties such as virus mutation, international isolation, inflation, geopolitical changes and ideological confrontation still persist in the long run, and the extent of their impact on Hong Kong remains uncertain, which also affects the consistency of the Company's business strategy.

The Company will continue to pursue the strategic direction of steady development, to expand on its business scale, strengthen its own capacity and enhance its financial performance, so as to create higher value for its customers, shareholders and business partners, and to provide its customers with a full range of professional financial solutions and quality services as its strategic goal, and actively explore new business models with more IT features, and strive to become an international professional financial services institution with market influence. Meanwhile, we will continue to expand into the Mainland China, Japan, Canada and other markets, improve our financial management capabilities and asset utilization as well as investment research abilities, and provide a full range of financial services to high net worth clients and quality enterprises of mainly Chinese descent. In addition, the Company will adjust its business structure and establish four business segments, namely proprietary investment, asset management, retail brokerage and investment banking capitalization, to improve its risk management and asset allocation capabilities.

Looking ahead, the Company will focus on the long-term goal of "rooted in Hong Kong, radiate out to Asia, and focus on future globalization layout", to leverage on Hong Kong's status as an international financial center, and seize the opportunities brought by the economic integration in the Greater Bay Area and the interconnection of the capital markets in China and Hong Kong, so as to actively expand and promote its asset management and investment banking services capabilities. We will also explore a more IT-enabled business model, seize any market opportunities, and steadily expand our business footprint to maximize the interests of all shareholders and investors.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the year ended 31 December 2020, the consolidated revenue of the Group was approximately HK\$318,327,000 (2019: HK\$188,177,000), representing an increase of approximately 69% as compared with the corresponding period last year.

The analysis of the Group's total revenue recognised in the consolidated statement of profit or loss is as follows:

For the years ended 31 December 2020 and 2019

	2020 HK\$'000	2019 HK\$'000	Change
Interest income	273,653	176,649	55%
Commission and fee income	28,570	2,782	927%
Investment income	16,104	8,746	84%
Total revenue	318,327	188,177	69%

The Group recorded a profit of approximately HK\$322,291,000 for the year ended 31 December 2020 (2019: loss of HK\$570,594,000), which was mainly due to the net effects of the following factors:

- (i) an increase of approximately 55% in interest income generated from the Group's overall business expansion in particular investment holding segment as compared with the corresponding period last year. For the year ended 31 December 2020, the interest income was approximately HK\$273,653,000 (2019: HK\$176,649,000);
- (ii) a significant net gain on investments with amount of approximately HK\$357,098,000 recorded for the year ended 31 December 2020 (2019: net loss of HK\$323,773,000); and
- (iii) a significant decrease in provision for financial assets with amount of approximately HK\$20,103,000 for the year ended 31 December 2020 (2019: HK\$240,082,000).

The total costs (including staff costs, premises expenses, finance costs, trading costs, expected credit losses allowances and other operating costs) for the year ended 31 December 2020 was approximately HK\$264,637,000 (2019: HK\$442,581,000), representing a decrease of approximately 40.2% which was due primarily to a significant decrease in the provision for financial assets as well as the effective cost control measures implemented by the Group in the area of premises expenses and other operating expenses for the reporting period.

# MANAGEMENT DISCUSSION AND ANALYSIS

On financial position and cash flows:

- the Group's total assets were approximately HK\$6,187,043,000 as at 31 December 2020 (as at 31 December 2019: HK\$5,736,975,000), representing an increase of approximately 7.8%; and
- net cash inflows/(outflows) from operating activities, investing activities and financing activities were approximately HK\$(1,493,533,000), HK\$(10,667,000) and HK\$(11,134,000) respectively for the year ended 31 December 2020 (2019: HK\$(342,430,000), HK\$(40,696,000) and HK\$297,376,000).

## Key financial and business performance indicators

The key financial and business performance indicators of the Group are comprised of profitability; loan receivables; impaired loan receivables to total loan receivables ratio; and gearing ratio.

The Group recorded a profit attributable to owners of the Company of approximately HK\$323,452,000 for the year ended 31 December 2020 as compared to a loss of approximately HK\$568,815,000 for the year ended 31 December 2019.

Loan and interest receivables balance arising from lending business increased to approximately HK\$179,801,000 as at 31 December 2020 (as at 31 December 2019: HK\$175,089,000).

Based on HKFRS 9 Expected Credit Losses ("ECL") assessment on margin receivables, loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income, the Group recognised an aggregate expected credit losses allowance of approximately HK\$20,103,000 in consolidated statement of profit or loss for the year ended 31 December 2020 (2019: HK\$240,082,000). Expected credit losses allowance to total margin receivables, loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income ratio was approximately 16.5% as at 31 December 2020 (as at 31 December 2019: 15.7%). The Group aims to further enhance its credit policy and assessment so as to maintain credit quality of its loan receivables and to take prompt actions to pursue loans recovery regarding potential problem credits.

As at 31 December 2020, the Group's gearing ratio (total debt to total equity) was approximately 9.9% (2019: 6.6%). The Group strives to achieve appropriate leverage level in order to grow its business effectively, and at the same time continue to monitor its liquidity prudently, manage key risks cautiously and set appropriate yet flexible business development strategies to strike a balance between business growth and risk management.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group's cash and bank balances (excluding pledged bank deposits) amounted to approximately HK\$626,976,000 (as at 31 December 2019: HK\$2,117,233,000). The current ratio as at 31 December 2020 was approximately 342.4% (as at 31 December 2019: 506.8%), which indicated that the Group's overall financial position remained strong.

The Directors are of the opinion that there are sufficient financial resources for the Group to meet its obligations and business requirements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATIONAL REVIEW

### Funding, capital structure and capital management

The main objective of the Group's funding activities is to ensure the availability of funds at reasonable costs to meet all contractual financial commitments and to generate reasonable returns from available funds.

The Group relies principally on its share capital, internally generated capital and other borrowings to fund its investments and loan lending business. The Group's interest bearing borrowings in the form of margin payables, repurchase agreements and loan payables amounted to approximately HK\$523,915,000 as at 31 December 2020 (as at 31 December 2019: HK\$344,258,000). Based on the level of total debt to total equity of the Group, the Group's gearing ratio stood at a healthy level of approximately 9.9% as at 31 December 2020 (as at 31 December 2019: 6.6%). The Group's borrowings are mainly denominated in US dollars, and have remaining average maturity periods of around one year. The Group's cash and cash equivalents are mainly denominated in US dollars, Renminbi, Japanese Yen, Canadian dollars and Hong Kong dollars. There were no foreign currency net investments hedged by foreign currency borrowings and other hedging instruments by the Group during the year under review.

### Asset quality and credit management

The Group will continue to manage key risks cautiously and set appropriate yet flexible business development strategies to strike a balance between business growth and risk management. Based on HKFRS 9 ECL assessment on margin receivables, loans receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income, the Group recognised a provision for/(reversal of) expected credit losses allowance of approximately HK\$8,945,000, HK\$(25,236,000), HK\$227,000 and HK\$36,167,000 in consolidated statement of profit or loss respectively for the year ended 31 December 2020 (2019: HK\$33,064,000, HK\$206,440,000, HK\$578,000 and HK\$Nil).

Furthermore, the Group aims to further enhance its credit policy and assessment so as to maintain credit quality of its financial assets. Further, the Group's investments and cash and bank balances are placed with a diversified portfolio of reputable financial institutions.

### Human resources management

The objective of the Group's human resources management is to reward and recognise well performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff enrolled in external training courses, seminars, professional and technical courses in order to update their technical knowledge and skills, to increase their awareness of the market developments, and to improve their management and business skills. To implement social distancing, the Group suspended all indoor or outdoor social and recreational activities resulting from the outbreak of COVID-19 in Hong Kong in February 2020 to the end of the reporting period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EXPOSURE TO EXCHANGE RATE FLUCTUATION AND RELATED HEDGING

The Directors considered that the Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in foreign currencies other than its functional currency, which is Hong Kong dollars. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency should the need arises.

## STAFF AND REMUNERATION POLICY

As at 31 December 2020, the Group has 77 employees (as at 31 December 2019: 62 employees).

The employees are remunerated based on their work performances, professional experiences and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the Group's management.

## CHARGES ON GROUP'S ASSETS

The analysis of the charge on Group's assets is as follows:

	2020 HK\$'000	2019 HK\$'000
Pledged deposits at bank	328	292
Total charges on the Group's assets	328	292

Deposits at bank are pledged as security for a corporate card granted to a director of the Group.

The above asset is pledged with creditworthy counterparty with no recent history of default.

## CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2020 (as at 31 December 2019: HK\$Nil).

## CAPITAL COMMITMENTS

The Group has entered into a contract to commit investing into an unlisted investment fund. The non-cancellable capital commitment as at 31 December 2020 is approximately HK\$15,979,000 (as at 31 December 2019: HK\$20,725,000).

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

Save as disclosed elsewhere in this report, the Group had no material acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2020.

## SIGNIFICANT INVESTMENTS

As at 31 December 2020, the Group had investments in financial assets designated at fair value through profit or loss, financial assets designated at fair value through other comprehensive income and financial assets at amortised cost with an aggregate carrying amount of approximately HK\$4,809,020,000 (as at 31 December 2019: HK\$2,966,726,000). The details of significant investments (each of which carrying value more than 3% of the total assets of the Group) as at 31 December 2020 are as follow:

Name of investee company/fund	Nature of investments	Classification	Number of shares/units held	Investment costs HK\$000	Fair value/ Carrying value as at	Percentage of	Unrealised gain/(loss) on	Realised gain/
					31 December 2020 HK\$000	Group's total assets as at 31 December 2020 HK\$000	change in fair value for the year ended 31 December 2020 HK\$000	(loss) for the year ended 31 December 2020 HK\$000
eToro Group Ltd.	Investment in unlisted preferred shares	Financial assets at fair value through profit or loss	1,216,248	391,891	658,971	10.7%	199,488	-
Wison (Nantong) Heavy Industry Co., Ltd.	Investment in unlisted shares	Financial assets at fair value through profit or loss	Not applicable	298,167	294,599	4.8%	(1,340)	-
Kaisa Group Holdings Ltd.	Investment in listed bond	Financial assets at fair value through profit or loss/ financial assets at fair value through other comprehensive income	371,000	295,369	299,216	4.8%	1,396	1,349
Yango Justice International Ltd.	Investment in listed bond	Financial assets at fair value through profit or loss/ financial assets at fair value through other comprehensive income	280,000	215,786	225,451	3.6%	4,637	7,654
Zensun Enterprises Ltd.	Investment in listed bond	Financial assets at fair value through profit or loss/ financial assets at fair value through other comprehensive income	290,000	224,612	217,587	3.5%	(1,311)	(160)
Treasury bonds reverse repurchase	Investment in listed bond	Financial assets at fair value through profit or loss	167,500	199,017	199,017	3.2%	-	-
Oakwise Innovation Fund SPC-SP3	Investment in unlisted investment fund	Financial assets at fair value through other comprehensive income	560,000	434,150	465,503	7.5%	-	-

# MANAGEMENT DISCUSSION AND ANALYSIS

Name of investee company/fund	Nature of investments	Classification	Number of shares/units held	Investment costs HK\$000	Fair value/ Carrying value as at 31 December 2020 HK\$000	Percentage of Group's total assets as at 31 December 2020 HK\$000	Unrealised gain/(loss) on change in fair value for the year ended 31 December 2020 HK\$000	Realised gain/(loss) for the year ended 31 December 2020 HK\$000
<i>Other significant investments as disclosed in 2019</i>								
Ronshine China Holdings Ltd.	Investment in listed bond	Financial assets at fair value through profit or loss/ financial assets at fair value through other comprehensive income	225,000	176,055	181,065	2.9%	1,337	1,266
Excellence Commercial Management Ltd.	Investment in listed bond	Financial assets at fair value through profit or loss/ financial assets at fair value through other comprehensive income	200,000	156,131	150,427	2.4%	(3,645)	–
Jingrui Holdings Ltd.	Investment in listed bond	Financial assets at fair value through profit or loss/ financial assets at fair value through other comprehensive income	160,000	124,545	121,950	2.0%	(702)	–
Agile Group Holdings Ltd.	Investment in listed bond	Financial assets at fair value through other comprehensive income	100,000	78,437	83,094	1.3%	–	–
Chariot SPC Fund— Chariot SP II	Investment in unlisted investment fund	Financial assets at fair value through other comprehensive income	24,000	240,000	64,602	1.0%	–	–
Great Courage Global Ltd.	Investment in unlisted note	Financial assets at amortised cost	Not applicable	141,260	140,698	2.3%	–	–

Looking ahead, the stock market is expected to remain volatile. The performance of proprietary investment will be affected by unstable market conditions. The Group will continue to implement strict risk control to minimise the impact of market volatility and will seek potential investment opportunities to diversify its investment portfolio with an aim to maximise value for the shareholders of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS

On 1 November 2019, the Company completed the placing of 5,785,740,000 new shares at the price of HK\$0.085 per share (the "Placing") and the net proceeds from the Placing, after deduction of the related underwriting fees and issuance expenses paid by the Company in connection therewith, were approximately HK\$487 million. The utilisation of net proceeds from the Placing is set out below:

<b>Use of net proceeds</b>	<b>Total amount planned to be used HK\$'million</b>	<b>Actual amount utilised up to 31 December 2020 HK\$'million</b>	<b>Remaining balance as at 31 December 2020 HK\$'million</b>
General working capital	37	37	–
Investment opportunities	450	450	–
Total	487	487	–

All the net proceeds have been fully utilised for such use by 31 December 2020.



# REPORT OF THE DIRECTORS

The Directors are pleased to present their report and audited consolidated financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries include investment holding, provision of asset management services, consultancy services, financing services, securities advisory and securities brokerage services.

The Group's revenue is mainly derived from business activities in Hong Kong, Mainland China and Japan. An analysis of the Group's revenue is set out in note 6 to the consolidated financial statements.

Particulars of the Company's major subsidiaries as at 31 December 2020 are set out in note 16 to the consolidated financial statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to various key risks including credit risk, interest rate risk, liquidity risk, operational risk and market risk. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 3 "Financial Risk Management" to the consolidated financial statements included in this annual report.

The Group's long term profitability and business growth are affected by the volatility and uncertainty of macroeconomic conditions (including but not limited to gross domestic product growth, consumer and asset price indexes, and credit demand), financial volatility (exacerbated by the recent Brexit impact and divergent monetary policies of United States and other countries), and uncertain economic outlook and political conditions of Hong Kong, Mainland China, United States, Eurozone, Japan, Canada and other countries. The divergence of monetary policies in major advanced economies is expected to continue to contribute partly to the volatility of fund and trade flows and that of asset prices and economic growth momentum in Hong Kong and Mainland China. Financial risk could quickly spill over from one to another nation given their increasing economic and political ties amongst each other. In particular, the potential impact on economic activities and on property, stock and debt prices of Hong Kong are subject to political and economic developments of Mainland China, United States, Eurozone, Japan, Canada and other countries.

### Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

### Third-Party Risks

The Group has been relying on third-party service providers in parts of its business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realises that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputable third-party providers and closely monitors their performance.

## BUSINESS REVIEW

A fair review of the Group's business and its outlook are set out in the section headed "Management Discussion & Analysis". No significant event affecting the Group has occurred since the end of the financial year under review.

The Group complies with the requirements under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), the Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance (Cap. 57 of the Laws of Hong Kong) and ordinances relating to occupational safety for the interest of employees of the Group.

The Group is committed to raising environmental awareness among its staff, partners, and stakeholders. It implemented energy saving practices in certain office premises. For example, the Group runs an internal recycling program on a continuous basis for consumable goods such as toner cartridges to minimize the impact on the environment and natural resources. The Group has taken the initiative to reduce energy use and waste, to use environmentally friendly products and aims to lead by example.

Going green will always continue to be a key focus for the Group. Green plants are kept in office and plant care service provider is responsible to take care of the plants every week. The Group currently uses and will continue to install lighting fixtures with LED lighting or T5 fluorescent tubes. Indoor temperature is maintained at 25°C to save energy.

The Group will review its environmental policies from time to time and will consider further eco-friendly practices in the operation of the Group's businesses to move towards enhancing environmental sustainability.

Further discussions on the Group's environmental policy and our relationship with various stakeholders are covered by the "Environmental, Social and Governance Report" section on pages 46 to 61 of this annual report.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND BUSINESS PARTNERS

The Group recognises the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year under review.

The Group encompasses working relationships with business partners to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to business partners before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analysis on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

# REPORT OF THE DIRECTORS

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 68 to 69 of this annual report.

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2020 (2019: HK\$Nil).

## ANNUAL GENERAL MEETING

The 2021 annual general meeting (the "2021 AGM") is expected to be held in June 2021. A further announcement in relation to the date of the 2021 AGM and the closure of register of members will be published in accordance with the Listing Rules.

## SHARES CAPITAL

Details of the shares are set out in note 28 to the consolidated financial statements.

## RESERVES

Details of the movements in reserves during the year are set out in note 30 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2020, calculated under Part 6 of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong), amounted to HK\$Nil (2019: HK\$Nil).

## FIVE YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, are summarised on page 144 of this annual report.

## DIRECTORS OF THE COMPANY

The Directors who held office during the year and up to the date of this report were:

### Executive Directors

Tomohiko Watanabe (*Chairman*)

Ni Xinguang (*Vice Chairman*)

Li Wei

### Non-executive Directors

Wang Dongzhi (Retired on 29 June 2020)

Zhang Yang (Appointed on 20 May 2020)

### Independent Non-executive Directors

Zhou Hui

Wang Yongli

Dong Hao

## REPORT OF THE DIRECTORS

The persons who were directors of the subsidiaries of the Company during the year (not including those Directors listed above) were:

Cai Zaoping  
Chen Xiao  
Chen Xiaoyan  
Cheng Song Guo (Appointed on 29 September 2020)  
Chen Zhihan (Resigned on 6 January 2020)  
Guo Yifan  
Han Qian  
He Wenzhong  
Lau Tak Wa  
Lee Nelson Ho Wing  
Li Man Kiu (Appointed on 6 January 2020)  
Lin Dong  
Lin Wei  
Liu Junliang  
Liu Tianfeng  
Liu Yiping  
Lu Zheng Xiong (Appointed on 29 September 2020)  
Lui Siu Man  
Ni Mei-Xiu  
Qiao Sandong  
Shen Zhaoyu  
Song Zhengtang  
Sui Yuwei  
Takuya Komuro  
Wang Bing  
Wang Weiqi  
Wang Yi Peng (Appointed on 29 September 2020)  
Wang Yuehui  
Wei Jian  
Wei Wenjun  
Xi Chenxing  
Xu Jiashu  
Xu Lixia  
Zhang Miaoyao  
Zhang Chao  
Zhang Ruichen  
Zhao Yue

# REPORT OF THE DIRECTORS

## DIRECTORS' PROFILES

Directors' profiles are set out on pages 43 to 45 of this annual report.

## INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, namely Mr. Wang Yongli, Ms. Zhou Hui and Mr. Dong Hao an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors are independent.

## DIRECTORS' SERVICE CONTRACTS

For the executive Directors, Mr. Tomohiko Watanabe entered into a service contract with the Company for a term of three years with effect from 18 February 2019. Mr. Ni Xinguang entered into a service contract with the Company for a period of two years commencing from 1 April 2008 which has expired on 31 March 2010. Mr. Ni has not entered into any new written service contract with the Company but is subject to retirement by rotation in accordance with the Articles. Ms. Li Wei entered into a service contract with the Company for a term of three years with effect from 30 July 2018. For the non-executive Directors, Mr. Zhang Yang entered into a service contract with the Company for a term of three years with effect from 20 May 2020. For the independent non-executive Directors, Mr. Wang Yongli entered into an appointment letter with the Company for a term of three years with effect from 12 November 2018. Ms. Zhou Hui entered into an appointment letter with the Company for a term of three years with effect from 21 March 2019. Mr. Dong Hao entered into an appointment letter with the Company for a term of three years with effect from 27 December 2019.

No Director proposed for re-election at the 2021 AGM has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory compensation.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 December 2020, the interests or short positions of each Director or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), are set out below:

#### 1. Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

Name of Director	Number of ordinary shares held		Total	Percentage of the issued share capital (Note (b))
	Personal interests	Corporate interests		
Ni Xinguang ("Mr. Ni")	46,068,000	416,004,000 (Note (a))	462,072,000	1.33%

Notes:

- (a) 416,004,000 shares were owned by Group First Limited, a private company wholly owned by Mr. Ni, representing approximately 1.20% of the issued share capital of the Company. By virtue of the SFO, Mr. Ni is deemed to have interest of the shares held by Group First Limited. There has been no change to such interest of Mr. Ni from 31 December 2020 to the date of this report.
- (b) The percentage was calculated based on the total number of 34,714,459,250 ordinary shares of the Company in issue as at 31 December 2020.

Save as disclosed above, as at 31 December 2020 and the date of this report, none of the Directors or chief executives of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code.

#### 2. Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2020, none of the Directors or chief executive of the Company, had any short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code.

# REPORT OF THE DIRECTORS

## EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered during the year or subsisting at the end of the year are set out below:

### Share Options

The Company adopted a share option scheme on 9 December 2013 (the "2013 Share Option Scheme") to replace the share option scheme adopted on 28 May 2004 (the "2004 Share Option Scheme"). Since then, no further option can be granted under the 2004 Share Option Scheme, but all options granted previously will remain exercisable in accordance with the terms of the 2004 Share Option Scheme and the relevant letters of offers to the respective grantees.

There was no outstanding option held under 2004 Share Option Scheme and 2013 Share Option Scheme as at 31 December 2020.

Details of the 2013 Share Option Scheme are listed below in accordance with Rule 17.09 of the Listing Rules:

**Purpose of the 2013 Share Option Scheme:** The purpose of the 2013 Share Option Scheme is to enable the Company to grant options (the "Options") to selected Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to the Group or any entity in which the Group holds an equity interest (an "Invested Entity"). The Company considers that the Invested Entity may contribute to the Group's profits. The Company also considers that the granting of the Options to the employees, directors, officers or consultants of the Invested Entity would provide an incentive for their contribution to the Invested Entity which indirectly benefits the Group.

**Eligible Participants (each, an "Eligible Participant", and collectively, the "Eligible Participants"):** Any full time or part time employees of the Group or any Invested Entity (including any Directors, whether executive or non-executive and whether independent or not, of the Company or any Subsidiary or any Invested Entity); any holder of any securities issued by the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sublicensee) or distributors, landlords or tenants (including any sub-tenants) of the Group or any Invested Entity or any person who, in the sole discretion of the Board, has contributed or may contribute to the Group or any Invested Entity.

## REPORT OF THE DIRECTORS

Maximum entitlement of each Eligible Participant:

The total number of shares issued and to be issued upon exercise of the Options granted to each Eligible Participant or grantee (including exercised and outstanding Options) in any twelve (12)-month period up to the date of grant shall not exceed 1% of the shares in issue. Where it is proposed that any offer is to be made to an Eligible Participant (or where approximate, an existing grantee) which would result in the shares issued and to be issued upon exercise of all Options granted and to be granted to such person (including exercised, cancelled and outstanding Options) in the twelve (12)-month period up to and including the relevant date of grant to exceed such limit, such offer and any acceptance thereof must be conditional upon shareholders' approval in general meeting with such Eligible Participant (or where appropriate, an existing grantee) and his, her or its associates abstaining from voting.

The amount payable on application or acceptance of the Option and the period within which payments or calls must be made or loans for such purposes must be paid:

HK\$1.00 is to be paid by each grantee as consideration for the grant of Option within 21 days from the date of offer.

Remaining life of the 2013 Share Option Scheme:

The 2013 Share Option Scheme shall be valid and effective for the period commencing from 9 December 2013 and expiring at the close of business on its tenth (10th) anniversary i.e. 9 December 2023.

Further details of share options were stipulated in note 31 to the consolidated financial statements.

Apart from the aforesaid, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries or its fellow subsidiaries, or its parent company or its other associated corporations a party to any arrangement to enable the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

### SHARE AWARD PLAN

On 19 December 2018, the Company adopted a share award plan ("Share Award Plan"). The purpose of the plan is to recognise and reward the contributions of certain eligible participants to the growth and development of the Group and to give incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

No shares have been granted under the Share Award Plan up to the date of this report.

Details of the Share Award Plan are set out in the Company's announcement dated 19 December 2018.



# REPORT OF THE DIRECTORS

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

## DIRECTORS' MATERIALS INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Apart from the particulars disclosed in note 34 under the heading "Related Party Transactions" to the consolidated financial statements, there were no transaction, arrangement and contract of significance in relation to the Group's business to which the Company's holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director and the director's connected party had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the usual course of business are set out in note 34 to the consolidated financial statements.

### Connected Transactions

During the year ended 31 December 2020, the Group did not have any non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The related-party transactions described in note 33 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules and have complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

## INDEMNITY OF DIRECTORS

The Company has maintained appropriate Directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the highest paid individuals of the Group are set out in notes 9 and 10 to the consolidated financial statements.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2020, so far as was known to the Directors, the following persons, other than the Directors and chief executives of the Company, had an interest or short position in the shares and underlying shares of the Company, which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

### Long positions in the shares and underlying shares of the Company

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Percentage of the issued share capital (Note (e))
蔷薇控股股份有限公司	Interest of controlled corporation (Note (a))	10,043,000,000	28.93%
蔷薇控股(深圳)有限公司	Interest of controlled corporation (Note (a))	10,043,000,000	28.93%
Vered Holdings (Hong Kong) Limited ("Vered Hong Kong")	Interest of controlled corporation (Note (a))	10,043,000,000	28.93%
Vered Investment Co., Ltd ("Vered Investment")	Interest of controlled corporation (Note (a))	10,043,000,000	28.93%
Vered Holdings Group Ltd ("Vered Holdings")	Beneficial owner (Note (a))	10,043,000,000	28.93%
Liu Xueyi	Interest of controlled corporation (Note (b))	4,600,041,390	13.25%
Prosper Ascend Limited	Beneficial owner (Note (b))	4,600,041,390	13.25%
Zhao Xinlong	Interest of controlled corporation (Note (c))	3,500,000,000	10.08%
Hong Kong Baohui Toda Limited	Beneficial owner (Note (c))	3,500,000,000	10.08%
China Minsheng Investment Group Corporation Ltd.	Interest of controlled corporation (Note (d))	2,072,618,610	5.97%
China Minsheng Asia Asset Management Co, Ltd	Interest of controlled corporation (Note (d))	1,430,000,000	4.12%
	Beneficial owner (Note (d))	642,618,610	1.85%
CMI Financial Holding Company Limited	Interest of controlled corporation (Note(d))	1,430,000,000	4.12%
CMI Financial Holding Corporation	Beneficial owner (Note (d))	1,430,000,000	4.12%

## REPORT OF THE DIRECTORS

### Notes:

- (a) 10,043,000,000 shares were held by Vered Holdings, which is wholly owned by Vered Investment, and which in turn is wholly owned by Vered Hong Kong. Vered Hong Kong is wholly owned by 蔷薇控股(深圳)有限公司, which in turn is wholly owned by 蔷薇控股股份有限公司.
- (b) 4,600,041,390 shares were held by Prosper Ascend Limited, which is wholly owned by Mr. Liu Xueyi. By virtue of the SFO, Mr. Liu Xueyi was deemed to have interest in the shares held by Prosper Ascend Limited.
- (c) 3,500,000,000 shares were held by Hong Kong Baohui Toda Limited, which is wholly owned by Mr. Zhao Xinlong. By virtue of the SFO, Mr. Zhao Xinlong is deemed to have interest in the shares held by Hong Kong Baohui Toda Limited.
- (d) 1,430,000,000 shares were held by CMI Financial Holding Corporation, which is wholly owned by CMI Financial Holding Company Limited, and which in turn is wholly owned by China Minsheng Asia Asset Management Co, Ltd ("CM Asia"). CM Asia is wholly owned by China Minsheng Investment Group Corporation Ltd. CM Asia also directly holds 642,618,610 shares.
- (e) The percentage has been calculated based on the total number of 34,714,459,250 ordinary shares of the Company in issue as at 31 December 2020.

Save as disclosed above, the Directors and the CEO are not aware that there is any party who, as at 31 December 2020, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial Shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### RIGHTS TO ACQUIRE COMPANY'S SECURITIES

Other than as disclosed under the sections "Share Options" and "Directors' and Chief Executives' Interests and/or Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Specified Undertaking of the Company or Any Other Associated Corporation" above, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## 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.

## RETIREMENT BENEFITS

The Group did not operate any retirement scheme up to 30 November 2000. With effect from 1 December 2000, MPF Scheme has been set up for employees, including executive Directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,500 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

## COMPETING INTERESTS

None of the Directors and their respective close associates (as defined under the Listing Rules) had any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year ended 31 December 2020 and up to the date of this report.

## EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the revenue attributable to the five largest customers of the Group accounted for approximately 40.85% of the Group's total revenue while the revenue attributable to the largest customer of the Group was approximately 10.17% of the Group's total revenue. The Group is a provider of financial services. In the opinion of the Board, it is therefore of no value to disclose details of the Group's suppliers.

Save as disclosed above, none of the Directors or any of their close associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any beneficial interest in the Group's 5 largest customers or suppliers.

# REPORT OF THE DIRECTORS

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this annual report.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2020, there was a sufficiency of public float the Company's securities as required under the Listing Rules.

## SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 15 March 2021, JBC Holding Limited ("JBC"), a wholly-owned subsidiary of the Company and Vered Holdings Co., Ltd ("Vered Japan") have entered into a subscription agreement, pursuant to which Vered Japan agreed to subscribe for 8,648 ordinary shares of JBC (representing approximately 49.003% of the enlarged equity interest in JBC) at a consideration of JPY86.48 million (equivalent to approximately HK\$6.2 million) (the "Subscription"). Completion of the Subscription took place on the same day. Vered Japan is a connected person of the Company and accordingly, the Subscription constitutes a deemed disposal and a connected transaction for the Company. JBC becomes an indirect non-wholly owned subsidiary of the Company and its results remains consolidated into the results of the Group. The Company has made announcements on 15 March 2021 and 19 March 2021 in relation to the above transaction.

## AUDITOR

The auditor appointed by the Company in the past three years is PricewaterhouseCoopers.

### AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process and internal controls of the Group. The Audit Committee currently comprises Ms. Zhou Hui (chairperson), Mr. Wang Yongli and Mr. Dong Hao.

An Audit Committee meeting was held on 22 March 2021 and attended by Ms. Zhou Hui, Mr. Wang Yongli and Mr. Dong Hao, who have reviewed the annual results for the year ended 31 December 2020.

By order of the Board  
**China Vered Financial Holding Corporation Limited**  
**Tomohiko Watanabe**  
*Chairman*

Hong Kong, 26 March 2021

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Throughout the year ended 31 December 2020, the Company has complied with most of the Code Provisions of the CG Code, save for the deviation of the Code Provision A.2.1 which are explained below.

According to Code Provisions A.2.1, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Tomohiko Watanabe acts as both the chairman and the chief executive officer of the Company, with effect from 5 March 2019. Although the roles of the chairman and chief executive officer of the Company are taken up by the same individual, such arrangement facilitates the development and execution of the Group's business strategies and enhances efficiency and effectiveness of its operation.

Under the Code Provision E.1.2 of the CG Code, the Chairman should attend the annual general meeting and he should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In addition, under the Code Provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of the Shareholders. During the year ended 31 December 2020, the annual general meeting was held on 29 June 2020, and the whole Board (excluding Mr. Wang Dongzhi who was retired on 29 June 2020) and the auditor of the Company responsible for the audit of the Company's financial statements for the year ended 31 December 2019 have attended the meeting to answer questions of the Shareholders.

## BOARD OF DIRECTORS

### Functions and role

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Company's operation and financial performance. All of the appointed Directors are subject to rotation for re-appointment at the annual general meeting, and each of the Directors is subject to retirement by rotation at least once every three years. Appropriate and sufficient information was provided to each of the Directors to keep abreast of his responsibilities as a Director and of the conduct, business activities and development of the Company.

The independent non-executive Directors are expressly identified in all corporate communications such as circular, announcement or relevant corporate communications in which the names of Directors are disclosed. Each of the independent non-executive Directors has filed an annual confirmation to the Company confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors meet the independence guideline set out in Rule 3.13 of the Listing Rules and are independent.

To the best knowledge of the Company, there is no financial, business, family relationship among the members of the Board as at 31 December 2020. All of them are free to exercise their individual judgment.

## Composition

As at the date of this Report, the Board comprises seven Directors, of which three are executive Directors, one is non-executive director and three are independent non-executive Directors. One of the three independent non-executive Directors possesses appropriate professional accounting qualifications and financial management expertise, which complies with the requirement of the Listing Rules. The Directors' respective biographical information is set out in this annual report under the heading "Directors' Profiles" and the names of current Directors on Board and their positions are as follows:

Name of Directors	Position
<i>Executive Directors</i>	
Mr. Tomohiko Watanabe	Chairman and CEO
Mr. Ni Xinguang	Vice Chairman
Ms. Li Wei	
<i>Non-executive Director</i>	
Mr. Zhang Yang	
<i>Independent Non-executive Directors</i>	
Ms. Zhou Hui	
Mr. Wang Yongli	
Mr. Dong Hao	

The Board held six Board meetings (including four regular Board meetings) during the financial year ended 31 December 2020. Appropriate and sufficient information was provided to the Board in a timely manner for their review before the meetings. Attendance of individual Directors at Board meetings is set out in the section of "Attendance of Board Meetings, Audit Committee Meetings, Nomination Committee Meetings, Remuneration Committee Meetings and Annual General Meeting in 2020".

## Chairman and CEO

The positions and roles of Chairman and CEO are held and performed. Mr. Tomohiko Watanabe has been appointed as the CEO of the Company on 5 March 2019, after which he has been acting as both the Company's CEO and Chairman.



# CORPORATE GOVERNANCE REPORT

## Board Practices

The Board, led by the Chairman, is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the secretary of the Board. With the support of executive Directors and the company secretary of the Company (the "Company Secretary"), the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Six Board meetings (including four regular Board meetings) were held during the year for facilitating the function of the Board. The Board believes that the Board meetings held during the financial year were adequate to cover all major issues during the year. In any event all Directors were available for consultation by management from time to time during the year.

The Board also reserves for its decisions on all major matters of the Company, including: the approval and monitoring of major policy matters, overall strategies and annual budgets and business plans, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information and other significant financial and operational matters.

Management is responsible for the day-to-day operations of the Group under the leadership of the CEO. The CEO, working with the management team, is responsible for managing the businesses of the Group including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group. Apart from the regular Board meetings, the Chairman may hold meetings with the independent non-executive Directors without the presence of executive Directors.

In order to ensure that the Board is able to fulfill its responsibilities, the Board has established and delegated specific responsibilities to the Audit Committee, Nomination Committee and Remuneration Committee. The details of the committees are stipulated on pages 35 to 38 of this report.

## CORPORATE GOVERNANCE REPORT

Sufficient formal notice of every regular Board meeting is given to all Directors to give them the opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The secretary of the Board shall attend all regular Board meetings and shall seek external advice on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to seek independent professional advice whenever deemed necessary. The secretary of the Board shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings. Draft and final versions of Board minutes have been sent to all Directors for their comment and records respectively within a reasonable time after the board meeting.

Appropriate insurance cover on Directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

The Company Secretary, Ms. Wong Wai Yee Ella, is responsible to the Board for ensuring that Board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and has regarded to them when making decisions. The Company Secretary is also responsible for advising the Board on the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Buy-backs, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations. During the year ended 31 December 2020, Ms. Wong Wai Yee Ella undertook not less than 15 hours of professional training to update her skills and knowledge.

### **DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT**

All Directors, including non-executive Director and independent non-executive Directors, should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he is sufficiently aware of his responsibilities under the Listing Rules and other relevant regulatory requirements. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and update all Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and to enhance their awareness of good corporate governance practices.

# CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Attended Seminars or Briefing/Read Materials
<i>Executive Directors</i>	
Mr. Tomohiko Watanabe	✓
Mr. Ni Xinguang	✓
Ms. Li Wei	✓
<i>Non-executive Director</i>	
Mr. Zhang Yang (Appointed on 20 May 2020)	✓
<i>Independent Non-executive Directors</i>	
Mr. Wang Yongli	✓
Ms. Zhou Hui	✓
Mr. Dong Hao	✓

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company for each financial period which gives a true and fair view of the financial position of the Group and financial performance and cash flows for that period and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. With the assistance of the Company Secretary, the Directors also ensure the publication of the consolidated financial statements of the Group in a timely manner.

The report of the external auditor of the Company, PricewaterhouseCoopers, with regard to their reporting responsibilities on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 62 to 67 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. All the Directors have confirmed, following specific enquiries made by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2020.

## AUDIT COMMITTEE

### Composition

The Company established an Audit Committee in 1999. It has written terms of reference in compliance with the CG Code. As at 31 December 2020, the Audit Committee consists of three independent non-executive Directors, namely Ms. Zhou Hui (the chairperson), Mr. Wang Yongli and Mr. Dong Hao respectively. The Audit Committee meets twice a year on a half year basis, or more frequently if required.

### Functions and Role

The primary functions of the Audit Committee are, inter alia, to assist the Board in fulfilling its overseeing responsibilities with respect to maintaining appropriate relationship with external auditor, and, to review the annual and interim report and other financial information provided by the Company to its shareholders, the public and other matters within the scope of the terms of reference. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

In discharging its responsibilities, the Audit Committee performed the following work during the year of 2020:

- (i) reviewed the effectiveness of audit process in accordance with applicable standards;
- (ii) reviewed the consolidated financial statements and reports and the change in accounting principles and policies and assessment of potential impacts on the Group's consolidated financial statements;
- (iii) reviewed the Group's risk management and internal control systems and discussed the relevant issues including financial, operational and compliance controls; and
- (iv) reviewed the internal control matters reported by internal auditor and external auditor and ensure the Board will provide a timely response to the issues raised therein.

During the year ended 31 December 2020, three Audit Committee meetings were held and the record of attendance of individual member is listed out on page 40 of this annual report.

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

### Composition

The Nomination Committee has been established with a defined terms of reference in consistent with the CG Code on 30 March 2012. As at 31 December 2020, the Nomination Committee consists of one executive Director, namely Mr. Tomohiko Watanabe (chairman) and three independent non-executive Directors, namely Mr. Wang Yongli, Ms. Zhou Hui and Mr. Dong Hao. The Nomination Committee meets at least once a year.

### Functions and Role

The primary duties of the Nomination Committee are, inter alia, reviewing the structure, size and composition of the Board, making recommendations to the Board on Board succession, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive Directors. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange. In addition, the Company has also adopted a nomination policy on 28 January 2019 in sight of the new Listing Rules that came into effect on 1 January 2019. Please see page 37 of this annual report for further details.

The Nomination Committee is responsible for making recommendations to the Board on nomination and appointment of Directors and Board succession, with a view to appoint to the Board individuals with suitable experience and capabilities to maintain and improve the competitiveness of the Company.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, past experience, qualifications, professional knowledge, personal integrity and time commitments of proposed candidates, including the independence status in the case of an independent non-executive Director, the Board Diversity Policy, the Company's needs and other relevant statutory requirements and regulations. During the year ended 31 December 2020, Mr. Zhang Yang was appointed as a non-executive Director.

During the year ended 31 December 2020, one Nomination Committee meeting was held for, inter alia, considering the retirement and re-election of the Directors at the annual general meeting, the appointment of Mr. Zhang Yang as a non-executive Director. The record of attendance of individual member is listed out on page 40 of this annual report.

## Nomination Policy

On 28 January 2019, the Company has adopted a nomination policy setting out the procedure for selection, appointment and re-appointment of directors containing the selection criteria to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

Pursuant to the Nomination Policy, the Nomination Committee will nominate suitable candidates to the Board with the following selection criteria:

- Reputation for integrity
- Potential contribution to the Board in terms of qualification, skills, independence and experience in the business of the Company
- Commitment in respect of available time and relevant interest
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

The Nomination Committee may nominate candidates, and/or invite nominations of candidates from Board members, for consideration by the Nomination Committee prior to its meetings from time to time for casual vacancies and/or candidates to stand for election at a general meeting.

In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from shareholders, a circular will be sent to shareholders. The circular will set out the lodgment period for shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders.

A shareholder can serve a notice to the Company Secretary of the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular. The particulars of the candidates so proposed will be sent to all shareholders for information by a supplementary circular.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting, and the ultimate responsibility for selection and appointment of Directors rests with the entire Board.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

### Composition

The Remuneration Committee has been established with written terms of reference in compliance with the CG Code. As at 31 December 2020, the Remuneration Committee members consists of three independent non-executive Directors, namely Mr. Wang Yongli (chairman), Ms. Zhou Hui and Mr. Dong Hao. respectively. The Remuneration Committee meets at least once a year.

### Functions and Role

The primary objectives of the Remuneration Committee include determining the remuneration policy, structure and remuneration packages of the Directors and senior management and make recommendations to the Board, and other related matters. The Remuneration Committee is responsible for establishing transparent procedures to develop such remuneration policy and structure which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange. The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management.

The Remuneration Committee are responsible for reviewing the market conditions, time commitment, responsibilities, performance of individuals and any other relevant information and propose to the Board for consideration and approval. None of the executive Directors can determine his own remuneration.

During the year ended 31 December 2020, one Remuneration Committee meeting was held to review the existing remuneration policy and structure of Company, to review and recommend the remuneration of executive Directors and senior management for Board approval and to recommend the remuneration of Mr. Zhang Yang, the newly appointed non-executive Director. The record of attendance of individual member is listed out on page 40 of this annual report.

### Emolument Policy

The emolument policy of the employees and senior management of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement, for the Board approval.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees.

## BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy (the "Policy") setting out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

During the year ended 31 December 2020, the Nomination Committee has reviewed the Policy to ensure its continued effectiveness.

## DIVIDEND POLICY

The Company has a dividend policy which aims to set out the principles and guidelines to be applied in relation to the declaration and/or payment of dividends to its shareholders. The Board has the sole and absolute discretion to declare and distribute dividends to the shareholders of the Company and their decision will depend on the actual and expected financial performance of the Group, retained earnings and distributable reserves of the Group, the level of the Group's debt to equity ratio, return on equity and relevant financial covenants, the current and future operations, expected working capital requirements and future expansion plans, current market condition, future development plan, and any other factors that the Board deem appropriate. The declaration and the amount of the dividends will also be subject to any restrictions under the applicable laws and regulations and the Company's constitutional documents. The dividends policy will be reviewed by the Board from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as it deems fit and necessary.

## CORPORATE GOVERNANCE FUNCTION

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 30 March 2012 and is in compliance with paragraph D3.1 of the CG Code. During the year ended 31 December 2020, the Board has reviewed the policy of the corporate governance of the Company and the corporate governance report.



# CORPORATE GOVERNANCE REPORT

## ATTENDANCE OF BOARD MEETINGS, AUDIT COMMITTEE MEETINGS, NOMINATION COMMITTEE MEETINGS, REMUNERATION COMMITTEE MEETINGS AND ANNUAL GENERAL MEETING IN 2020

	Attendance/Number of Meetings Held				Annual General Meeting held on 29 June 2020
	Board	Audit Committee	Nomination Committee	Remuneration Committee	
<b>Directors</b>					
<i>Executive Directors:</i>					
Tomohiko Watanabe	6/6	N/A	1/1	N/A	1/1
Ni Xinguang	6/6	N/A	N/A	N/A	1/1
Li Wei	6/6	N/A	N/A	N/A	1/1
<i>Non-executive Directors:</i>					
Zhang Yang (Note 1)	3/3	N/A	N/A	N/A	1/1
Wang Dongzhi (Note 2)	3/4	N/A	N/A	N/A	0/1
<i>Independent Non-executive Directors:</i>					
Wang Yongli	6/6	3/3	1/1	1/1	1/1
Zhou Hui	6/6	3/3	1/1	1/1	1/1
Dong Hao	5/6	3/3	1/1	1/1	1/1

### Notes:

1. Mr. Zhang Yang was appointed as non-executive Director on 20 May 2020.
2. Mr. Wang Dongzhi was retired as non-executive Director on 29 June 2020.

## AUDITOR'S REMUNERATION

During the year ended 31 December 2020, the fees paid or payable to external auditor of the Company, PricewaterhouseCoopers were HK\$2,800,000 for statutory audit services rendered and HK\$255,000 for non-audit service rendered to the Group respectively. The non-audit service represents taxation service fee.

## INVESTOR RELATIONSHIP AND COMMUNICATION

The Company endeavors to maintain good investor relationship with the Shareholders and potential investors by way of annual general meeting, publication of interim and annual reports on the websites of the Company and the Stock Exchange, and timely press releases on the Company's website. A Shareholder's Communication Policy was adopted by the Board on 30 March 2012 aiming at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company.

Shareholders are encouraged to attend the annual general meetings for which a notice would be served properly. The Chairman and/or Directors are available to answer questions on the Group's business at the meetings. At general meetings, separate resolutions are proposed on each substantial and separate issue such as the election of individual Directors and re-appointment of auditor.

The Company keeps on promoting investor relations and enhancing communication with the existing Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's registered office at 22/F, China Taiping Tower, 8 Sunning Road, Causeway Bay, Hong Kong.

## SHAREHOLDERS' RIGHTS

### Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Hong Kong Companies Ordinance and the Articles, an extraordinary general meeting can be convened by a written request signed by the Shareholders holding not less than one-twentieth of the paid-up share capital of the Company, stating the objects of the meeting, and deposited at the Company's registered office at 22/F, China Taiping Tower, 8 Sunning Road, Causeway Bay, Hong Kong.

### Procedures for putting forward Proposals at a General Meeting

A Shareholder shall make a written requisition to the Board or the Company Secretary at the Company's registered office at 22/F, China Taiping Tower, 8 Sunning Road, Causeway Bay, Hong Kong, specifying the shareholding information of the Shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

### Procedures for Directing Shareholders' Enquiries to the Board

Secretary may at any time send their enquires and concerns to the Board in writing through the Company Secretary at the Company's registered office at 22/F, China Taiping Tower, 8 Sunning Road, Causeway Bay, Hong Kong or send email to [ir@chinavered.com](mailto:ir@chinavered.com).

Shareholders may also make enquiries with the Board at the general meetings of the Company.

# CORPORATE GOVERNANCE REPORT

## CONSTITUTIONAL DOCUMENTS

During the year under review, there was no change in the Company's constitutional documents.

## RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Board complied with the code provisions on risk management and internal control as set out in the CG code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year end review of the effectiveness of the Company's and its subsidiaries risk management and internal control systems has been conducted annually and the systems are considered to be effective and adequate. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

## DIRECTORS' PROFILES

**Mr. Tomohiko Watanabe ("Mr. Watanabe")**, aged 55, was appointed as the Chairman and an executive Director on 18 February 2019, appointed as CEO on 5 March 2019 and the Chairman of the Nomination Committee on 27 December 2019, and has directorship in a number of subsidiaries of the Company. Mr. Watanabe is the vice-president of Vered Holdings Corporation (薔薇控股股份有限公司) ("Vered Holdings"). Prior to joining Vered Holdings, Mr. Watanabe had been employed by MUFG Bank (China), Ltd. (previously known as Bank of Tokyo-Mitsubishi UFJ (China), Ltd.) in various positions since 2009, including the General Manager of its China Business Division to take responsibility for corporate banking business for Chinese SOE and Multi-National corporations in the Greater China region, China Investment Banking Division and Corporate Planning Division, and also as Deputy General Manager of MUFG Bank (China), Ltd.'s Beijing branch.

Mr. Watanabe holds or had previously obtained the Class 2 Sales Representative qualification in Japan, series 7 and series 63 licence in the United States of America, and module 1B (dealing in securities) and module 4A (advising on corporate finance) qualifications in Singapore.

Mr. Watanabe obtained a bachelor degree in Economics from the Political Science and Economics, Waseda University in Japan.

**Mr. Ni Xinguang ("Mr. Ni")**, aged 51, was appointed as an executive Director of the Company on 11 January 2017 and Vice Chairman on 21 November 2017. He previously served as the Chairman and an executive Director from 12 March 2004 until his re-designation as a non-executive Director on 11 December 2015, He re-designated as an executive Director on 11 January 2017. He is also currently a director of Cheong Wa Limited, China Seven Star Group Secretarial Services Limited, China Seven Star Network Financial Management Limited, Cyberspring Limited, China Fame International Investment Limited, Fuzhou Landun Science of Life Co., Ltd., Kailey International Limited, King Respect Limited, Power Giant Limited, Seven Star Shopping Limited, Smart Idea Investment Limited, Top Pro Limited, World Grace Holdings Limited, World Structure Limited, Seven Star Shopping (China) Co., Ltd.\* (七星購物(中國)有限公司), Shanghai Seven Star Qiangguan Investment Management Co., Ltd.\* (上海七星強冠投資管理有限公司) and Shanghai Seven Star New Energy Investment Co., Ltd. (上海七星新能源投資有限公司) which are all subsidiaries of the Company.

Mr. Ni has extensive experience in the retail, distribution and printing business in the People's Republic of China. Further to a Diploma in Education, Mr. Ni also has a Degree of Master of Business Administration from the Nanyang Technological University in the Republic of Singapore.

\* For identification purposes only

## DIRECTORS' PROFILES

**Ms. Li Wei ("Ms. Li")**, aged 44, was appointed as executive Director of the Company on 30 July 2018. Ms. Li served as the Executive Vice President of the Company from 17 August 2018 to 23 May 2019. Ms. Li was the executive director and chief risk and operating officer of Ascent International Holdings Limited (Stock Code: 264.HK) and resigned on 7 September 2018. Ms. Li was employed by KEE Holdings Company Limited (currently known as China Apex Group Limited) (Stock Code: 2011.HK) as the chief risk and operating officer from September 2017 to July 2018. Ms. Li was appointed by Capital Finance Holdings Limited ("CFHL") (Stock Code: 8239.HK) to act as its chief operating officer, executive director, authorised representative and compliance officer from 24 August 2015, 1 July 2016, 1 January 2016 and 1 July 2016 respectively, and Ms. Li's appointments to such roles have ceased on 30 September 2017. Ms. Li has been appointed as the executive president, vice Chairlady and deputy chief executive officer of CFHL with effect from 21 September 2019.

Ms. Li obtained a bachelor's degree in enterprise management from Tianjin Normal University in the PRC and a master's degree in management from Tianjin University in the PRC.

**Mr. Zhang Yang ("Mr. Zhang")**, aged 42, was appointed as non-executive Director of the Company on 20 May 2020. Mr. Zhang is currently serving as the vice president of Vered Holdings and the general manager of Vered Capital Company Limited\* (薔薇資本有限公司). Prior to joining Vered Holdings and Vered Capital Company Limited, Mr. Zhang had acted as the chairman of the board of Shenzhen Success Electronics Co., Ltd\* (深圳宇順電子股份有限公司), a company listed on the Shenzhen Stock Exchange ("SZSE") (stock code: 002289), from September 2016 to June 2019 and was appointed as a director of GEM Co., Ltd\* (格林美股份有限公司), a company listed on the SME board of SZSE (stock code: 002340), from September 2014 to March 2019.

Mr. Zhang graduated from Qinghua University in 2001 with a bachelor's degree in Accounting (registered accountants), and obtained a degree of Master of Business Administration from the Chinese University of Hong Kong in 2008.

**Ms. Zhou Hui ("Ms. Zhou")**, aged 58, was appointed as an independent non-executive Director, the chairperson of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee on 21 March 2019. She graduated from the Renmin University of China (中國人民大學) with a master's degree in economics and holds the qualification of a senior professional accountant (高級會計師) in the PRC. Prior to joining the Company, Ms. Zhou had served at various managerial and finance-related positions at Huaneng Power International, Inc. (華能國際電力股份有限公司), a company whose shares are listed on the Stock Exchange (stock code: 902) and the Shanghai Stock Exchange (stock code: 600011) and whose American Depositary Receipts are traded on the New York Stock Exchange (ticker symbol: HNP), including chief accountant from March 2006 to January 2016, and vice general manager from October 2012 to March 2018. In addition, Ms. Zhou served as the vice chairperson of Huaneng Sichuan Hydropower Co., Ltd. (華能四川水電有限公司) and China Huaneng Finance Corporation (中國華能財務有限責任公司) from June 2005 to December 2016 and from March 2006 to October 2016, respectively. She was also a supervisor of China Yangtze Power Co., Ltd. (中國長江電力股份有限公司, a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600900)) from June 2010 to August 2016, a supervisor of Hainan Nuclear Power Co., Ltd. (海南核電有限公司) from August 2011 to September 2017 (including serving as the chairperson of the supervisory committee from December 2011 to September 2017), and a director of Tuas Power Ltd. (大士能源有限公司) from March 2008 to May 2018.

\* For identification purposes only

## DIRECTORS' PROFILES

**Mr. Wang Yongli (“Mr. Wang”)**, aged 56, was appointed as an independent non-executive Director, Chairman of the Remuneration Committee, member of the Audit Committee and the Nomination Committee on 12 November 2018. Mr. Wang graduated from the Xiamen University with a doctorate degree in Economics, and holds the qualification of a senior accountant in the PRC. Mr. Wang has 29 years of experience in the finance industry. Mr. Wang is the founding dean of the Fujian Straits Block Chain Research Institute\* (福建海峽區塊鏈研究院) and the chairman of the Fintech & Sharing Finance 100 Forum (金融科技與共享金融100人論壇) and the chairman of the CCF50 (中國文化金融50人論壇). Prior to joining our Company, Mr. Wang had served as the vice chairman of the China International Futures Co., Ltd. and from August 2015 to June 2017, he had been appointed as the senior vice president of LeEco Holdings (Beijing) Co., Ltd. and the chief executive officer of LeEco Finance. From May 1989 to July 2015, Mr. Wang held various positions in the Bank of China, including the member of Party Committee of the head office, assistant to the president, vice president, executive director and senior research fellow. Mr. Wang has been appointed as the Chief economist of Shenzhen Hai Wang Group Company Limited\* (深圳海王集團股份有限公司) since December 2018. Mr. Wang has been an independent director of China Shipbuilding Industry Company Limited, a company listed on the Shanghai Stock Exchange (601989.SSE) since July 2015 and an independent director of Digital China Information Service Company Ltd., a company listed on the Shenzhen Stock Exchange (000555.SZSE) since April 2018. Mr. Wang has in-depth knowledge and abundant practical experience in monetary finance, finance accounting, risk management, foreign exchange reserves, futures and derivatives, internet finance, digital coin and block chain.

**Mr. Dong Hao (“Mr. Dong”)**, aged 64, was appointed as an independent non-executive Director and a member of the Audit Committee, the Nomination Committee and the Remuneration Committee on 27 December 2019. Mr. Dong is currently an independent director of Fujian Green Pine Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300132). Prior to joining Fujian Green Pine Co., Ltd., Mr. Dong served as the deputy director of the Judicial Bureau of Yan’an City of Shaanxi Province (陝西延安市司法局副局長), deputy director of the research office of, deputy president and president of the administrative tribunal of, deputy head of the Intermediate People’s Court of Zhuhai City (珠海市中級人民法院研究室副主任、行政庭副庭長、庭長、副院長), president of the docket tribunal and the administrative tribunal of the Higher People’s Court of Guangdong Province (廣東省高級人民法院立案庭庭長、行政庭庭長), head of Zhuhai Intermediate People’s Court (珠海市中級人民法院院長), and vice president of Guangzhou University (廣州大學副校長). Mr. Dong obtained his master degree in administrative law from China University of Political Science and Law in 1991 and doctoral degree in constitutional and administrative law from Wuhan University in 1998.

Save as disclosed above, the Directors have not held any other positions in the Company or any of its subsidiaries and each of them is not connected with any Directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as disclosed above, none of the Directors held any directorships in any other listed companies on the Stock Exchange and any other stock exchange or other major appointments or professional qualifications during the three years preceding the date of this report.

\* For identification purposes only

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

China Vered Financial Holding Corporation Limited (the “Company”) and its subsidiaries (collectively known as the “Group” or “we”) are pleased to present our 2020 Environmental, Social and Governance (“ESG”) Report (the “Report”). The Group is committed to maintaining high standards of corporate governance in order to continuously enhance our efforts in sustainability and social responsibility and to create long-term values for our stakeholders.

## REPORTING STANDARD

This Report has been prepared pursuant to the Environmental, Social and Governance Reporting Guide, which is the Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited. A content index with reference to the Reporting Guide is included at the end of this Report for the ease of the readers.

The Group adheres to the following reporting principles:

<b>Materiality</b>	This Report is structured based on the materiality of respective sustainability issues as assessed and identified with stakeholder engagement. The issues that are most significant to the Group in terms of its environmental and social impacts are considered material and will be discussed in this Report.
<b>Quantitative</b>	This Report provides information on our ESG metrics and presents KPIs in quantitative terms whenever feasible.
<b>Consistency</b>	This Report is prepared to be in consistent with the methodology applied in the ESG report from 1 January 2019 to 31 December 2019 (the “Previous Year”).
<b>Balance</b>	This Report provides an unbiased narrative explanation of our sustainability achievements and challenges.

## REPORTING PERIOD AND SCOPE

Unless otherwise stated, information disclosed in this Report covers the Group’s businesses in Hong Kong, including the asset management services, securities brokerage services, investment holding, and investment banking services, for the financial year ended 31 December 2020 (the “Reporting Period”).

## SUSTAINABILITY APPROACH & ESG GOVERNANCE

Our Board of Directors (“the Board”) is responsible for formulating our corporate strategy with considerations of the challenges and opportunities of sustainable development. The Board also has an overall responsibility in the identification, evaluation and mitigation of different types of risks (including but not limited to ESG risks) of the Group, and maintaining and enhancing the effectiveness of our risk management and internal control systems.

The Audit Committee of the Board will regularly review our risk management and internal control systems, follow up on issues reported by our senior management and auditors and report any actions taken to the Board. One may refer to the Corporate Governance Report on pages 30 to 42 of this Annual Report for more information on our corporate governance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDERS ENGAGEMENT

As an integral part of our social responsibility management and also for devising the Group's policies in sustainable development, the Group maintains ongoing communications with our stakeholders through our daily operations. Through our interaction with different stakeholders, we have summarised and presented their key concerns in the following table:

Key Stakeholders	Concerns	Communication Channels
<b>Clients</b>	<ul style="list-style-type: none"> <li>➢ Service quality and satisfaction</li> <li>➢ Information security and data privacy</li> </ul>	<ul style="list-style-type: none"> <li>➢ Client visit/meeting</li> <li>➢ Feedback via front-line staff</li> <li>➢ Customer service hotline/email</li> <li>➢ WeChat official account</li> <li>➢ Satisfaction survey</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>➢ Creating shareholder value</li> <li>➢ Business strategy</li> <li>➢ Corporate governance and risk management</li> <li>➢ Information transparency</li> </ul>	<ul style="list-style-type: none"> <li>➢ Annual general meetings and other general meetings</li> <li>➢ Regular publications and disclosures</li> <li>➢ Investor communication meeting</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>➢ Remuneration and welfare benefits</li> <li>➢ Working environment</li> <li>➢ Career development and training</li> <li>➢ Employees' rights protection</li> </ul>	<ul style="list-style-type: none"> <li>➢ Internal announcements and notices</li> <li>➢ Performance review</li> <li>➢ Staff training</li> </ul>
<b>Business partners</b>	<ul style="list-style-type: none"> <li>➢ Financial performance</li> <li>➢ Business integrity and anti-corruption</li> <li>➢ Maintaining close relationship for mutual growth</li> </ul>	<ul style="list-style-type: none"> <li>➢ Meetings/conferences</li> <li>➢ Telephone/email</li> <li>➢ Business negotiations</li> <li>➢ Contracts and agreements</li> </ul>
<b>Regulatory authorities</b>	<ul style="list-style-type: none"> <li>➢ Compliance with relevant laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>➢ Ad-hoc enquiries</li> <li>➢ Regulator's inspection</li> <li>➢ Regular publications and information disclosure</li> </ul>
<b>Community</b>	<ul style="list-style-type: none"> <li>➢ Community investment</li> <li>➢ Financial services</li> <li>➢ Green operation</li> </ul>	<ul style="list-style-type: none"> <li>➢ Company website</li> <li>➢ Regular publications and announcements</li> <li>➢ Community engagement/services</li> </ul>

## YOUR FEEDBACK

We hope to promote communication between the Group and our stakeholders through this Report. Understanding and responding to the needs of our stakeholders are crucial to our continuous growth and success. We sincerely invite you to provide your valuable opinion. Your input can help us further optimize our sustainability management and performance. If you have any questions or suggestions, please forward your comments to [ir@chinavered.com](mailto:ir@chinavered.com). Your feedback will be highly appreciated.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ANTI-MONEY LAUNDERING

As a financial institution, one of our core social responsibilities is to prevent and detect money-laundering. We actively fulfil such an obligation and are not aware of any non-compliance cases against relevant laws and regulations, including but not limited to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) of Hong Kong. All employees must uphold the Company's compliance manual which sets out the guidance on, among the others, anti-money laundering, customer due diligence and client identity. It is our responsibility to ensure that all of our employees understand the guidelines as set out in the manual. In addition, we provide trainings to colleagues to give examples of potential money laundering acts and help them in identifying these illegal activities. We also provide guidance to our staff to handle the matters in relation to the following aspects: (i) client identity verification, (ii) client risk grading, (iii) retention of transaction records, and (iv) large amount and suspicious trading reports.

We employ a systemic approach to monitor clients' transaction activities and identify suspicious financial activity. When there are suspicious cases relating to terrorist financing and money laundering activities in the areas of terrorism, drug trafficking and organised and serious crimes, our employees are obliged to report to the compliance department who is responsible to review such transactions, and identify and report suspicious cases to the Joint Financial Intelligence Unit of the Hong Kong government. In addition, compliance department would review the anti-money laundering procedures regularly to ensure that they are consistent with international and local regulatory updates.

## BUSINESS INTEGRITY

We believe that integrity is one of the key cornerstones for fulfilling our corporate social responsibilities and achieving sustainable Group's development. We commit to complying with all relevant laws and regulations of the HKSAR and the regulatory authorities such as the Prevention of Bribery Ordinance (Cap. 201), the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ("SFC") and the Guidelines on Competence. The employees were required to follow the highest level of integrity and professional ethics. Our Employee Code of Conduct requires employees to safeguard the Group's reputation and interests and explicitly prohibit employees from engaging in fraudulent behaviours or deception. Our internal rules and policy in relation to confidentiality and conflict of interest set out our standards and guidelines in professional conduct, dealing with trade secrets, avoidance of related parties transactions and financial disciplines. Bribery offering and taking are clearly defined and possible bribery acts in brokerage, investment banking, and asset management are stated to prevent such offenses. Rules of ex-ante approval, whistle-blowing, investigation and accountability mechanisms are also established to prevent our staffs from participating in any bribery acts or improper behaviours.

During the Reporting Period, the Group together with its directors and employees were not involved in any legal cases concerning corrupted practices. We were not aware of any material non-compliance cases relating to bribery, extortion, fraud and money laundering.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## PRODUCTS AND SERVICES QUALITY

The Group is targeting to put client's interest on our top priority and to provide them with quality services. We comply with requirements in accordance with the Inland Revenue Ordinance (Cap. 112), the Securities and Futures Ordinance (Cap. 571) and the Listing Rules. We have set up processes to assure compliance, service quality and due diligence throughout our operation. We prohibit any form of dishonesty and deceptive statements and all marketing materials must be based on the facts and should not have any biased view to mislead customers in purchasing our products and services. Our employees have the responsibility to ensure contents of all marketing materials and statements disseminated on behalf of the Group are accurate. Risk profile assessment for customers is required in order for us to propose the most suitable investment products to them. This allows us to match the clients' expectations based on their risk attitude, and ensure that the highest quality services are offered to our clients.

We have established a client feedback and complaint handling process to ensure proper and timely handling of complaints from our clients. We also strive to improve our customers' experience so as to provide innovative, efficient and convenient services to our clients. Based on clients' feedbacks, we continue to optimize our business operation processes and enhance our working efficiency.

## DATA SECURITY AND CLIENT PRIVACY

As a responsible financial advisory corporate, we are committed to protecting the sensitive information of our clients. We have formulated and implemented a data privacy and security policy to standardize the handling of client data. It clearly defines the process for client information access, transfer and management so that improper disclosure or abusive use of client information are prevented. The Group is adhered to the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) and ensured that customers' personal data was securely kept and processed only for the purposes of which it had been collected.

We implemented information system control to strictly regulate its operation and maintenance and the use and storage of information. We signed confidentiality undertakings with the relevant personnel to maintain the client information security and transaction security.

During the Reporting Period, we were not aware of any significant non-compliance with relevant laws and regulations, including but not limited to the Personal Data (Privacy) Ordinance (Cap. 486). We did not receive any complaint concerning breaches of clients' privacy nor we have identified any leak or loss of client data.

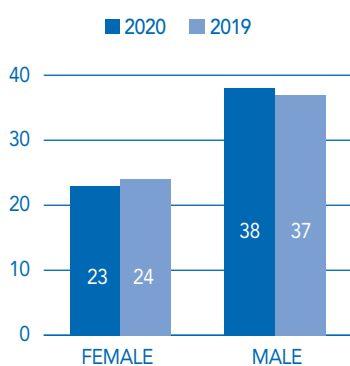
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OUR PEOPLE

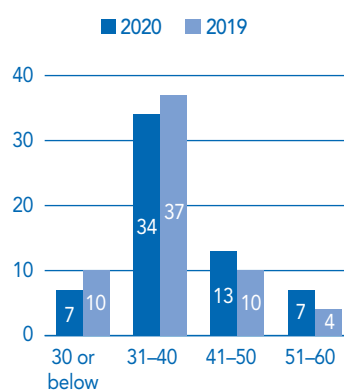
We value talent and consider our staff as the greatest attribute to ensure long-term success of our business. We are dedicated to attracting, retaining, and developing talented individuals, as well as forging solid and healthy relationships with them. We are committed to maintaining a non-discriminatory workplace where all employees are provided with opportunities to reach their full potential.

As of 31 December 2020, we employed a total of 61 (2019: 61) full-time staff in Hong Kong.

### EMPLOYEES BY GENDER



### EMPLOYEES BY AGE



### Equal Opportunities, Recruitment and Dismissal

We have been striving to build a diversified talent team that upholds equal opportunities and respect the uniqueness of each individual. We ensure that our recruitment process is free from any forms of discrimination against one's ethnicity, gender, age, religion, disability or sexual preference and would only consider the competencies, experience and qualification of candidates in the process. The same philosophy also applies in the workplace and we make our every effort in eliminating discrimination, harassment or assault in our offices. For employee dismissal, our human resources department will arrange exit interview with every resigned employee in order to understand the reasons and identify possible improvements in our talent management.

### Remuneration and Benefits

We strive to attract and retain talents by offering competitive remuneration packages. Our remuneration policy is designed to encourage employees at all levels in making contributions to achieve our development goals. Our fair and motivating remuneration takes one's position, responsibilities and performance into account. We offer discretionary bonus based on the performance of the Group and the result of individual appraisal.

Our management periodically reviews the remuneration policy and packages according to prevailing economic and market conditions and the Group's performance. Besides, the Group has been adopting a share option scheme for eligible employees (including Directors) so as to provide incentives for their continuing contributions and foster mutual growth of the participants and the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition to statutory holidays, our staff are also entitled to five-day working week, paid annual leave, sick leave, paternity and maternity leaves, wedding and funeral leaves.

To implement social distancing, the Group suspended all indoor or outdoor social and recreational activities resulting from the outbreak of COVID-19 in Hong Kong in February 2020 to the end of the Reporting Period.

## Training and Development

In accordance with the requirements of SFC, all the Responsible Officers and Licensed Representatives of the Group have to attend continuous professional training each year. Hence, professional training is essential for our employees. Moreover, we believe that staff training and development is fundamental for the Group to retain talents and remain competitive in the industry.

We organize both internal and external training and encourage our staff to participate in those training sessions. Topics of internal training depends on the development needs of the Group and those of the staff, such as latest updates on industry trends and relevant financial laws and regulations. To support the personal growth of our employees, we also provide subsidies, fee reimbursement and leaves for staff attending relevant examinations.

	2020 Trainings Received in Percentage	2019 Trainings Received in Percentage <sup>1</sup>
<b>Employees who had Received Trainings</b>		
Total	92%	66%
<b>Gender</b>		
Male	61%	65%
Female	39%	35%
<b>Staff Category</b>		
Senior Management	9%	5%
General Staff	91%	95%

<sup>1</sup> The Stock Exchange of Hong Kong ("HKEx") had published the "How to prepare an ESG report - Appendix 3: Reporting Guidance for Social KPIs" in March, 2020. The guidance stipulates clearly the methodologies for calculating required social KPIs. Therefore, we made reference to this guidance to calculate employment related KPIs this year. At the same time, to be consistent with the current presentation, relevant comparative data for 2019 was also restated.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Occupational Health and Safety

We place high importance on the health of employees. The COVID-19 outbreak has spread across the world, impacting the society, economy and businesses in all the countries affected. Our highest priority remains in the safety and well-being of our employees. We have established proper control methods aimed at identifying and taking action against any potential hazards in our office areas. Apart from supplying our employees with face masks and hand sanitizers, we aim to strengthen the hygiene of all office areas in which all employees and visitors are required to wear face masks. We also set up "Work from Home Arrangement" pursuant to the public policies announced by the Hong Kong Government from time to time in order to minimize the risks of our staff in being infected with COVID-19 when travelling to or from our offices.

While there is no significant health and safety risk in the office environment, we strive to create a healthy and safe workplace through the adoption of the following measures:



No case in relation to work-related injuries or fatalities (Year 2019: one injury on the way to work) were recorded during the Reporting Period and the Group was not aware of any non-compliance with the Occupational Safety and Health Ordinance (Cap. 509).

## Employment Practices

As an ethical corporate, we are strictly abided by the Employment Ordinance (Cap. 57) and other labour related laws and regulations. We prohibited any illegal employment of children or forced labour, discrimination and harassment. In order to prevent the employment of child labour, our human resources department is responsible for verifying the identity documents of the candidates before employment. If the candidate failed to meet all the applicable legal employment requirements, the recruitment procedure would be terminated.

During the Reporting Period, no non-compliance incidents with relevant labour and employment laws and regulations, including the Employment Ordinance (Cap. 57), Employees' Compensation Ordinance (Cap. 282), Minimum Wage Ordinance (Cap. 608), was identified.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENT

Our business is office based and we do not create significant negative environmental impact. Nonetheless, we are fully aware of our responsibilities in environmental protection and sustainable development. We have taken actions in advocating and supporting green operation and green office, so as to cultivate the consciousness of employees in energy saving and recycling and minimize our impact on the environment.

During the Reporting Period, the Group was not aware of any significant non-compliance with the relevant environmental laws and regulations, including Air Pollution Control Ordinance (Cap. 311), Waste Disposal Ordinance (Cap. 354) and Water Pollution Control Ordinance (Cap. 358).

### Energy Consumption

Electricity consumption is our major impact on the environment and the major source of our greenhouse gas (“GHG”) emission. In our offices, we have adopted various green practices to reduce the consumption of electricity. Examples of such green practices are:

- set the temperature of air conditioning in all offices at 25°C to avoid unnecessary power consumption;
- use energy efficient lighting fixtures;
- prefer the procurement of energy efficient electrical appliances based on their grading under the Hong Kong EMSD Mandatory Energy Efficiency Labelling Scheme (MEELS); and
- remind employees to switch off all air-conditioning, lighting and idle office equipment when leaving office, especially before holidays.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Emission/Use of Resources	2020	2019	Unit
<b>Energy consumption</b>			
Purchased electricity	<b>183,088.00</b>	193,134.00	kWh
Unleaded petrol	<b>31,869.39</b>	17,430.49	kWh
Total energy consumption	<b>214,957.39</b>	210,564.49	kWh
Energy intensity per office floor area	<b>129.55</b>	90.74	kWh/m <sup>2</sup>
<b>GHG emissions<sup>2</sup></b>			
Scope 1	<b>9.47</b>	5.09	tonnes CO <sub>2</sub> eq
Scope 2	<b>146.47</b>	154.51	tonnes CO <sub>2</sub> eq
Total emissions (Scope 1 and 2)	<b>155.94</b>	159.60	tonnes CO <sub>2</sub> eq
GHG intensity per office floor area	<b>0.09</b>	0.07	tonnes CO <sub>2</sub> eq/m <sup>2</sup>
<b>Air emissions</b>			
Nitrogen oxides (NO <sub>x</sub> )	<b>1.71</b>	0.85	kg
Sulphur oxides (SO <sub>x</sub> )	<b>0.05</b>	0.03	kg
Particulate matter (PM)	<b>0.13</b>	0.06	kg

## Water Usage and Sewage Discharge

Our daily operation does not consume a significant amount of water or generate a large amount of sewage. Our water comes from the Water Supplies Department of Hong Kong and we do not have any issue in sourcing water. We use water for drinking, toilet flushing and office cleaning. We raise the awareness on water conservation in our offices and encourage our employees to develop a habit of water saving by having water conservation slogans put up in our offices to remind employees of proper water usage. Water consumption data is not available as the property manager of our offices do not record the water usage of individual tenant.

<sup>2</sup> Our reporting on air and greenhouse gases (GHG) emissions are mainly based on the requirements in "How to prepare an ESG report — Appendix 2: Reporting Guidance on Environmental KPIs" published by the HKEx and "GHG Protocol Corporate Accounting and Reporting Standard (revised edition)" published by the World Business Council for Sustainable Development and World Resources Institute.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Waste Management

We do not generate hazardous waste in our daily operation. Whereas for non-hazardous waste, it includes paper and other general office waste.

We consume a relatively large amount of paper during our daily operation, especially during the period of the pandemic as employees would work at the offices more often than going on business travels by airplanes. To reduce paper waste at source, we encourage paper saving by promoting communication through electronic means, replacing print-out copies with electronic versions, and using double-sided function for printing when necessary. During the Reporting Period, we have generated about 3.88 tonnes of non-hazardous waste (2019: 3.71 tonnes). The intensity is approximately 2.34 kg (2019: 1.60 kg) per square meter of office floor area.

## SUPPLY CHAIN MANAGEMENT

We do not produce any physical product; hence we do not have significant procurement. Our major suppliers are service providers of property management and information technology, as well as office supply vendors. We maintain strategic partnerships with our suppliers and support them through an open and fair procurement process. Procurement decisions take the following aspects of potential suppliers into account, such as compliance with laws and regulations, past experience in products or services, environmental sustainability, the quality of products and services and the current market price. We prefer selecting suppliers who share the same environmental, social and ethical values as us.

## COMMUNITY INVESTMENT

To deliver a long-term value for the community we serve, we cultivate and promote awareness on social responsibility among our staff and encourage them to participate in voluntary works and charitable activities. In 2020, we noticed the pandemic in Japan was growing continuously and also had a shortage of protective gears, the Group had contacted the Embassy of the People's Republic of China in Japan and donated 500,000 pairs of medical face masks to express our care towards Japan and hope this could be helpful to ease their tight supply of protective gears for battling against the pandemic.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## HKEX ESG GUIDE CONTENT INDEX

Subject Areas and Aspects	Section/Explanation	Page Number
<b>A. Environmental</b>		
<b>Aspect A1: Emissions</b>		
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.	Environment 53
KPI A1.1	The types of emissions and respective emission data.	Energy Consumption 53
KPI A1.2	Greenhouse gas emissions in total and intensity.	Energy Consumption 53
KPI A1.3	Total hazardous waste produced and intensity.	We do not generate hazardous waste in our operations. —
KPI A1.4	Total non-hazardous waste produced and intensity.	Waste Management 55
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environment 53
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste Management 55

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas and Aspects	Section/Explanation	Page Number
<b>Aspect A2: Use of Resources</b>		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.  Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	Environment 53
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Energy Consumption 53
KPI A2.2	Water consumption in total and intensity.	Water Usage and Sewage Discharge 54
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Energy Consumption 53
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Energy Consumption 53
KPI A2.5	Total packaging material used for finished products and with reference to per unit produced.	We have no tangible goods and no packaging is involved in our operation. –
<b>Aspect A3: Environment and Natural Resources</b>		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment 53
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment 53

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas and Aspects	Section/Explanation	Page Number	
<b>B. Social</b>			
<b>Employment and Labour Standards</b>			
<b>Aspect B1: Employment</b>			
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.	Equal Opportunities, Recruitment and Dismissal Remuneration and Benefits Employment Practices	50 50 52
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Our People	50
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Not disclosed	–
<b>Aspect B2: Health and Safety</b>			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety	52
KPI B2.1	Number and rate of work-related fatalities.	Occupational Health and Safety	52
KPI B2.2	Lost days due to work injury.	Occupational Health and Safety	52
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety	52

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas and Aspects	Section/Explanation	Page Number
<b>Aspect B3: Development and Training</b>		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training and Development 51
KPI B3.1	The percentage of employees trained by gender and employee category.	Training and Development 51
KPI B3.2	The average training hours completed per employee by gender and employee category.	Not disclosed –
<b>Aspect B4: Labour Standards</b>		
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.	Employment Practices 52
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employment Practices 52
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Not disclosed –
<b>Operating Practices</b>		
<b>Aspect B5: Supply Chain Management</b>		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management 55
KPI B5.1	Number of suppliers by geographical region.	Not disclosed –
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Not disclosed –

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas and Aspects	Section/Explanation	Page Number	
<b>Aspect B6: Product Responsibility</b>			
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.	Products and Services Quality	49
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	We do not produce tangible goods.	–
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed	–
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not disclosed	–
KPI B6.4	Description of quality assurance process and recall procedures.	Products and Services Quality	49
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Data security and Client Privacy	49

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas and Aspects	Section/Explanation	Page Number
<b>Aspect B7: Anti-Corruption</b>		
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.	Business Integrity Anti-money Laundering 48 48
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Business Integrity 48
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Business Integrity 48
<b>Community</b>		
<b>Aspect B8: Community Investment</b>		
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.	Community Investment 55
KPI B8.1	Focus areas of contribution.	Community Investment 55
KPI B8.2	Resources contributed to the focus area.	Community Investment 55

# INDEPENDENT AUDITOR'S REPORT



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA VERED FINANCIAL HOLDING CORPORATION LIMITED (FORMERLY KNOWN AS CHINA MINSHENG FINANCIAL HOLDING CORPORATION LIMITED)

*(incorporated in Hong Kong with limited liability)*

### OPINION

#### What we have audited

The consolidated financial statements of China Vered Financial Holding Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 143, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

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

#### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

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

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

- Assessment of expected credit losses ("ECL") of loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income
- Valuation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which were categorised as level 3
- Consolidation of structured entities

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Assessment of expected credit losses ("ECL") of loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income</b></p> <p>Refer to notes 2.9, 3.2, 4.2, 19, 20 and 22 to the consolidated financial statements.</p> <p>As at 31 December 2020, the Group had loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income of approximately HK\$179,801,000, HK\$443,865,000 and HK\$1,936,021,000 respectively, after provision of ECL of HK\$264,381,000, HK\$805,000 and HK\$36,167,000 respectively.</p> <p>The Group assessed whether the credit risk of loan and interest receivable, financial assets at amortised cost and financial assets at fair value through other comprehensive income have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. In assessing the provision of ECL, management exercise significant judgment on the selection of unobservable data inputs to this three-stage impairment model including probability of default, exposure at default, loss given default and discount rate.</p> <p>We focused on ECL assessment due to the materiality of the balances of loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income and the provision of ECL, and the assessment of ECL involves critical accounting estimates and judgments. In particular, we focused on:</p> <ul style="list-style-type: none"><li>• Management assessment and identification of significant changes in borrowers' and issuers' credit risk; and</li><li>• Selection of key unobservable inputs to the three-stage impairment model.</li></ul>	<p>Our audit procedures in relation to management's assessment of ECL of loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income included:</p> <ul style="list-style-type: none"><li>• Evaluated and tested management's key control over the identification of significant changes in borrowers' and issuers' credit risk based on established criteria which is the adverse change in the payment status of borrowers and issuers. The key control is the review of quarterly credit monitoring reports by the risk function independent from the transaction initiation unit which prepare the credit monitoring reports. The control exercised by the risk function focuses on independent assessment of the borrowers' and guarantors' financial capability subsequent to the draw down;</li><li>• Reviewed the detailed application of key ECL model definitions, staging and assessed the reasonableness of key management's assumptions based on historical information and forward-looking information including changes of future economics, market environment and potential impacts of COVID-19 in accessing the provision of ECL;</li><li>• Tested the reliability of ECL data inputs during the period, by reviewing the counterparties' credit information such as credit risk ratings, overdue status and other relevant information; and</li><li>• Tested mathematical accuracy by recalculating the provision for ECL.</li></ul> <p>Based on the procedures we performed, we found the management's assessment of ECL of loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income were supported by available evidence that we gathered.</p>



# INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Valuation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which were categorised as level 3</b></p> <p>Refer to notes 3.5, 4.1, 18 and 19 to the consolidated financial statements.</p> <p>As at 31 December 2020, the Group held financial assets classified as fair value through profit or loss and financial assets at fair value through other comprehensive income with carrying value of HK\$1,664,112,000 and HK\$622,229,000, which were categorised as level 3 in the fair value hierarchy.</p> <p>In assessing valuation of such assets, management exercise significant judgment on the selection of appropriate valuation technique and unobservable inputs.</p> <p>We focused on the valuation of the unquoted financial assets categorised as level 3 in the fair value hierarchy due to the materiality of the balances and the high degree of subjectivity and management judgment. Due to the fact that availability of market data and observable inputs is limited for these unquoted financial assets, management judgment is involved in both selection of appropriate valuation technique and unobservable inputs. In particular, we focused on:</p> <ul style="list-style-type: none"><li>• Risk assessment by considering the degree of estimation uncertainty and level of other inherent risk such as complexity, subjectivity, change and susceptibility to management bias of fraud;</li><li>• Determination of the appropriate valuation techniques to be applied;</li><li>• Identification and management assessment of the inputs used in the model; and</li><li>• Determination of the need of any adjustment required to the recent market transactions, to reflect the facts and circumstances of the unquoted financial assets of the Group.</li></ul>	<p>Our audit procedures in relation to valuation of the unlisted financial assets categorised as level 3 in the fair value hierarchy included:</p> <ul style="list-style-type: none"><li>• Based on the results of risk assessments, involved our internal valuation expert to review the reasonableness of the valuation by assessing the model, inputs and key assumptions adopted;</li><li>• Assessed the appropriateness of the valuation techniques based on our industry knowledge and the market practices;</li><li>• Verified key inputs and information identified by management that used in the valuation against the underlying source documentation, including external report relevant for valuation; and</li><li>• Assessed the need of key valuation adjustments by challenging management on the appropriateness of key assumptions including potential impacts of COVID-19 in the valuation and judgment employed based on available information and facts and circumstances of these unlisted financial assets without quoted price in active market.</li></ul> <p>Based on the procedures we performed, we found the valuation technique adopted to be appropriate and considered that the key inputs and assumptions used by management in the valuation techniques were supported by available evidence.</p>

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matter

## How our audit addressed the Key Audit Matter

### Consolidation of structured entities

Refer to notes 4.2, 18 and 19 to the consolidated financial statements.

As at 31 December 2020, the Group had investments in unconsolidated structured entities classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income of approximately HK\$392,142,000 and HK\$686,831,000 respectively.

Management's decision on whether or not to consolidate these structured entities was based on assessments of the Group's power, its variable returns and the ability to exercise its power to influence the variable returns from these structured entities.

We focused on the consolidation assessments of these structured entities made by management during our audit as whether or not to consolidate these entities involved significant judgment.

Our audit procedures in relation to consolidation of structured entities included:

- Assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities;
- Performed independent analysis and tests on the variable returns from the structured entities, including but not limited to retention of residual income, and, if any, liquidity and other support provided to the structured entities; and
- Assessed whether the fund managers of these structured entities acted as a principal or an agent of the Group through analysis of the fund manager's decision-making authority, its remuneration entitlement, other interests and rights held.

Based on the procedures performed above, we found management's judgment relating to the consolidation of structured entities acceptable.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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.

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 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 Audit Committee is responsible 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. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

## INDEPENDENT AUDITOR'S REPORT

- 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.

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

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

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 Mr. Wenping Yao.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 26 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
Interest income		273,653	176,649
Commission and fee income		28,570	2,782
Investment income		16,104	8,746
<b>Total revenue</b>	5, 6	<b>318,327</b>	188,177
Net gain/(loss) on financial assets/(liabilities)		357,098	(323,773)
Other income		4,310	102
Commission expenses		(59)	(1)
Staff costs and related expenses	9	(151,083)	(88,968)
Premises expenses		(22,508)	(38,309)
Legal and professional fees		(19,543)	(14,344)
Depreciation		(11,893)	(7,853)
Information technology expenses		(5,678)	(5,814)
Expected credit losses allowance	3.2	(20,103)	(240,082)
Other operating expenses		(19,688)	(36,224)
Share of post-tax loss of associates	17	(37,228)	(65,394)
Finance costs	25	(14,082)	(10,985)
<b>Profit/(loss) before income tax</b>	8	<b>377,870</b>	(643,468)
Income tax (expense)/credit	8	(55,579)	72,874
<b>Profit/(loss) for the year</b>		<b>322,291</b>	(570,594)
<b>Profit/(loss) attributable to:</b>			
— Owners of the Company		323,452	(568,815)
— Non-controlling interests		(1,161)	(1,779)
		<b>322,291</b>	(570,594)
		<b>HK Cents per share</b>	<b>HK Cents per share</b>
<b>Earnings/(loss) per share attributable to owners of the Company</b>			
<b>Basic earnings/(loss) per share</b>	12	<b>0.98</b>	(1.90)
<b>Diluted earnings/(loss) per share</b>	12	<b>0.93</b>	(1.90)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
<b>Profit/(loss) for the year</b>	<b>322,291</b>	(570,594)
<b>Other comprehensive income/(loss)</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Net change in fair value on financial assets designated at other comprehensive income, net of tax	(77,235)	(69,637)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net change in fair value on financial assets designated at other comprehensive income, net of tax	(5,069)	(288)
Net change in ECL allowances on financial assets at fair value through other comprehensive income	7,667	–
Exchange differences on translation of foreign operations	21,648	(3,907)
<b>Other comprehensive loss for the year, net of tax</b>	<b>(52,989)</b>	(73,832)
<b>Total comprehensive income/(loss) for the year</b>	<b>269,302</b>	(644,426)
<b>Total comprehensive income/(loss) for the year attributable to:</b>		
— Owners of the Company	286,248	(648,096)
— Non-controlling interests	(16,946)	3,670
	<b>269,302</b>	(644,426)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	20,986	27,022
Right-of-use assets		17,783	24,630
Goodwill	14	15,871	15,871
Other intangible assets	15	700	700
Investments in associates	17	106,365	138,942
Rental and other deposits		3,215	6,585
Financial assets designated at fair value through profit or loss	18	1,283,393	853,734
Financial assets designated at fair value through other comprehensive income	19	1,686,335	1,372,404
Financial assets at amortised cost	20	172,078	523,001
Deferred tax assets	8	88,265	99,194
<b>Total non-current assets</b>		<b>3,394,991</b>	<b>3,062,083</b>
<b>Current assets</b>			
Margin receivables and other trade receivables	21	62,351	78,709
Financial assets designated at fair value through profit or loss	18	1,145,741	217,587
Financial assets designated at fair value through other comprehensive income	19	249,686	–
Financial assets at amortised cost	20	271,787	–
Loan and interest receivables	22	179,801	175,089
Other interest receivables		65,960	53,058
Tax receivables		715	694
Other receivables, prepayments and deposits		17,737	13,294
Pledged bank deposits	23	328	292
Deposits with brokers	23	170,970	18,936
Cash and bank balances	23	626,976	2,117,233
<b>Total current assets</b>		<b>2,792,052</b>	<b>2,674,892</b>
<b>Total assets</b>		<b>6,187,043</b>	<b>5,736,975</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	28	6,154,374	6,154,374
Other reserves		430,290	647,082
Accumulated losses		(1,034,730)	(1,359,470)
		<b>5,549,934</b>	<b>5,441,986</b>
Non-controlling interests		(261,312)	(244,366)
<b>Total equity</b>		<b>5,288,622</b>	<b>5,197,620</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loan and interest payables	24	74,437	–
Lease liabilities		8,660	11,534
<b>Total non-current liabilities</b>		<b>83,097</b>	<b>11,534</b>
<b>Current liabilities</b>			
Accruals and other payables	26	136,761	139,996
Loan and interest payables	24	243,520	312,933
Margin payables	27	205,958	31,325
Financial liabilities designated at fair value through profit or loss	18	145,037	–
Lease liabilities		9,994	13,516
Current tax liabilities	8	74,054	30,051
<b>Total current liabilities</b>		<b>815,324</b>	<b>527,821</b>
<b>Total liabilities</b>		<b>898,421</b>	<b>539,355</b>
<b>Total equity and liabilities</b>		<b>6,187,043</b>	<b>5,736,975</b>

Approved by the Board of Directors on 26 March 2021 and are signed on its behalf by:

**Tomohiko Watanabe**  
Director

**Li Wei**  
Director



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

Note	Attributable to owners of the Company												
	Share capital	Share-based payments reserve	Shares held for share award plan	Special capital reserve	Foreign currency translation reserve	Statutory surplus reserve	Investment revaluation reserve non-recycling	Investment revaluation reserve recycling	Accumulated losses	Total	Non-controlling interest	Total equity	
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
Balance at 1 January 2020	6,154,374	7,108	-	726,699	15,807	7,328	(109,572)	(288)	(1,359,470)	5,441,986	(244,366)	5,197,620	
<b>Comprehensive income/(loss)</b>													
Profit for the year	-	-	-	-	-	-	-	-	323,452	323,452	(1,161)	322,291	
<b>Other comprehensive income/(loss)</b>													
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(77,235)	(5,069)	-	(82,304)	-	(82,304)	
Change in ECL allowances on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	7,667	-	7,667	-	7,667	
Exchange differences on translation of foreign operations	-	-	-	-	37,433	-	-	-	-	37,433	(15,785)	21,648	
<b>Total comprehensive income/(loss) for the year ended 31 December 2020</b>	-	-	-	-	37,433	-	(77,235)	2,598	323,452	286,248	(16,946)	269,302	
Transfer of gain on disposal of financial assets at fair value through other comprehensive income to accumulated losses	-	-	-	-	-	-	(1,288)	-	1,288	-	-	-	
<b>Total transactions with owners, recognised directly in equity</b>													
Acquisition of shares for share award plan	31	-	-	(178,300)	-	-	-	-	-	(178,300)	-	(178,300)	
Balance at 31 December 2020		6,154,374	7,108	(178,300)	726,699	53,240	7,328	188,095	2,310	(1,034,730)	5,549,934	(261,312)	5,288,622

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company										
	Share capital HK\$'000	Share-based payments reserve HK\$'000	Special capital reserve HK\$'000	Foreign currency translation reserve HK\$'000	Statutory surplus reserve HK\$'000	Investment revaluation reserve non-recycling HK\$'000	Investment revaluation reserve recycling HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
<b>Balance at 31 December 2018</b>	5,667,546	8,125	726,699	25,163	7,328	(39,935)	-	(790,058)	5,604,868	(248,036)	5,356,832
Adjustments recognised on adoption of HKFRS 16	-	-	-	-	-	-	-	(597)	(597)	-	(597)
<b>Balance at 1 January 2019</b>	5,667,546	8,125	726,699	25,163	7,328	(39,935)	-	(790,655)	5,604,271	(248,036)	5,356,235
<b>Comprehensive income/(loss)</b>											
Loss for the year	-	-	-	-	-	-	-	(568,815)	(568,815)	(1,779)	(570,594)
<b>Other comprehensive income/(loss)</b>											
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(69,637)	(288)	-	(69,925)	-	(69,925)
Exchange differences on translation of foreign operations	-	-	-	(9,356)	-	-	-	-	(9,356)	5,449	(3,907)
<b>Total comprehensive income/(loss) for the year ended 31 December 2019</b>	-	-	-	(9,356)	-	(69,637)	(288)	(568,815)	(648,096)	3,670	(644,426)
<b>Total transactions with owners, recognised directly in equity</b>											
Issue of new shares on placement	491,787	-	-	-	-	-	-	-	491,787	-	491,787
Share issuance cost	(4,959)	-	-	-	-	-	-	-	(4,959)	-	(4,959)
Cash-settled share-based payments	-	(1,017)	-	-	-	-	-	-	(1,017)	-	(1,017)
<b>Balance at 31 December 2019</b>	6,154,374	7,108	726,699	15,807	7,328	(109,572)	(288)	(1,359,470)	5,441,986	(244,366)	5,197,620

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
<b>Cash flows from operating activities</b>		
Profit/(loss) before income tax	377,870	(643,468)
Adjustments for:		
Interest income	(273,653)	(176,649)
Dividend income	(16,104)	(8,746)
Depreciation	11,893	7,853
Depreciation of right-of-use assets	14,563	29,462
Written-off of property, plant and equipment	383	684
Share of loss from investments accounted for using equity method	37,228	65,394
Expected credit losses allowance	20,103	240,082
Disposal gains on financial assets at fair value through profit or loss	(77,281)	(58,095)
Disposal gains on financial assets at fair value through other comprehensive income	(10,129)	–
Disposal gains on financial assets at amortised cost	(696)	–
Fair value (gains)/losses on financial assets at fair value through profit or loss	(266,655)	353,221
Fair value gains on financial liabilities at fair value through profit or loss	(2,337)	–
Fair value losses on derivative financial instruments	–	28,647
Finance costs	14,082	10,985
Foreign exchange (gains)/losses on operating activities	(21,483)	7,666
Operating cash flows before movements in working capital	(192,216)	(142,964)
Change in margin receivables and other trade receivables, other receivables, prepayments and deposits	11,393	211,710
Change in loan receivables	20,428	87,750
Change in deposits with brokers and pledged bank deposits	(134,080)	(2,295)
Change in trade payable, accruals and other payables	(7,531)	50,040
Cash (used in)/from operations	(302,006)	204,241
Purchases of financial assets at fair value through profit or loss	(8,201,878)	(349,206)
Purchases of financial assets at fair value through other comprehensive income	(920,497)	(1,199,579)
Purchases of financial assets at amortised cost	(354,596)	(524,057)
Settlement of derivative financial instruments	–	205
Proceeds from disposal of financial assets at fair value through profit or loss	7,660,689	1,422,666
Proceeds from disposal of financial assets at fair value through other comprehensive income	256,902	–
Proceeds from disposal of financial assets at amortised cost	115,571	–
Dividend received	16,104	8,746
Bank and other interest received	256,706	120,865
Interest paid	(14,866)	(14,215)
Income tax paid	(5,662)	(12,096)
<b>Net cash used in operating activities</b>	<b>(1,493,533)</b>	<b>(342,430)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(6,016)	(27,044)
Investment in associate		(4,651)	(13,652)
<b>Net cash used in investing activities</b>		<b>(10,667)</b>	<b>(40,696)</b>
<b>Cash flows from financing activities</b>			
Acquisition of shares for share award plan		(178,300)	–
Net proceeds from issue of shares		–	486,828
Net proceeds from margin payables		174,715	31,493
Net proceeds from/(repayment of) loan payables and bank borrowings		5,077	(192,772)
Principal elements of lease rentals paid		(12,626)	(28,173)
<b>Net cash (used in)/from financing activities</b>		<b>(11,134)</b>	<b>297,376</b>
Net decrease in cash and cash equivalents		(1,515,334)	(85,750)
Cash and cash equivalents at the beginning of the year		2,117,233	2,216,342
Effects of exchange rate changes		25,077	(13,359)
<b>Cash and cash equivalents at the end of the year</b>		<b>626,976</b>	<b>2,117,233</b>
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash and bank balances	23	626,976	2,117,233

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL INFORMATION

China Vered Financial Holding Corporation Limited (formerly known as China Minsheng Financial Holding Corporation Limited) (the “Company”) was incorporated in Hong Kong with limited liability. The address of its registered and business office is 22/F, China Taiping Tower, 8 Sunning Road, Causeway Bay, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of its principal subsidiaries include investment holding, provision of asset management services, consultancy services, financing services, securities advisory and securities brokerage services.

These consolidated financial statements are presented in thousands of Hong Kong dollars (“HK\$’000”), unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the “Group”).

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### ***New and amended standards adopted by the Group***

The Group has applied the following standards and amendments for the first time for their annual reporting year commencing 1 January 2020:

- Definition of Material — amendments to HKAS 1 and HKAS 8
- Definition of a Business — amendments to HKFRS 3
- Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting
- Annual Improvements to HKFRS Standards 2018–2020 Cycle.
- Covid-19-Related Rent Concessions — amendments to HKFRS 16 and Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

#### ***New standards and interpretations not yet adopted by the Group***

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

Subsidiaries are entity (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### 2.2.1 Consolidation *(Continued)*

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person of Group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the executive directors as its chief operating decision maker.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Foreign currency translation

#### (a) **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in thousands of HK dollars ("HK\$'000"), which is the Company's functional and the Group's presentation currency.

#### (b) **Transactions and balances**

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within "Finance costs". All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "Other income" or "Other operating expenses".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss, except that for non-monetary financial assets, such as equities, classified as available for sale, in which case with translation differences are included in other comprehensive income.

#### (c) **Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (b) income and expenses for each consolidated statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the lease term of 2–3 years
Furniture, fixtures and office equipment	20%
Software	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income" in the consolidated statement of profit or loss.

### 2.7 Intangible assets

#### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Intangible assets *(Continued)*

#### **(b) Trading right**

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Financial assets

#### **Initial recognition and measurement**

Financial assets within the scope of HKFRS 9 are classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were required. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Assets are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

The Group's financial assets include margin receivables and other trade receivables, other receivables, financial assets designated at fair value through other comprehensive income, financial assets designated at fair value through profit or loss, financial assets at amortised cost, loan and interest receivables, deposits with brokers, pledged bank deposits and cash and bank balances.

Transfers between levels of the fair value hierarchy are deemed to be occurred at the beginning of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Financial assets *(Continued)*

#### **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

(i) *Financial assets at fair value through profit or loss ("FVPL")*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss within "Net gain/(loss) on financial assets/(liabilities)" in the period in which they arise. These net fair value changes do not include any interest earned on these financial assets. Interest income is recognised in revenue on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Financial assets designated upon initial recognition at FVPL are designated at the date of initial recognition and only if the criteria under HKFRS 9 are satisfied.

(ii) *Financial assets at amortised cost*

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loan receivables and some debt securities, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes the directly attributed transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan becomes impaired.

The Group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.8 Financial assets *(Continued)*

#### **Subsequent measurement** *(Continued)*

(iii) *Financial assets at fair value through other comprehensive income ("FVOCI")*

(a) Debt securities

Financial assets held for a business model that is achieved by both selling and collecting contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the consolidated statement of profit or loss as "Net gain/(loss) on financial assets/(liabilities)".

(b) Equity securities

The equity securities for which fair value movements are shown in other comprehensive income are for business facilitation and other similar investments where Group holds the investments other than to generate a capital return. Gains or losses on derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss, except for dividend income which is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Impairment of amortised cost and FVOCI financial assets

Expected credit losses (“ECL”) are recognised for loan and interest receivables, margin receivables, financial assets at amortised cost and FVOCI. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) (“12-month ECL”). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (“lifetime ECL”). Financial assets where 12-month ECL is recognised are considered to be “stage 1”; financial assets which are considered to have experienced a significant increase in credit risk are in “stage 2”; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in “stage 3”. Purchased or originated credit-impaired financial assets (POCI) are treated differently as set out below.

#### ***Unimpaired and without significant increase in credit risk (stage 1)***

ECL resulting from default events that are possible within the next 12 months (“12-month ECL”) are recognised for financial instruments that remain in stage 1.

#### ***Significant increase in credit risk (stage 2)***

An assessment of whether credit risk has increased significantly is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly have experienced a significant increase in credit risk, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the characteristics of the financial instrument, the borrower and their industries. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of client. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, corporate and commercial customers, and included on a watch or worry list are included in stage 2.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Impairment of amortised cost and FVOCI financial assets *(Continued)*

#### ***Credit-impaired (stage 3)***

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are 90 days past due or above;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

#### ***Write-off***

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

#### ***Movement between stages***

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

#### ***Measurement of ECL***

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions (including the potential impacts of COVID-19) at the reporting date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active market, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 2.11 Financial liabilities

Financial liabilities measured at fair value through profit or loss refers to the financial instruments issued by the subsidiary of the Group that is classified as equity instruments in accordance with HKAS 32 in the separate financial statements of this subsidiary attributable to non-controlling interests.

Except for financial liabilities measured at fair value through profit or loss, other financial liabilities including loan and interest payables, margin payables, trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

### 2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses lifetime expected credit loss allowance for all trade and other receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### 2.15 Collateral

Cash collateral provided by the Group is identified in the statement of financial position as "Deposit with brokers" and "Pledged bank deposits" and are not included as a component of cash and cash equivalents. For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Group classifies that asset in its statement of financial position separately from other assets and identifies the asset as pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, a disclosure of the collateral provided is made in the notes to the financial statements.

### 2.16 Segregated accounts

Segregated accounts maintained by the Group to hold clients' monies are treated as off statement of financial position items and are disclosed in note 23 to the consolidated financial statements.

### 2.17 Share capital

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

Dividend on ordinary shares is recognised as a liability in the consolidated financial statements in the period in which it is approved by the shareholders or directors where appropriate.

### 2.18 Loan payables and margin payables

Loan payables and margin payables are recognised initially at fair value, net of transaction costs incurred. Borrowings, including loan payables and margin payables, are subsequently carried at amortised cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the consolidated statement of profit or loss as "Finance Cost" over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Loan payables and margin payables are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Loan payables and margin payables are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Trade payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.20 Repurchase agreements

The obligations under repurchase agreements arises when the securities re-pledged are sold by the Group with a concurrent agreement to repurchase at a specified later date and price. These securities are not required to be derecognised in the consolidated statement of financial position. The consideration received by the Group is recognised as “loan and interest payables” in the consolidated statement of financial position. The Group may be required to provide additional collateral based on the fair value of the underlying assets if necessary. Repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost.

### 2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (a) **Current income tax**

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

#### (b) **Deferred income tax**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Current and deferred income tax *(Continued)*

#### **(b) Deferred income tax** *(Continued)*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### **(c) Offsetting**

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

### 2.22 Employee benefits

#### **(a) Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs, depending on the location of the subsidiaries, of their payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### **(b) Employee level entitlements**

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Employee benefits *(Continued)*

#### (c) **Bonus**

The Group recognises a liability and an expense for bonuses, in which the bonus scheme is at the discretion of the Group's Directors based on the Group performance that takes into consideration the profit attributable to the Group after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### (d) **Share-based payments**

Equity-settled share-based payments to employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payments to certain employees and Directors are measured at the fair value of the services rendered or, if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as expense.

#### (e) **Other termination benefits**

The Group recognises a liability and an expense for the remaining remuneration under the employment contract when the employees are voluntarily separated from the Company and they are not considered providing any future economic benefits to the Company.

### 2.23 Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.24 Revenue recognition

Revenue is recognised when control of a good or service transfers to customer, on the following bases:

#### (a) **Interest income**

Interest income includes interest income from bond investment, note investment, loan lending, bank deposits and margin financing. Interest income for all interest-bearing financial instruments are recognised within "Interest income" in the consolidated statement of profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### (b) **Commission and fee income**

Commission and fee income includes brokerage commission income, loan arrangement fee income performance fee income, management fee income, underwriting fee income and advisory fee income.

Brokerage commission income on dealing in securities contracts is recognised on a trade date basis when the relevant transaction is executed.

Loan arrangement fees are recognised as revenue when the loan has been granted by the Group and accepted by the borrowers and the related arrangement services have been completed.

Performance fees are recognised on the performance fee valuation day of the investment funds and managed accounts when there is a positive performance for the relevant performance period and it is determined that they are no longer highly probable of significant reversal in a subsequent period, taking into consideration the relevant basis of calculation for the investment funds and managed accounts.

Management fees are recognised as the services are performed over time and are primarily based on agreed upon percentage of the net asset values of the investment funds and managed accounts.

Underwriting commission income are recognised as revenue in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed.

Advisory fee income are recognised when advisory services are rendered.

Other fee income are recognised as revenue when the Group performs its role as an agent and when the corresponding services are rendered.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.24 Revenue recognition *(Continued)*

#### **(c) Net investment income**

Net investment income includes dividend income is recognised when the right to receive payment is established.

### 2.25 Finance costs

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

All other finance costs are recognised in consolidated statement of profit or loss in the period in which they are incurred.

Finance costs include interest expense and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gain and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

## 3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management objective is to enhance shareholder value while retaining exposure within acceptable thresholds in response to changes in markets. The Group has a robust risk management system in place to identify, analyse, assess and manage risks.

The Group's risk management is carried out by the Risk Management Department under policies approved by the board of directors. The Group's Risk Management Department provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating credit risk, market risk, liquidity risk, capital management risk and risk limits setting and monitoring.

The Group's Investment Committee ensures that there are formal and transparent procedures for planning and approving investments for the Group. The Investment Committee meets on a regular basis to review and approve various investment projects to be committed by the Group, and to monitor and assess the risks on the investment projects to ensure that they are in line with the investment strategy and policies of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Market risk

#### 3.1.1 Foreign exchange risk

The Group has certain exposures to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currency, mainly US dollars ("USD"), Renminbi ("RMB"), Japanese yen ("JPY") and Canadian dollars ("CAD"). As USD is pegged to HK\$, the Group does not expect any significant movement in the USD/HK\$ exchange rate. The directors have also assessed the impact of foreign currency risk and considered that it is insignificant to the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposures closely and will consider hedging significant foreign currency exposures should the need arise.

The following table indicates the impact of management's reasonable expectation on the movement in foreign exchange rate on the Group's profit before income tax and on other comprehensive income as at 31 December 2020 and 2019:

#### As at 31 December 2020

	Impact on profit before tax HK\$'000	Impact on other comprehensive income HK\$'000
If Hong Kong Dollar strengthens/weakens against RMB by 5%	-/+ 2,806	-/+ 13,159
If Hong Kong Dollar strengthens/weakens against JPY by 5%	-	-/+ 7,957
If Hong Kong Dollar strengthens/weakens against CAD by 5%	-	-/+ 1,510

#### As at 31 December 2019

	Impact on profit before tax HK\$'000	Impact on other comprehensive income HK\$'000
If Hong Kong Dollar strengthens/weakens against RMB by 5%	-/+ 1,082	-/+ 12,228



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Market risk (Continued)

#### 3.1.2 Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position either as at fair value through other comprehensive income or at fair value through profit or loss. Some of the Group's equity investments are listed on stock exchange in the world and are valued at quoted market prices as at the reporting date.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. The Group's exposures are closely monitored by other relevant internal control units, including the Risk Management Department, the Finance Department, the Legal and Compliance Department and the Internal Audit Department.

#### Listed equity investments

The table below summarises the impact of changes in the Hong Kong's Hang Seng Index and other relevant indexes on the Group's profit before income tax for the year. The analysis is based on the assumption that the equity index had changed by 5% (2019: 5%) with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index.

#### Hong Kong Hang Seng Index, Shanghai Composite Index and Nasdaq Composite Index

	2020 Impact on profit before tax HK\$'000	2019 Impact on profit before tax HK\$'000
Increase/Decrease by 5%	+/- 3,811	-/+ 88

#### Unlisted investment funds and unlisted equity investments

The fair value of unlisted investment funds and unlisted equity investments depend on the valuation of the respective investments or underlying investments. It is assumed that if the valuation had increased/decreased by 10%, profit before income tax for the year would have an estimated HK\$161,843,000 increase/decrease (2019: HK\$102,699,000), and investment revaluation reserve in other comprehensive income would have an estimated HK\$68,683,000 increase/decrease (2019: HK\$16,860,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Market risk *(Continued)*

#### 3.1.3 Interest rate risk

The Group's exposures to the risk of changes in market interest rates relates primarily to the Group's loan and interest receivables, margin receivables, loan payables, bank borrowings, margin payables and cash and bank balances.

As at 31 December 2020, the Group invests in fixed-income bond instruments which are classified as fair value through profit or loss and fair value through other comprehensive income, and therefore the Group is subject to interest rate risk. Interest rate risk is the risk that the value of the Group's portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter term fixed-income bond investments and higher for longer term fixed-income bond investments. As at 31 December 2020, should the relevant interest rates have lowered/risen by 50 basis points with all other variables remaining constant, the increase/decrease in profit or loss for the year would amount to approximately HK\$8,109,000 (2019: HK\$6,019,000), arising substantially from the increase/decrease in market values of debt securities.

The Group's investment in fixed-rate term loans, note receivables and bonds are of shorter duration and carried at amortised cost and therefore management consider they are not subject to fair value change as a result of change in reasonable possible shift of market interest rate.

Loans to margin clients at floating/variable rates (such as margin receivables) expose the Group to interest rate risk. Interest income on cash at banks and interest expense on borrowing will fluctuate at floating rates based on movement in short term bank interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's variable interest rate instruments. As at 31 December 2020, if the interest rate had been 50 basis points (31 December 2019: 50 basis points) higher/lower, the Group's profit before income tax would decrease/increase by HK\$888,000 (31 December 2019: increase/decrease of HK\$4,339,000). The sensitivity analysis above is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (31 December 2019: 50 basis points) increase or decrease is used when reporting interest rate internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

### 3.2 Credit risk

Credit exposures arise principally from financial assets designated at fair value through profit or loss, financial assets at amortised cost, margin receivables, loan and interest receivables, pledged bank deposits, deposits with brokers, bank balances, financial assets designated at fair value through other comprehensive income, derivative financial instruments and client trust bank balances with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Credit risk *(Continued)*

Credit risk of the Group mainly arises from credit exposures with respect to margin financing business of the Group's securities brokerage business and the loan lending business of the Group. In addition, the Group is exposed to a concentration of credit risk on cash and investments at banks or custodians.

The Group minimises the credit risk by segregating the risk management function from the investment department. This provide a fundamental control to prevent fraud, ensure quality of works, and safeguard the Group's assets as well as integrity of books and records.

The Group manages its credit risk in the following perspectives:

#### ***Margin Financing Business, Loan Lending Business, Financial Assets at Amortised Cost and Financial Assets at Fair Value Through Other Comprehensive Income***

The Group maintains an effective credit risk management system to evaluate creditworthiness of counterparties. The following factors will be considered when determining the credit risk of loan receivables:

1. Counterparties' credit rating by reputable credit rating agencies;
2. Counterparties' investment objective, investment history, and risk appetite;
3. Counterparties' past record and defaults;
4. Counterparties' capital base, the existence and amount of guarantees, and by whom such guarantees are given;
5. Any known events which may have an adverse impact on the counterparties' financial status, potential for default or accuracy of information stored regarding the client; and
6. Where credit is extended to cover margin trading, appropriate haircuts are made to market value to establish the counterparty has adequate equity.

The Group monitors the cash flows from loan receivables to ensure that they are in accordance with mutually signed agreement and the expected timeline. In case there is delay, the Group will communicate with counterparties to identify if there is trigger event on credit risk issue.

The Group uses three categories for loans and interest receivables, margin receivables, financial assets at amortised cost and financial assets of fair value through other comprehensive income which reflect their credit risk and how the ECL allowance is determined for each of those categories. Please refer to note 2.9 for definition of these three categories.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Credit risk (Continued)

#### **Margin Financing Business, Loan Lending Business, Financial Assets at Amortised Cost and Financial Assets at Fair Value Through Other Comprehensive Income (Continued)**

The gross carrying amount of loan and interest receivables, margin receivables, financial assets at amortised cost, and financed assets at fair value through other comprehensive income and thus the maximum exposure to loss, is as follows:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
<b>Loan and interest receivables</b>		
Stage 1 — Unimpaired and without significant increase in credit risk	180,000	149,871
Stage 2 — Significant increase in credit risk	–	–
Stage 3 — Credit-impaired	264,182	314,835
<b>Total gross loan and interest receivables</b>	<b>444,182</b>	<b>464,706</b>
Less: ECL allowances	<b>(264,381)</b>	<b>(289,617)</b>
<b>Loan and interest receivables, net of expected credit losses</b>	<b>179,801</b>	<b>175,089</b>
<b>Margin receivables</b>		
Stage 1 — Unimpaired and without significant increase in credit risk	52,570	74,250
Stage 2 — Significant increase in credit risk	–	–
Stage 3 — Credit-impaired	63,563	54,640
<b>Total gross margin receivables</b>	<b>116,133</b>	<b>128,890</b>
Less: ECL allowances	<b>(63,601)</b>	<b>(54,656)</b>
<b>Margin receivables, net of expected credit losses</b>	<b>52,532</b>	<b>74,234</b>
<b>Financial assets at amortised cost</b>		
Stage 1 — Unimpaired and without significant increase in credit risk	444,670	523,579
Stage 2 — Significant increase in credit risk	–	–
Stage 3 — Credit-impaired	–	–
<b>Total gross financial assets at amortised cost</b>	<b>444,670</b>	<b>523,579</b>
Less: ECL allowances	<b>(805)</b>	<b>(578)</b>
<b>Financial assets at amortised cost, net of expected credit losses</b>	<b>443,865</b>	<b>523,001</b>
<b>Financial assets at fair value through other comprehensive income</b>		
Stage 1 — Unimpaired and without significant increase in credit risk	1,127,999	1,081,637
Stage 2 — Significant increase in credit risk	–	–
Stage 3 — Credit-impaired	74,264	–
<b>Total gross financial assets at fair value through other comprehensive income</b>	<b>1,202,263</b>	<b>1,081,637</b>
Less: ECL allowances	<b>(36,167)</b>	<b>–</b>
<b>Financial assets at fair value through other comprehensive income, net of expected credit losses</b>	<b>1,166,096</b>	<b>1,081,637</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Credit risk (Continued)

#### **Margin Financing Business, Loan Lending Business, Financial Assets at Amortised Cost and Financial Assets at Fair Value Through Other Comprehensive Income (Continued)**

The following table reconcile the movement in ECL allowances between the beginning and the end of the financial years:

As at 31 December 2020

	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	Total HK\$'000
<b>Loan and interest receivables</b>				
ECL allowances as at 1 January 2020	224	–	289,393	289,617
Increase in ECL allowances recognised in profit or loss during the year	94	–	–	94
ECL allowances derecognised during the year	–	–	(25,330)	(25,330)
ECL allowances as at 31 December 2020	318	–	264,063	264,381
<b>Margin receivables</b>				
ECL allowances as at 1 January 2020	16	–	54,640	54,656
Increase in ECL allowances recognised in profit or loss during the year	22	–	8,923	8,945
ECL allowance as at 31 December 2020	38	–	63,563	63,601
<b>Financial assets at amortised cost</b>				
ECL allowances as at 1 January 2020	578	–	–	578
Increase in ECL allowances recognised in profit or loss during the year	227	–	–	227
ECL allowances as at 31 December 2020	805	–	–	805
<b>Financial assets at fair value through other comprehensive income</b>				
ECL allowances as at 1 January 2020	–	–	–	–
Increase in ECL allowances recognised in profit or loss during the year	1,142	–	35,025	36,167
ECL allowances as at 31 December 2020	1,142	–	35,025	36,167

	HK\$'000
<b>ECL allowances (reversed)/recognised in profit or loss during the year</b>	
— Loan and interest receivables	(25,236)
— Margin receivables	8,945
— Financial assets at amortised cost	227
— Financial assets at fair value through other comprehensive income	36,167
	<b>20,103</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Credit risk (Continued)

**Margin Financing Business, Loan Lending Business, Financial Assets at Amortised Cost and Financial Assets at Fair Value Through Other Comprehensive Income (Continued)**  
As at 31 December 2019

	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	Total HK\$'000
<b>Loan and interest receivables</b>				
ECL allowances as at 1 January 2019	1,313	–	81,869	83,182
Increase in ECL allowances recognised in profit or loss during the year	124	–	215,542	215,666
ECL allowances derecognised during the year	(1,208)	–	(8,018)	(9,226)
Exchange difference	(5)	–	–	(5)
ECL allowances as at 31 December 2019	224	–	289,393	289,617
<b>Margin receivables</b>				
ECL allowances as at 1 January 2019	36	107	21,449	21,592
Transfer from Stage 2 to Stage 3	–	(107)	107	–
Increase in ECL allowances recognised in profit or loss during the year	–	–	33,084	33,084
ECL allowances derecognised during the year	(20)	–	–	(20)
ECL allowance as at 31 December 2019	16	–	54,640	54,656
<b>Financial assets at amortised cost</b>				
ECL allowances as at 1 January 2019	–	–	–	–
Increase in ECL allowances recognised in profit or loss during the year	578	–	–	578
ECL allowances as at 31 December 2019	578	–	–	578

	HK\$'000
<b>ECL allowances recognised in profit or loss during the year</b>	
— Loan and interest receivables	206,440
— Margin receivables	33,064
— Financial assets at amortised cost	578
	<u>240,082</u>

Based on HKFRS 9 ECL assessment on margin receivables, loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income, the Group recognised a provision for ECL allowances of HK\$20,103,000 in profit or loss for the year ended 31 December 2020 (2019: HK\$240,082,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Credit risk *(Continued)*

#### **Cash and Investments at Bank or Custodian**

The Group's bank balances are deposited in reputable and large commercial banks. For the client trust bank balances which are held in segregated accounts, they are deposited in authorised financial institutions in Hong Kong. The credit risk of bank balances and client segregated bank balances are considered to be low. The Group has exposure to the concentration of credit risk from one bank of HK\$351,674,000 (2019: HK\$1,483,728,000) with a credit rating of BBB+ (2019: BBB+) by Standard & Poor's.

### 3.3 Liquidity risk

Interest-bearing borrowings are the general sources of funds to finance the operations of the Group. Certain external financing of the Group are subject to floating rates and are renewable upon maturity. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations and compliance with the statutory requirements. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet its short term cash requirements. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources.

Certain subsidiaries of the Group's operations are subject to various statutory liquidity requirements as prescribed by the Hong Kong's Securities and Futures Commission (the "SFC") in accordance with the Hong Kong's Securities and Futures Ordinance (the "HKSF"). The Group has put in place a monitoring system to ensure that these subsidiaries maintain adequate liquid capital to fund their business commitments and to comply with relevant liquid capital requirements under the HKSF. The liquidity risk of the Group is managed by regularly monitoring current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term. The Group holds sufficient cash and deposits on demand to repay its liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Liquidity risk (Continued)

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities as at 31 December 2020 and 2019. The amounts disclosed in the table are the contractual undiscounted cash flows.

#### As at 31 December 2020

	On demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	or less than 1 year				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan and interest payables	251,623	75,041	–	–	326,664
Margin payables	205,958	–	–	–	205,958
Financial liabilities designated at fair value through profit or loss	145,037	–	–	–	145,037
Lease liabilities	10,547	4,604	4,692	–	19,843
Other payables	11,707	–	–	–	11,707
	<b>624,872</b>	<b>79,645</b>	<b>4,692</b>	<b>–</b>	<b>709,209</b>

#### As at 31 December 2019

	On demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	or less than 1 year				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan and interest payables	329,971	–	–	–	329,971
Margin payables	31,325	–	–	–	31,325
Lease liabilities	13,516	8,745	2,789	–	25,050
Other payables	83,426	–	–	–	83,426
	<b>458,238</b>	<b>8,745</b>	<b>2,789</b>	<b>–</b>	<b>469,772</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.4 Capital management

The Group's objectives when managing capital are:

- (a) to comply with the liquid capital requirements under the SFC in Hong Kong;
- (b) to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- (c) to support the Group's stability and growth; and
- (d) to maintain a strong capital base to support the development of its business.

Consistent within others in the industry, the Group monitors capital on the basis of gearing ratio which is calculated as total debt divided by total equity.

The Group's gearing ratio at the end of the reporting period is shown below:

	2020 HK\$'000	2019 HK\$'000
Total debt	523,915	344,258
Total equity	5,288,622	5,197,620
Gearing ratio	9.9%	6.6%

Three subsidiaries (2019: Three) of the Group (the "Licensed Subsidiaries") are registered with the SFC to conduct respective regulated activities in Hong Kong. The Licensed Subsidiaries are subject to liquid capital requirements under the Securities and Futures (Financial Resources) Rules (the "FRR") adopted by the SFC. Under the FRR, the Licensed Subsidiaries must maintain its liquid capital (assets and liabilities adjusted as determined by the FRR) in excess of required liquid capital.

All licensed corporations within the Group complied with their required liquid capital during the years ended 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.5 Fair value estimation

The following table represents the carrying value of financial instruments measured at fair value at the end of reporting period across the three levels of the fair value hierarchy defined in HKFRS 7 Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets.

Level 2: fair values measured using quoted price in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

The following tables present the Group's financial assets and liabilities that are measured at fair value as at 31 December 2020 and 31 December 2019.

#### As at 31 December 2020

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
<b>Financial assets designated at fair value through profit or loss</b>				
— Unlisted equity investments	—	—	953,768	953,768
— Unlisted investment funds	—	—	392,142	392,142
— Convertible bonds and loan	—	—	101,591	101,591
— Listed equity investments	193,384	—	—	193,384
— Listed debt investments	—	571,638	—	571,638
— Unlisted notes	—	—	216,611	216,611
<b>Financial assets designated at fair value through other comprehensive income</b>				
— Listed debts investments	—	1,249,190	—	1,249,190
— Unlisted investment funds	—	64,602	622,229	686,831
<b>Total</b>	<b>193,384</b>	<b>1,885,430</b>	<b>2,286,341</b>	<b>4,365,155</b>
<b>Liabilities</b>				
<b>Financial liabilities designated at fair value through profit or loss</b>				
— Payable to holders of non-controlling interests in unlisted consolidated investment fund	—	145,037	—	145,037
<b>Total</b>	<b>—</b>	<b>145,037</b>	<b>—</b>	<b>145,037</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.5 Fair value estimation (Continued)

As at 31 December 2019

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Assets</b>				
<b>Financial assets designated at fair value through profit or loss</b>				
— Unlisted equity investments	—	—	459,669	459,669
— Unlisted investment funds	—	—	180,199	180,199
— Convertible bonds	—	52,450	295,938	348,388
— Listed equity investments	44,328	—	—	44,328
— Listed debt investments	—	38,737	—	38,737
<b>Financial assets designated at fair value through other comprehensive income</b>				
— Unlisted investment fund	—	168,600	—	168,600
— Listed debt investments	—	1,203,804	—	1,203,804
<b>Total</b>	<b>44,328</b>	<b>1,463,591</b>	<b>935,806</b>	<b>2,443,725</b>

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed equity investments classified as financial assets designated at fair value through profit or loss.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Unlisted investment funds classified as level 2 is mainly because they are open-ended investment fund and their underlying investments are listed equity investments.

Unlisted investment funds classified as level 3 is principally due to their underlying investments are unlisted equity or unlisted debt investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.5 Fair value estimation *(Continued)*

The following table presents the changes in level 3 items for the year ended 31 December 2020 and 31 December 2019 for recurring fair value measurements:

	2020 HK\$'000	2019 HK\$'000
<b>Assets</b>		
<b>Opening balance as at beginning of the year</b>	<b>935,806</b>	2,000,109
Purchases	1,017,562	298,167
Disposals	(30,000)	(1,173,611)
Transfer from level 2	52,450	134,136
Amounts recognised in profit or loss		
Currency translation difference	11	(4)
Net gain/(loss) recognised from financial assets designated at fair value through profit or loss*	285,183	(322,991)
Gain recognised in other comprehensive income	25,329	–
<b>Closing balance as at end of the year</b>	<b>2,286,341</b>	935,806
* includes unrealised gains/(losses) recognised in profit or loss attributable to balances held at the end of the reporting period	285,183	(409,495)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.5 Fair value estimation *(Continued)*

Below is the table setting out quantitative information about fair value measurements using significant unobservable inputs (Level 3).

Equity Investments	Fair value as at 31 December 2020 HK\$000	Valuation techniques	Unobservable input	Range	Relationship of unobservable inputs to fair value
Unlisted equity investments	658,971	Market approach	Sales multiples	3.2x	The higher the multiples, the higher the fair value
			Discount rate for lack of marketability	25.02%	The higher the discount rate, the lower the fair value
	294,599	Market approach	Books multiples	2.2x	The higher the multiples, the higher the fair value
			Discount rate for lack of marketability	17.12%	The higher the discount rate, the lower the fair value
Unlisted investment funds	100,784	Market approach	Sales multiples	2.8x	The higher the multiples, the higher the fair value
			Discount rate for lack of marketability	21.23%	The higher the discount rate, the lower the fair value
	149,099	Net asset value (note a)	n/a	n/a	n/a
	764,488	Net asset value (note a)	n/a	n/a	n/a
Convertible bonds and loan	49,000	Recoverable amount	Books multiples	1.0x	The higher the multiples, the higher the fair value
			Discount rate for lack of marketability	16.98%	The higher the discount rate, the lower the fair value
			Recovery rate	38.13%	The higher the rates, the higher the fair value
	52,591	Recent transaction	n/a	n/a	n/a
Unlisted notes	174,434	Recent transaction	n/a	n/a	n/a
	42,177	Broker quotation	n/a	n/a	n/a

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.5 Fair value estimation (Continued)

Equity Investments	Fair value as at 31 December 2019 HK\$'000	Valuation techniques	Unobservable input	Range	Relationship of unobservable inputs to fair value
Unlisted investment funds	98,127	Market approach	Sales multiples	2.9x	The higher the multiples, the higher the fair value
			Discount rate for lack of marketability	16.03%	The higher the discount rate, the lower the fair value
	82,072	Net asset value (note a)	n/a	n/a	n/a
Unlisted equity investment	459,483	Market approach	Sales multiples	4.8x	The higher the multiples, the higher the fair value
			Book multiples	2.8x	The higher the multiples, the higher the fair value
			Discount rate for lack of marketability	10.00%	The higher the discount rate, the lower the fair value
			Discount rate for lack of control	10.00%	The higher the discount rate, the lower the fair value
Convertible bond	295,938	Recent transaction	n/a	n/a	n/a

Note (a): The Group has determined that the reported net asset value represents fair value at the end of the reporting period.

### 3.6 Offsetting financial assets and financial liabilities

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. According to the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party; or bankruptcy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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.

### 4.1 Critical accounting estimates and assumptions

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 addressed below.

*Financial assets designated at fair value through profit or loss and financial assets designated at fair value through other comprehensive income which were categorised as level 3*

The directors of the Group use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The estimation of fair value of unlisted equity instruments are determined in accordance with generally accepted pricing models, which includes certain assumptions not supported by observable market prices or rates. Changes to the assumptions or inputs used in deriving the valuation including the impacts of COVID-19 would have a significant impact to the fair value of these financial assets and liabilities in the consolidation statement of financial position. The carrying amount of such unlisted investment in financial assets classified as level 3 as at 31 December 2020 are approximately HK\$2,286,341,000 (2019: HK\$935,806,000). The values assigned to the financial assets are based upon available information and do not necessarily represent amounts which might ultimately be realised, since such amounts depend on future circumstance and cannot be reasonably determined until the individual position is realised. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 4.2 Critical judgements in applying the group's accounting policies

The preparation of financial statements requires management to make judgements that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

*ECL allowances on loan and interest receivables, financial assets at amortised cost and financial assets at fair value through other comprehensive income*

The Group reviews its loan receivables from loan lending business and its investments in bonds/notes classified as financial assets at amortised cost and financial assets at fair value through other comprehensive income to assess ECL allowance on each individual loan and investment in bond/note at least on a quarterly basis. The internal credit risk on individual loan receivable plays a critical factor on the ECL impairment model. Risk Management Department maintains a watch list for risk monitoring on all loans receivables and investments in bonds/notes classified as financial assets at amortised cost and financial assets at fair value through other comprehensive income to determine the internal credit category of each individual loan receivable and investment in bond/note classified as financial assets at amortised cost, and financial assets at fair value through other comprehensive income. This evidence may include overdue days based on contract note and other observable data indicating that there has been an adverse change in the credit quality of the borrowers and issuers in a group. In light of COVID-19, the Group has also considered the potential impact on ECL allowance as of 31 December 2020 and considered the impact to be not significant.

*Consolidation of structured entities*

The Group makes significant judgment to assess whether or not to consolidate structured entities. When performing this assessment, the Group:

- assesses its contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities;
- performs independent analyses and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; and
- assesses its ability to exercise its power to influence the variable returns assessed whether the Group acts as a principal or an agent through analysis of the scope of the Group's decision-making authority, remuneration entitled, other interests the Group holds, and the rights held by other parties.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5. SEGMENT INFORMATION

Chief operating decision maker (“CODM”) has been identified as the Executive Directors of the Company. Management has determined the operating segments based on the reports reviewed by the CODM that are used to assess performance and allocate resources. The CODM considers the business from the operations nature perspective, including the provision for asset management services (“Asset management”), securities brokerage services (“Securities brokerage”), investment holding (“Investment holding”) and investment banking (“Investment banking”). Each of the Group’s operating segments represents a strategic business unit that is managed by different business unit leaders. Information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

### For the year ended 31 December 2020

	Reportable segment					Unallocated amount HK\$'000 (Note)	Total HK\$'000
	Asset management HK\$'000	Securities brokerage HK\$'000	Investment holding HK\$'000	Investment banking HK\$'000	Total HK\$'000		
Revenue from external customers	10,299	24,366	278,910	305	313,880	4,447	318,327
Net gain on financial assets/(liabilities)	-	-	352,583	-	352,583	4,515	357,098
	10,299	24,366	631,493	305	666,463	8,962	675,425
Segment profit/(loss) before income tax	(10,360)	(8,616)	564,004	(3,898)	541,130	(163,260)	377,870
Other segment information:							
Interest income	2	15,277	253,928	-	269,207	4,446	273,653
Depreciation	(134)	(2,163)	(54)	-	(2,351)	(9,542)	(11,893)
Staff costs and related expenses	(9,954)	(11,081)	(8,095)	(3,077)	(32,207)	(118,876)	(151,083)

### For the year ended 31 December 2019

	Reportable segment					Unallocated amount HK\$'000 (Note)	Total HK\$'000
	Asset management HK\$'000	Securities brokerage HK\$'000	Investment holding HK\$'000	Investment banking HK\$'000	Total HK\$'000		
Revenue from external customers	(26,492)	34,271	160,860	-	168,639	19,538	188,177
Net (loss)/gain on financials assets/(liabilities)	-	-	(323,909)	-	(323,909)	136	(323,773)
	(26,492)	34,271	(163,049)	-	(155,270)	19,674	(135,596)
Segment loss before income tax	(43,107)	(27,854)	(445,338)	(3,129)	(519,428)	(124,040)	(643,468)
Other segment information:							
Interest income	7	21,328	135,888	-	157,223	19,426	176,649
Depreciation	(56)	(1,522)	-	-	(1,578)	(6,275)	(7,853)
Staff costs and related expenses	(7,447)	(12,145)	(3,692)	(3,000)	(26,284)	(62,684)	(88,968)

Note: The “unallocated amount” primarily included unallocated expenditures for head office operations as well as interest income and interest expenses for general working capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5. SEGMENT INFORMATION (Continued)

Breakdown of the revenue from external customers and net gain/(loss) on financial assets and liabilities by geographical location is as follows:

### For the year ended 31 December 2020

	Hong Kong HK\$'000	The PRC HK\$'000	Japan HK\$'000	Canada HK\$'000	Total HK\$'000
Revenue from external customers	304,429	9,208	4,678	12	318,327
Net gain on financial assets/(liabilities)	297,087	60,011	–	–	357,098
	601,516	69,219	4,678	12	675,425

### For the year ended 31 December 2019

	Hong Kong HK\$'000	The PRC HK\$'000	Japan HK\$'000	Canada HK\$'000	Total HK\$'000
Revenue from external customers	179,595	8,582	–	–	188,177
Net loss on financial assets/(liabilities)	(323,773)	–	–	–	(323,773)
	(144,178)	8,582	–	–	(135,596)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 6. REVENUE

	2020 HK\$'000	2019 HK\$'000
<i>Interest income:</i>		
Interest income from loan lending business	14,301	50,738
Interest income from margin financing business	14,529	21,278
Interest income from investments in debt instruments classified as financial assets at amortised cost	61,947	21,708
Interest income from financial assets designated at fair value through other comprehensive income	127,496	55,332
Interest income from financial assets designated at fair value through profit or loss	48,649	8,059
Other interest income	6,731	19,534
	<b>273,653</b>	<b>176,649</b>
<i>Commission and fee income:</i>		
Advisory fee income	413	93
Commission income from securities brokerage	2,621	3,754
Loan arrangement fee income	8,878	15,560
Fee income received from asset management, net	10,064	(26,592)
Referral fee income	–	777
Underwriting fee income	6,594	9,190
	<b>28,570</b>	<b>2,782</b>
<i>Investment income:</i>		
Dividend income	16,104	8,746
	<b>16,104</b>	<b>8,746</b>
	<b>318,327</b>	<b>188,177</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 7. PROFIT/(LOSS) BEFORE INCOME TAX

	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before income tax has been arrived at after (crediting)/charging:		
Auditors' remuneration	2,800	2,850
Written-off of property, plant and equipment	383	684
(Reversal of)/provision for ECL allowances		
— loan and interest receivables	(25,236)	206,440
— margin receivables	8,945	33,064
— financial assets at amortised cost	227	578
— financial assets designated at fair value through other comprehensive income	36,167	—
	20,103	240,082
Foreign exchange (gain)/loss, net	(21,483)	7,666

## 8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year and taxation on profits assessable elsewhere have been calculated at the rates of income tax prevailing in the countries in which the Group operates respectively.

The PRC Enterprise Income Tax rate is 25% (2019: 25%).

	2020 HK\$'000	2019 HK\$'000
Hong Kong Profits Tax		
— charge for the year	42,306	5,066
— underprovision/(overprovision) for prior year	1,275	(9,566)
PRC Enterprise Income Tax		
— charge for the year	383	—
— underprovision for prior year	—	31
Overseas income tax		
— charge for the year	686	—
Deferred tax		
— charge/(credit) for the year	11,374	(91,453)
— (overprovision)/underprovision for prior year	(445)	23,048
Income tax expense/(credit)	55,579	(72,874)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 8. INCOME TAX (Continued)

The income tax for the year can be reconciled to the profit/(loss) before income tax per the consolidated statement of profit or loss as follows:

	2020 HK\$'000	2019 HK\$'000
Profit/(loss) before income tax	377,870	(643,468)
Income tax at income tax rate applicable to assessable profit of the operation in different jurisdictions	64,587	(108,687)
Tax effect of expenses not deductible for tax purpose	6,724	36,515
Tax effect of income not taxable for tax purpose	(16,193)	(14,146)
Others	461	13,444
Income tax for the year	55,579	(72,874)

As at 31 December 2020, deferred tax assets of approximately HK\$88,265,000 (2019: HK\$99,194,000) has been recognised for some of the unused tax losses. There were no material unrecognised tax losses which have been agreed with the Inland Revenue Department.

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2020 HK\$'000	2019 HK\$'000
<b>Deferred tax assets</b>		
— Tax losses	88,265	99,194

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 9. STAFF COSTS AND RELATED EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2020 HK\$'000	2019 HK\$'000
Staff costs and related expenses:		
Salaries, bonuses and allowances	149,786	87,200
Retirement benefit scheme contributions	1,297	1,768
	<b>151,083</b>	<b>88,968</b>

### Five highest paid individuals

The five highest paid individuals in the Group during the year included 1 (2019: 1) director whose emoluments is reflected in the analysis presented in Note 10. The emoluments of the remaining 4 (2019: 4) individuals are set out below:

	2020 HK\$'000	2019 HK\$'000
Basic salaries, award and allowances	12,489	8,600
Discretionary bonus	–	–
Retirement benefit scheme contributions	69	68
	<b>12,558</b>	<b>8,668</b>

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$4,500,000	1	–
	<b>4</b>	<b>4</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 10. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

### (a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2020

Name of Director	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking		Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Discretionary bonus HK\$'000	(Note a) Estimated money value of other benefits HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Remunerations paid or receivable in respect of accepting office as director HK\$'000	Housing allowance HK\$'000	HK\$'000	HK\$'000	
Mr. Tomohiko Watanabe	600	-	-	-	-	-	-	5,340	5,940	
Mr. Ni Xinguang	840	-	-	-	-	-	-	18	858	
Ms. Li Wei	600	-	-	-	-	-	-	818	1,418	
Mr. Wang Dongzhi <sup>1</sup>	300	-	-	-	-	-	-	-	300	
Mr. Zhang Yang <sup>2</sup>	154	-	-	-	-	-	-	-	154	
Ms. Zhou Hui	250	-	-	-	-	-	-	-	250	
Mr. Wang Yongli	250	-	-	-	-	-	-	-	250	
Mr. Dong Hao	250	-	-	-	-	-	-	-	250	
<b>Total for 2020</b>	<b>3,244</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,176</b>	<b>9,420</b>	

<sup>1</sup> Retired on 29 June 2020

<sup>2</sup> Appointed on 20 May 2020

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 10. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE (Continued)

### (a) Directors' emoluments (Continued)

For the year ended 31 December 2019

Name of Director	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fees HK\$'000	Salaries HK\$'000	Discretionary bonus HK\$'000	(Note a) Estimated money value of other benefits HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Remunerations paid or receivable in respect of accepting office as director HK\$'000	Housing allowance HK\$'000		
Mr. Tomohiko Watanabe	520	-	-	-	-	-	-	3,533	4,053
Mr. Ni Xinguang	840	-	-	-	18	-	-	114	972
Ms. Li Wei	600	-	-	-	-	-	-	1,104	1,704
Mr. Zheng Li <sup>1</sup>	373	-	-	-	-	-	-	937	1,310
Mr. Wang Dongzhi	600	-	-	-	-	-	-	60	660
Mr. Ma Jianting <sup>2</sup>	33	-	-	-	-	-	-	-	33
Mr. Lyu Wei <sup>3</sup>	125	-	-	-	-	-	-	-	125
Mr. Ling Yu Zhang <sup>4</sup>	125	-	-	-	-	-	-	-	125
Ms. Zhou Hui	195	-	-	-	-	-	-	-	195
Mr. Wang Yongli	250	-	-	-	-	-	-	-	250
Mr. Dong Hao	3	-	-	-	-	-	-	-	3
Mr. Guan Tao <sup>5</sup>	62	-	-	-	-	-	-	-	62
Mr. Hu Zhengheng <sup>6</sup>	-	-	-	-	-	-	-	-	-
<b>Total for 2019</b>	<b>3,726</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>5,748</b>	<b>9,492</b>

<sup>1</sup> Resigned on 15 August 2019

<sup>2</sup> Resigned on 18 February 2019

<sup>3</sup> Resigned on 28 June 2019

<sup>4</sup> Resigned on 27 June 2019

<sup>5</sup> Resigned on 28 March 2019

<sup>6</sup> Resigned on 18 March 2019

Estimated money values of other benefits include rent paid, share options, share base payment and insurance premium.

Neither the chief executive nor any of the directors waived any emoluments during the year (2019: HK\$ Nil).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 10. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

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

Except for transactions disclosed in note 34, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 11. DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: HK\$Nil).

## 12. EARNINGS/(LOSS) PER SHARE

### Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK\$323,452,000 (2019: loss of HK\$568,815,000) and the weighted average number of ordinary shares of approximately 33,165,299,000 (2019: 29,895,651,000) in issue during the year (excluding the ordinary shares purchased by the Company under the share award plan).

### Diluted earnings/(loss) per share

The calculation of the diluted earnings/(loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK\$323,452,000 (2019: loss for the year HK\$568,815,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares of approximately 33,165,299,000 (2019: 29,895,651,000) in issue during the year (excluding the ordinary shares purchased by the Company under the share award plan) and the weighted average number of ordinary shares of approximately 1,549,160,000 (2019: Nil) deemed to be issued assuming the diluted impact on the shares under the share award plan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Software HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 January 2019	10,697	7,734	1,267	5,612	25,310
Additions	20,800	4,595	883	766	27,044
Write-off/disposals	(6,996)	(571)	–	–	(7,567)
Currency translation difference	(21)	(47)	–	(112)	(180)
At 31 December 2019 and 1 January 2020	24,480	11,711	2,150	6,266	44,607
Additions	4,676	959	381	–	6,016
Write-off/disposals	(3,945)	(587)	(151)	–	(4,683)
Currency translation difference	238	160	1	321	720
At 31 December 2020	25,449	12,243	2,381	6,587	46,660
<b>Accumulated depreciation and impairment</b>					
At 1 January 2019	7,332	3,780	555	5,117	16,784
Charge for the year	5,908	1,403	318	224	7,853
Write-off/disposals	(6,616)	(267)	–	–	(6,883)
Currency translation difference	(22)	(36)	–	(111)	(169)
At 31 December 2019 and 1 January 2020	6,602	4,880	873	5,230	17,585
Charge for the year	9,330	1,865	445	253	11,893
Write-off/disposals	(3,945)	(315)	(40)	–	(4,300)
Currency translation difference	66	109	–	321	496
At 31 December 2020	12,053	6,539	1,278	5,804	25,674
<b>Carrying amount</b>					
At 31 December 2020	13,396	5,704	1,103	783	20,986
At 31 December 2019	17,878	6,831	1,277	1,036	27,022

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 14. GOODWILL

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2020 HK\$'000	2019 HK\$'000
Securities brokerage:		
China Vered Securities Limited (formerly known as CM Securities (Hongkong) Company Limited) ("CVS")	10,792	10,792
Asset management:		
China Vered Asset Management (Hong Kong) Limited (formerly known as CM Asset Management (Hongkong) Company Limited) ("CVAM")	5,079	5,079
	<b>15,871</b>	<b>15,871</b>

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, revenue growth rate and expenses growth rate, and long term growth rate during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Revenue and expenses growth rate are based on past practices and expectations on market development.

For each of the CGUs with significant amount of goodwill, the key assumptions used in the value-in-use calculations in 2020 and 2019 are as follows.

	2020		2019	
	Securities brokerage	Asset management	Securities brokerage	Asset management
% of revenue growth rate	20%	12%	20%	12%
% of expenses growth rate	18%	10%	18%	10%
Long term growth rate	3%	3%	3%	3%
Pre-tax discount rate	20%	20%	20%	20%

No impairment is provided during the year ended 31 December 2020 (2019: HK\$Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 15. OTHER INTANGIBLE ASSETS

	Trading right HK\$'000
<b>Cost</b>	
At 1 January 2019, 31 December 2019 and 31 December 2020	700
<b>Accumulated amortisation</b>	
At 1 January 2019, 31 December 2019 and 31 December 2020	–
<b>Carrying amount</b>	
At 31 December 2020 and 31 December 2019	700

### Trading right

The trading right represents the eligibility rights to trade on or through the SEHK and have no foreseeable limit to the period over which the Group can use to generate net cash flows. As a result, the trading right are considered by the management of the Group as having indefinite useful lives because they are expected to contribute to net cash inflows indefinitely. The trading right will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. The respective recoverable amounts of the cash generating units relating to securities brokerage business, whereby these trading right are allocated to, using a value in use calculation, exceed the carrying amounts. No impairment is therefore considered necessary.

## 16. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2020 and 2019:

Name	Place of incorporation/ registration, operation and kind of legal entity	Issued share capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
China Vered Financial Investment Management Limited (formerly known as CM Financial Investment Management Limited)	Hong Kong, limited liability company	HK\$260,000,002	100%	–	Investment holding
China Vered Securities Holdings Limited (formerly known as CM Securities Holdings Limited)	Hong Kong, limited liability company	HK\$1,475,000,001	100%	–	Investment holding
Cheong Wa Limited	Hong Kong, limited liability company	HK\$29,970,106	100%	–	Investment holding
Top Pro Limited	The British Virgin Islands, limited liability company	US\$1	100%	–	Investment holding
China Vered Wealth Holdings Limited (formerly known as CM Wealth Holdings Limited)	Hong Kong, limited liability company	HK\$1	–	100%	Provision of money lending services

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 16. SUBSIDIARIES (Continued)

The following is a list of the principal subsidiary at 31 December 2020 and 2019: (Continued)

Name	Place of incorporation/ registration, operation and kind of legal entity	Issued share capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
China Vered Securities Limited (formerly known as CM Securities (Hongkong) Company Limited)	Hong Kong, limited liability company	HK\$1,500,000,000	–	100%	Provision of securities brokerage services
China Vered Asset Management (Hong Kong) Limited (formerly known as CM Asset Management (Hongkong) Company Limited)	Hong Kong, limited liability company	HK\$573,700,000	–	100%	Provision of securities advisory and asset management services
CM Securities Asset Management Limited	Hong Kong, limited liability company	HK\$3,000,000	–	100%	Provision of securities advisory and asset management services
China Vered Investment Limited (formerly known as CM Securities Investment Limited)	The British Virgin Islands, limited liability company	US\$6,410,000	–	100%	Investment holding
CM SPC	Cayman Islands, segregated portfolio company	US\$1	–	100%	Investment holding
CVAM Investment Limited (formerly known as CMAM Investment Limited)	The British Virgin Islands, limited liability company	US\$1	–	100%	Investment holding
CMAM Investment Fund SPC	Cayman Islands, segregated portfolio company	US\$100	–	100%	Investment holding
CM Strategic Investment Management Holding Limited	Hong Kong, limited liability company	HK\$1	–	100%	Investment holding
JBC Holdings Co., Ltd. <sup>###</sup>	Japan, limited liability company	JPY90,000,000	–	100%	Investment holding
Tianjin Tong Ming Xin Peng Corporate Management Company Limited <sup>^</sup> ("Tianjin Tong Ming Xin Peng") 天津桐鳴鑫騰企業管理有限 責任公司	The PRC, limited liability company	RMB387,690,000*	–	100%	Investment holding
Fuzhou Landun Science of Life Co., Ltd 福州藍頓生命科技有限公司	The PRC, wholly-foreign owned enterprise with limited liability	HK\$100,000,000	–	100%	Investment holding
Seven Star Shopping Limited	Hong Kong, limited liability company	HK\$1	–	100%	Investment holding
Seven Star Shopping (China) Co., Ltd. <sup>^</sup> 七星購物(中國)有限公司	The PRC, wholly-foreign owned enterprise with limited liability	RMB360,000,000	–	100%	Investment holding
Shanghai Seven Star International Shopping Co., Ltd. ("Seven Star (Shanghai)") 上海七星國際購物有限公司	The PRC, limited liability company	RMB6,000,000	–	100% (Note)	Investment holding
Shanghai Seven Star Electronic Commerce Co., Ltd. <sup>^,*</sup> 上海七星電子商務有限公司	The PRC, limited liability company	RMB30,000,000	–	96%	Investment holding

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 16. SUBSIDIARIES (Continued)

The following is a list of the principal subsidiary at 31 December 2020 and 2019: (Continued)

Name	Place of incorporation/ registration, operation and kind of legal entity	Issued share capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
Shanghai Seven Star New Energy Investment Co., Ltd. <sup>^</sup> ("Shanghai Seven Star New Energy") 上海七星新能源投資有限公司	The PRC, limited liability company	RMB600,000,000**	–	100%	Investment holding
Shanghai Seven Star Qiangguan Investment Management Co., Ltd. <sup>^</sup> ("Shanghai Qiangguan") 上海七星強冠投資管理有限公司	The PRC, limited liability company	RMB10,000,000***	–	70%	Not yet commence real estate business
Shanghai Xiangsheng Insurance Agency Co., Ltd. <sup>^,##</sup> ("Xiangsheng Insurance") 上海祥生保險代理有限公司	The PRC, limited liability company	RMB20,000,000	–	96%	Provision of insurance agency services
Shanghai Hecheng Enterprise Consulting Co., Ltd. ("Shanghai Hecheng") 上海合暢企業諮詢有限公司	The PRC, wholly-foreign owned enterprise with limited liability	RMB50,000,000****	–	100%	Investment holding

<sup>^</sup> The English names are for identification purposes only

<sup>#</sup> Directly held by Seven Star (Shanghai)

<sup>##</sup> Indirectly held by Seven Star (Shanghai)

<sup>###</sup> JBC Holdings Co., Ltd was acquired and commenced operations in 2020.

<sup>\*</sup> The registered capital of Tianjin Tong Ming Xin Peng is RMB387,690,000 and RMB218,073,125 has been paid up as at 31 December 2020.

<sup>\*\*</sup> The registered capital of Shanghai Seven Star New Energy is RMB600,000,000 and RMB8,816,239 has been paid up as at 31 December 2020.

<sup>\*\*\*</sup> The registered capital of Shanghai Qiangguan is RMB10,000,000 and no capital has been paid up as at 31 December 2020.

<sup>\*\*\*\*</sup> The registered capital of Shanghai Hecheng is RMB50,000,000 and RMB27,045,961 has been paid up as at 31 December 2020.

Note: Although the Group does not own any equity interest in Seven Star (Shanghai), Seven Star (Shanghai) and its subsidiaries ("Seven Star (Shanghai) Group") are treated as subsidiaries because the Group is able to control the relevant activities of Seven Star (Shanghai) Group and variable return as a result of the Structured Contracts (as defined in the announcement of the Company dated 7 September 2006) entered into by the Group.

The above list contains the particular of subsidiaries which principally affected the results, assets or liabilities of the Group. None of the subsidiaries has issued any debt securities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 16. SUBSIDIARIES (Continued)

The following table shows information of the subsidiaries that are in operations and have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

	Seven Star (Shanghai)		Xiangsheng Insurance	
	2020	2019	2020	2019
Principal place of business/ country of registration	The PRC/PRC		The PRC/PRC	
% of ownership interests/ voting rights held by NCI	100%/0%	100%/0%	100%/0%	100%/0%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December:</b>				
Non-current assets	47,063	44,219	–	–
Current assets	144,140	135,429	22,509	21,241
Current liabilities	(441,049)	(414,393)	(7,266)	(6,826)
Non-current liabilities	(6,654)	(6,252)	–	–
Net (liabilities)/assets	(256,500)	(240,997)	15,243	14,415
Accumulated NCI	(81,850)	(91,373)	(5,287)	(4,967)
<b>Year ended 31 December:</b>				
Revenue	–	–	–	–
Loss	–	–	(94)	(2)
Total comprehensive income	(15,502)	5,384	828	(324)
Loss allocated to NCI	–	–	(94)	(2)
Net cash used in operating activities	–	(17)	309	(99)
Net cash generated from investing activities	–	–	–	14
Effect of foreign exchange rate changes	1	17	(144)	50
Net decrease in cash and cash equivalents	1	–	165	(35)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 17. INVESTMENTS IN ASSOCIATES

Set out below are the associates of the Group as at 31 December 2020 which, in the opinion of the directors, are material to the Group.

Name of entity	Place of business	Country of incorporation	Percentage of ownership interest	Nature of the relationship	Measurement method
Grand Flight Holding Company Limited	The PRC	Cayman Islands	30%	Note 1	Equity
Grand Flight Hooyoung Investment L.P.	The PRC	Cayman Islands	30%	Note 2	Equity

Note 1: Grand Flight Holding Company Limited is a company registered in Cayman Islands.

Note 2: Grand Flight Hooyoung Investment L.P. is an investment fund registered in Cayman Islands.

The total cash considerations for the investment was US\$25,087,000 (approximately HK\$195,067,000). There is no quoted market price available for both associates.

Reconciliation to carrying amounts:

	2020 HK\$'000	2019 HK\$'000
Beginning of the year	138,942	190,684
Addition	4,651	13,652
Share of post-tax loss of associates	(37,228)	(65,394)
End of the year	106,365	138,942



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 17. INVESTMENTS IN ASSOCIATES (Continued)

The following table shows information of the associates of the Group.

	<b>Grand Flight Holding Company Limited 2020 HK\$'000</b>	Grand Flight Holding Company Limited 2019 HK\$'000	<b>Grand Flight Hooyoung Investment L.P. 2020 HK\$'000</b>	Grand Flight Hooyoung Investment L.P. 2019 HK\$'000
<b>At 31 December:</b>				
Current assets	<b>23,744</b>	20,788	<b>337,903</b>	449,142
Current liabilities	<b>7,096</b>	6,788	–	–
Net current assets	<b>16,648</b>	14,000	<b>337,903</b>	449,142
<b>Year ended 31 December:</b>				
Revenue	<b>15,504</b>	15,598	–	–
Profit/(loss)	<b>2,713</b>	3,789	<b>(124,765)</b>	(219,159)
Total comprehensive income/(loss)	<b>2,713</b>	3,789	<b>(124,765)</b>	(219,159)
Opening net assets at 1 January	<b>13,999</b>	10,294	<b>449,142</b>	625,319
Increase in equity interest	–	–	<b>15,512</b>	45,462
Profit/(loss) for the year	<b>2,713</b>	3,789	<b>(124,765)</b>	(219,159)
Currency translation difference	<b>(64)</b>	(83)	<b>(1,986)</b>	(2,480)
Closing net assets at 31 December	<b>16,648</b>	14,000	<b>337,903</b>	449,142
Interest in associates (30%)	<b>4,994</b>	4,200	<b>101,371</b>	134,742

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include the followings:

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets designated at fair value through profit or loss</b>		
Unlisted investment funds	392,142	180,199
Unlisted equity investments	953,768	459,669
Convertible bonds and loan	101,591	348,388
Listed equity investments	193,384	44,328
Listed debt investments	571,638	38,737
Unlisted notes	216,611	–
	<b>2,429,134</b>	<b>1,071,321</b>
Classified as:		
Non-current assets	1,283,393	853,734
Current assets	1,145,741	217,587
	<b>2,429,134</b>	<b>1,071,321</b>

	2020 HK\$'000	2019 HK\$'000
<b>Financial liabilities designated at fair value through profit or loss</b>		
Payable to holders of non-controlling interests in unlisted consolidated investment fund	145,037	–
	<b>145,037</b>	<b>–</b>
Classified as:		
Non-current liabilities	–	–
Current liabilities	145,037	–
	<b>145,037</b>	<b>–</b>

The investments in unlisted investment funds of HK\$392,142,000 (2019: HK\$180,199,000) as above represent investments in unconsolidated structured entities. The maximum exposure to loss is HK\$392,142,000 (2019: HK\$180,199,000) which represents the fair value as at 31 December 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The size of these unconsolidated structured entities is HK\$1,511,016,000 (2019: HK\$1,085,655,000).

During the year, the Group did not provide financial support to these unconsolidated structured entities and has no intention of providing financial or other support.

The above investments were designated upon initial recognition of fair value through profit or loss.

The interest receivables derived from convertible bonds and loan, listed debt investments and unlisted notes have been recognised as other interest receivables in the consolidated statement of financial position.

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income include the followings:

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets designated at fair value through other comprehensive income</b>		
Unlisted investment funds	686,831	168,600
Listed debt investments	1,249,190	1,203,804
	<b>1,936,021</b>	<b>1,372,404</b>
Classified as:		
Non-current assets	1,686,335	1,372,404
Current assets	249,686	–
	<b>1,936,021</b>	<b>1,372,404</b>

The investments in unlisted investment funds of HK\$686,831,000 (2019: HK\$168,600,000) as above represent investments in unconsolidated structured entities. The maximum exposure to loss is HK\$686,831,000 (2019: HK\$168,600,000) which represents the fair value as at 31 December 2020.

The size of these unconsolidated structured entities is HK\$906,906,000 (2019: HK\$168,600,000).

During the year, the Group did not provide financial support to the unconsolidated structured entities and has no intention of providing financial or other support.

The interest receivables derived from listed debt investments have been recognised as other interest receivables in the consolidated statement of financial position.

During the year, ECL allowances of HK\$36,167,000 were recognised (2019: HK\$Nil) in the consolidated statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 20. FINANCIAL ASSETS AT AMORTISED COST

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets at amortised cost</b>		
Not past due or less than 1 month past due	<b>444,670</b>	523,579
1–3 months past due	–	–
3–6 months past due	–	–
6–12 months past due	–	–
Over 12 months past due	–	–
Less: ECL allowances on financial assets at amortised cost	<b>(805)</b>	(578)
	<b>443,865</b>	523,001
Classified as:		
Non-current assets	<b>172,078</b>	523,001
Current assets	<b>271,787</b>	–
	<b>443,865</b>	523,001

At 31 December 2020, financial assets at amortised cost include unlisted bond investments and note receivables with effective interest rates ranging from 6.1% to 10.0% (31 December 2019: 6.8% to 12.8%) per annum.

During the year, ECL allowances of HK\$227,000 were recognised (2019: HK\$578,000) in the consolidated statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 21. MARGIN RECEIVABLES AND OTHER TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
<b>Margin receivables</b>	<b>116,133</b>	128,890
Less: ECL allowances	(63,601)	(54,656)
	<b>52,532</b>	74,234
Trade receivables arising from the businesses of asset management	9,664	4,475
Trade receivables arising from the businesses of underwriting	155	–
	<b>62,351</b>	78,709

Loans to margin clients are secured by clients' pledged Hong Kong-listed securities at fair value of HK\$292,414,000 (2019: HK\$381,824,000) which can be sold at the discretion of a subsidiary of the Group to settle margin call requirements imposed by their respective securities transactions. The loans are repayable on demand and bear interest at commercial rates.

ECL allowances as at 31 December 2020 amounted to HK\$63,601,000 (2019: HK\$54,656,000 with an increase in ECL allowances of HK\$8,945,000 (2019: HK\$33,064,000) recognised in the consolidated statement of profit or loss.

Except for those margin receivables in stage 3 of ECL assessment, the Group considered that the business nature of margin receivable is short-term and the directors are of the opinion that no further aging analysis is disclosed.

Aging analysis of other trade receivables from the trade date is as follows:

	2020 HK\$'000	2019 HK\$'000
0–90 days	7,137	4,475
91 days to 1 year	2,682	–
	<b>9,819</b>	4,475

The carrying amount of the margin receivables and other trade receivables approximate to their fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 22. LOAN AND INTEREST RECEIVABLES

As at 31 December 2020, these loan receivables bear interest at fixed rates ranging from 8.9% to 16.0% per annum (31 December 2019: 8.0% to 11.5%). Interest income derived from loan receivables was recognised and presented under "Interest income" in the consolidated statement of profit or loss. The carrying value of the loan receivables approximate to their fair values.

Regular credit reviews on these loans receivables are conducted by the Risk Management Department based on the latest status of these loans, and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain effective control over its loans in order to minimise credit risk by regularly reviewing the borrowers' and/or guarantors' financial positions.

As these loan receivables will be settled within 12 months, the carrying amount approximate to their fair value.

Expected credit losses allowance as at 31 December 2020 amounted to HK\$264,381,000 and a reversal of ECL allowance of HK\$25,236,000 was recognised in the consolidated statement of profit or loss during the year.

The following is an ageing analysis of loan and interest receivables based on the contract note at the reporting date:

	2020 HK\$'000	2019 HK\$'000
Not past due or less than 1 month past due	180,000	200,331
1–3 months past due	–	–
3–6 months past due	–	–
6–12 months past due	–	264,375
Over 12 months past due	264,182	–
	444,182	464,706
Less: ECL allowances	(264,381)	(289,617)
	179,801	175,089

## 23. PLEDGED BANK DEPOSITS, DEPOSITS WITH BROKERS AND CASH AND BANK BALANCES

At 31 December 2020, the Group's pledged bank deposits included a deposit pledged to a bank of approximately HK\$328,000 (2019: HK\$292,000) as security for a corporate card granted to a director of the Group. The credit limit of the corporate card is approximately HK\$224,000 (2019: HK\$224,000).

At 31 December 2020, the bank and cash balances of the Group denominated in RMB or HKD and kept in the PRC amounted to approximately HK\$214,405,000 (2019: HK\$201,377,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 23. PLEDGED BANK DEPOSITS, DEPOSITS WITH BROKERS AND CASH AND BANK BALANCES *(Continued)*

The Group maintains segregated accounts with authorised institutions to hold clients' monies in the normal course of business. At 31 December 2020, client money maintained in segregated accounts not otherwise dealt with in the consolidated financial statements amounted to approximately HK\$198,529,000 (2019: HK\$114,328,000).

At 31 December 2020, deposits with brokers were mainly placed in the licensed stockbrokers in Hong Kong and the PRC amounted to approximately HK\$170,970,000 (2019: HK\$18,936,000).

The carrying amount of pledged bank deposits, deposits with brokers and cash and bank balances approximate to their fair value.

## 24. LOAN AND INTEREST PAYABLES

		2020 HK\$'000	2019 HK\$'000
Repurchase agreements	(a)	74,437	153,049
Leverage note	(b)	99,416	158,779
Other loan payables	(c)	142,579	–
Interest payables		1,525	1,105
		<b>317,957</b>	<b>312,933</b>

The loans bear interest at fixed rate ranging from 3.60% to 4.58% per annum (2019: LIBOR with interest rate premium range from 1.8% to 1.95% per annum).

At 31 December, the Group's borrowings were repayable as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 year	243,520	312,933
Between 1 year to 2 years	74,437	–
Between 2 years to 5 years	–	–
Over 5 years	–	–
	<b>317,957</b>	<b>312,933</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 24. LOAN AND INTEREST PAYABLES (Continued)

The fair value of borrowings equal their carrying amount, as the impact of discounting is not significant.

- (a) As at 31 December 2020, the Group entered into repurchase agreements with financial institutions to sell bonds recognised as financial assets at amortised cost with carrying amount of approximately HK\$135,064,000 (2019: recognised as financial assets at fair value through other comprehensive income with carrying amount of approximately HK\$301,265,000), which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price. The repurchase prices are pre-determined and the Group is still exposed to substantially all the credit risks, market risks and rewards of those bonds sold. These bonds are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these bonds.
- (b) On 20 July 2020, the Group entered into an agreement to borrow an amount of HK\$99,384,000 and to subscribe a leveraged bond-linked notes amounted to HK\$149,076,000. As part of the agreement, the Group has sold bonds classified at fair value through other comprehensive income with carrying amount of HK\$241,572,000 and committed to purchase it back at a later date ("settlement date"). Until the settlement date, the Group will continue to expose to the risks and rewards of these bonds, and hence, it was not derecognised from the financial statements but regarded as "collateral" for the liabilities.

As at 31 December 2020, the carrying amount of the borrowing was approximately HK\$99,416,000 (2019: HK\$158,779,000) and the carrying value of the pledged bonds classified at fair value through other comprehensive income were approximately HK\$243,876,000 (2019: HK\$322,602,000).

- (c) As at 31 December 2020, the Group entered into an agreement to borrow an amount of approximately HK\$142,579,000 from a third party in relation to a loan facility agreement granted to an affiliate of that third party.

## 25. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 HK\$'000	2019 HK\$'000
Finance costs on leverage notes	5,219	885
Finance costs on bank borrowings	–	3,781
Finance costs on other loan payables	–	693
Finance costs on repurchase agreements	3,752	1,799
Finance costs on margin payables	3,920	314
Finance costs on lease liabilities	1,085	1,467
Loan arrangement fee	106	2,025
Other finance costs	–	21
	<b>14,082</b>	<b>10,985</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 26. ACCRUALS AND OTHER PAYABLES

	Note	2020 HK\$'000	2019 HK\$'000
Deposits received		665	572
Receipts in advance		6,200	1,904
Other tax payables		3,363	3,751
Accruals and other payables	(a)	126,533	133,769
		<b>136,761</b>	<b>139,996</b>

(a) Accruals and other payables as of 31 December 2019 included an amount of HK\$75,283,000 due to Prosperity (Cayman) Limited in which the Group owned 1% shareholding and was settled during the year.

## 27. MARGIN PAYABLES

	2020 HK\$'000	2019 HK\$'000
Margin payables	205,958	31,325
	<b>205,958</b>	<b>31,325</b>
Classified as:		
Non-current liabilities	–	–
Current liabilities	205,958	31,325
	<b>205,958</b>	<b>31,325</b>

As at 31 December 2020, margin payables bear interest at fixed rates ranging from 2.99% to 8.80% per annum (2019: LIBOR with interest rate premium of 1.30% per annum).

As at 31 December 2020, the carrying amount of the pledged bonds classified at fair value through other comprehensive income were approximately HK\$503,981,000 and the carrying amount of the pledged bonds and stocks classified at fair value through profit or loss were approximately HK\$510,373,000

The Group's margin payables were repayable on demand and the directors are of the opinion that no further aging analysis is disclosed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 28. SHARE CAPITAL

	Note	2020		2019	
		Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Ordinary shares, issued and fully paid:					
At 1 January		34,714,459	6,154,374	28,928,719	5,667,546
Issue of new shares on placement	(a)	–	–	5,785,740	486,828
At 31 December		34,714,459	6,154,374	34,714,459	6,154,374

- (a) On 3 October 2019, the Company entered into the placing agreement with the placing agents, pursuant to which the Company has conditionally agreed to place, through the placing agents, on a best efforts basis, up to an aggregate of 5,785,740,000 placing shares at a placing price of HK\$0.085 per placing share to not less than six placees who and whose ultimate beneficial owners shall be independent third parties. The placing was completed on 1 November 2019, and net proceeds of approximately HK\$486,828,000 were credited to the Company's share capital. All the net proceeds have been fully utilised by 31 December 2020.

## 29. OTHER RESERVES

### (i) Share-based payments reserve

The share-based payments reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors, employees and consultants of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 2.22 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 29. OTHER RESERVES *(Continued)*

### (ii) Special capital reserve

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR. Pursuant to the High Court Order dated 20 November 2002, as long as the Company shall remain a listed company, the balances shall be treated as an undistributable reserve of the Company provided that (1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied; and (2) the amount standing to the credit of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as a result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits.

### (iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2.5 to the consolidated financial statements.

### (iv) Statutory surplus reserve

In accordance with the PRC Company Law and the respective company's articles of association, a subsidiary of the Group established in the PRC, being a wholly foreign owned enterprise, is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. With the approval from the relevant authorities, the statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. The reserve fund cannot be distributed in the form of cash.

### (v) Investment revaluation reserve

The investment revaluation reserve comprises all fair value gain/loss arising from the revaluation of the financial asset designated at fair value through other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

	2020 HK\$'000	2019 HK\$'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	15,601	24,309
Right-of-use asset	10,872	19,288
Interests in subsidiaries	4,691,724	3,795,558
Rental and other deposits	3,110	3,110
Financial assets designated at fair value through profit or loss	297,322	297,322
Deferred tax assets	50,852	56,434
<b>Total non-current assets</b>	<b>5,069,481</b>	<b>4,196,021</b>
<b>Current assets</b>		
Other receivables, prepayments and deposits	3,215	2,847
Loan and interest receivables	–	877
Deposits with brokers	24	22
Cash and bank balances	131,076	1,149,044
<b>Total current assets</b>	<b>134,315</b>	<b>1,152,790</b>
<b>Total assets</b>	<b>5,203,796</b>	<b>5,348,811</b>
<b>Equity</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	6,154,374	6,154,374
Other reserves	555,507	733,807
Accumulated losses	(1,612,000)	(1,641,654)
<b>Total equity</b>	<b>5,097,881</b>	<b>5,246,527</b>
<b>Liabilities</b>		
<b>Non-current liability</b>		
Lease liabilities	2,789	11,277
<b>Total non-current liability</b>	<b>2,789</b>	<b>11,277</b>
<b>Current liabilities</b>		
Accruals and other payables	94,638	82,893
Lease liabilities	8,488	8,114
<b>Total current liabilities</b>	<b>103,126</b>	<b>91,007</b>
<b>Total liabilities</b>	<b>105,915</b>	<b>102,284</b>
<b>Total equity and liabilities</b>	<b>5,203,796</b>	<b>5,348,811</b>

Approved by the Board of Directors on 26 March 2021 and are signed on its behalf by:

**Tomohiko Watanabe**  
Director

**Li Wei**  
Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

### (b) Reserve movement of the Company

	Share-based payments reserve HK\$'000	Shares held for share award plan reserve HK\$'000	Special capital reserve HK\$'000	Total HK\$'000
At 1 January 2019	8,125	–	726,699	734,824
Cash-settled share-based payments	(1,017)	–	–	(1,017)
At 31 December 2019 and 1 January 2020	7,108	–	726,699	733,807
Acquisition of shares for share award plan	–	(178,300)	–	(178,300)
At 31 December 2020	7,108	(178,300)	726,699	555,507

## 31. SHARE-BASED COMPENSATION

### Equity-settled share option scheme

On 9 December 2013, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 28 May 2004 (the "2004 Share Option Scheme") and the adoption of a new share option scheme (the "2013 Share Option Scheme"). The 2013 Share Option Scheme will expire on 8 December 2023.

### 2013 Share Option Scheme

Under the 2013 Share Option Scheme, the directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the board of directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules.

At 31 December 2020 and 31 December 2019, no option was outstanding under the 2013 Share Option Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 31. SHARE-BASED COMPENSATION *(Continued)*

### 2004 Share Option Scheme

The 2004 Share Option Scheme was terminated on 9 December 2013 such that no further option can be granted under the 2004 Share Option Scheme, but all options granted previously will remain exercisable in accordance with the terms of the 2004 Share Option Scheme and the relevant letters of offers to the respective grantees.

At 31 December 2020 and 31 December 2019, no options to subscribe for shares were outstanding under the 2004 Share Option Scheme.

### Share award

The Group has entered share award scheme to incentivise selected employees or directors for their contributions to the Group and to attract suitable personnel for further development of the Group. Pursuant to the agreement, the ordinary shares of the Company will be acquired by the Company at the cost of the Company and will be granted to the selected participants after vesting. The total number of shares granted under the agreement will be vested for three years.

On 19 December 2018, the Group adopted another share award plan. The purpose of the Plan are to recognise and reward the contribution of selected employees or directors, to give incentives in order to retain them for the continual operation and development of the Group. The share award plan shall be valid and effective for a period of 10 years commencing from 19 December 2018 but may be terminated earlier as determined by the Board.

During the year ended 31 December 2020, the Company acquired its shares from open market through a trustee for the share award plan with a consideration of approximately HK\$178,300,000 (2019: HK\$Nil).

During the year ended 31 December 2020, the Company did not incur any share-based payments (2019: HK\$1,017,000).

## 32. CONTINGENT LIABILITIES

As at 31 December 2020, the Group and the Company did not have any significant contingent liabilities (2019: HK\$Nil).

## 33. COMMITMENTS

### Capital commitments

The Group has entered a contract to commit investing into an unlisted investment fund. The non-cancellable capital commitment as at 31 December 2020 is HK\$15,979,000 (2019: HK\$20,725,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 34. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2020 HK\$'000	2019 HK\$'000
Commission income (Note i)	67	2,690
Interest income (Note ii)	4,514	5,536
Fee income received from asset management, net (Note iii)	2,800	(26,592)
Underwriting fee income (Note iv)	250	1,199

Note i: During the year ended 31 December 2020, the Group has received commission fees income of HK\$67,000 from related parties (2019: HK\$2,690,000). Commission fee income is determined with reference to the market rate offered to other third party clients.

Note ii: During the year ended 31 December 2020, the Group lent an unsecured loan to a borrower, which is a related party of the Company, and received interest income at a rate of 11.5% per annum (2019: 11.5%). As at 31 December 2020, the loan has been settled (2019: outstanding loan balance of HK\$50,236,000).

Note iii: During the year ended 31 December 2020, the Group provided fund management service to a relate party fund and recognised a net income of fund management fee and performance fee of HK\$2,800,000 (2019: net reversal of HK\$26,592,000). The fund management fee and performance fee are determined with reference to the market rate offered to other third party investor of the fund.

Note iv: During the year ended 31 December 2020, a related party issued two corporate bonds and a subsidiary of the Company acted as one of the sole lead arranger in the offerings. The relevant underwriting commission income recognised during the year amounted to HK\$250,000 (2019: HK\$1,199,000) in accordance with the terms of relevant subscription agreements.

- (b) The remuneration for directors and other members of key management of the Group during the year is disclosed in note 10 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 35. CASH FLOW INFORMATION

	Liabilities from financing activities			
	Loan payables (excluding interest payables) HK\$'000	Bank borrowings (excluding interest payables) HK\$'000	Margin payables HK\$'000	Lease liabilities HK\$'000
As at 1 January 2019	–	506,658	–	–
Cashflows — Net proceed/(repayment)	313,886	(506,658)	31,493	–
Cashflows — Principal elements of lease rentals paid	–	–	–	(28,173)
Acquisition — Leases	–	–	–	53,223
Foreign exchange adjustments	(2,058)	–	(168)	–
As at 31 December 2019	311,828	–	31,325	25,050
As at 1 January 2020	<b>311,828</b>	–	<b>31,325</b>	<b>25,050</b>
Cashflows — Net proceed/(repayment)	<b>5,077</b>	–	<b>174,715</b>	–
Cashflows — Principal elements of lease rentals paid	–	–	–	<b>(12,626)</b>
Acquisition — Leases	–	–	–	<b>6,230</b>
Foreign exchange adjustments	<b>(473)</b>	–	<b>(82)</b>	–
As at 31 December 2020	<b>316,432</b>	–	<b>205,958</b>	<b>18,654</b>

## 36. EVENTS AFTER THE REPORTING PERIOD

On 15 March 2021, JBC Holding Limited (“JBC”), a wholly-owned subsidiary of the Company and Vered Holdings Co., Ltd (“Vered Japan”) have entered into a subscription agreement, pursuant to which Vered Japan agreed to subscribe for 8,648 ordinary shares of JBC (representing approximately 49.003% of the enlarged equity interest in JBC) at a consideration of JPY86.48 million (equivalent to approximately HK\$6.2 million) (the “Subscription”). Completion of the Subscription took place on the same day. Vered Japan is a connected person of the Company and accordingly, the Subscription constitutes a deemed disposal and a connected transaction for the Company. JBC becomes an indirect non-wholly owned subsidiary of the Company and its results remains consolidated into the results of the Group. The Company has made announcements on 15 March 2021 and 19 March 2021 in relation to the above transaction.



## FIVE YEAR FINANCIAL SUMMARY (UNAUDITED)

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
<b>Results</b>					
Turnover	<b>318,327</b>	188,177	335,283	452,175	230,232
Profit/(loss) attributable to:					
— Owners of the Company	<b>323,452</b>	(568,815)	143,233	192,033	36,933
— Non-controlling interests	<b>(1,161)</b>	(1,779)	(1,628)	(1,335)	(5,590)
<b>Assets and liabilities</b>					
Total assets	<b>6,187,043</b>	5,736,975	6,027,091	6,158,503	5,913,876
Total liabilities	<b>(898,421)</b>	(539,355)	(670,259)	(883,368)	(897,132)
Total equity	<b>5,288,622</b>	5,197,620	5,356,832	5,275,135	5,016,744