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## **CLSA Premium Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6877)**

### **ANNOUNCEMENT UPDATE ON THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019**

Reference is made to the announcement of CLSA Premium Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) dated 30 March 2020 in relation to the unaudited consolidated annual results of the Group for the year ended 31 December 2019 (the “**Announcement**”). Unless otherwise required, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

#### **AUDITOR’S AGREEMENT ON THE 2019 ANNUAL RESULTS**

As stated in the Announcement, the consolidated annual results for the year ended 31 December 2019 (the “**2019 Annual Results**”) contained therein was not yet agreed by the Auditor as required under Rule 13.49(2) of the Listing Rules.

The Company wishes to announce that on 24 April 2020, the Company has obtained the agreement from the Auditor, PricewaterhouseCoopers, on the 2019 Annual Results (including the figures in respect of the Group’s consolidated statement of comprehensive income and consolidated statement of financial position and the related notes thereto) as set out in the Announcement. The 2019 Annual Results contained in the Announcement remain unchanged.

## **EXTRACTS FROM INDEPENDENT AUDITOR’S REPORT**

The Board would like to draw attention of the Company’s shareholders that the Auditor, PricewaterhouseCoopers, issued a modified opinion on the consolidated financial statements of the Group for the year ended 31 December 2019. An extract of the independent Auditor’s report which states the modified opinion is as follows:

### **“Disclaimer of Opinion**

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Basis for Disclaimer of Opinion**

The Group’s information technology (“IT”) related systems, databases and servers (together the “**Legacy Systems**”) are located in Hong Kong, New Zealand, Australia and Singapore. Its transaction data generated from its leveraged foreign exchange and other trading businesses were captured and maintained within the Legacy Systems, which automatically processed transactions and the calculation of the leveraged foreign exchange and other trading income/losses, fee and commission income as well as the related referral expenses. As such, the occurrence, accuracy and completeness of these transaction data were highly dependent on the integrity of the Legacy Systems, which were maintained by Banclogix System Co., Limited (“**Banclogix**”), the Group’s information technology services provider pursuant to the relevant information technology services agreements. Banclogix is a wholly-owned subsidiary of KVB Kunlun Holdings Limited, which is a substantial shareholder of the Company.

During the year of 2019, the Group made several attempts to access certain data stored in and documentations relating to the Legacy Systems but Banclogix has not provided sufficient access since August 2019. The Group migrated to a set of new IT-related systems, databases and servers in December 2019 and started to process and store the data for the relevant business transactions executed since December 2019 using the new systems, and issued a letter of termination on 19 March 2020 to terminate the service agreement with Banclogix.

Because of the above access restrictions, in respect of the Legacy Systems and the Group’s leveraged foreign exchange and other trading transactions processed and stored using the Legacy Systems, we were unable to access:

- data and documentations that represented important evidence relevant to our testing of the information technology general controls (“**ITGC**”) of the Group’s trading system covering access to system and data, program changes, program development, and IT operations;

- data and documentations that represented important evidence relevant to our testing of the information technology application controls (“ITAC”) of the Group’s trading system covering key system-generated reports and automated calculations within the trading system; and
- databases and servers containing: (a) customer on-boarding documentations detailing the commission rates agreed with customers; (b) correspondences with customers on their disengagement during the year ended 31 December 2019; and (c) details of agreements entered into between the Company’s wholly-owned subsidiary, CLSA Premium New Zealand Limited and its customer referral agents, for our validation of the accuracy and completeness of transaction data contained in the Legacy Systems. Neither were the physical copies of such data able to be located by management.

In light of the denial of our access to the evidences relating to the ITGC and ITAC of the Group’s Legacy Systems together with the data contained in the databases and servers described above, our audit placed significant reliance on obtaining confirmations directly from third parties as an alternative audit procedure that aimed to provide sufficient appropriate audit evidence about the relevant assertions associated with the Group’s leveraged foreign exchange and other trading transactions. External confirmations were sent to customers, on a sample basis, in order to confirm clients’ balances as at 31 December 2019 and the customer trading transactions and the related trading income/ losses and commission amounts for the year then ended. External confirmations were also sent to referral agents, on a sample basis, in order to confirm their balances as at 31 December 2019 and referral expenses for the year then ended. However, we were unable to obtain a sufficient level of confirmation replies we considered necessary, and there were no other alternative procedures that we could perform to obtain sufficient appropriate audit evidence.

As a result, we were unable to obtain sufficient appropriate audit evidence that we considered necessary to substantiate the occurrence and completeness of the customer trading transactions and the accuracy of the contract prices, the interest rates and the commission rates used to calculate the leveraged foreign exchange and other trading income of HK\$11,667,000 and the fee and commission income of HK\$3,299,000 for the year ended 31 December 2019, and the clients’ balances of HK\$56,146,000, derivative financial instruments asset of HK\$11,416,000 and the derivative financial instruments liability of HK\$833,000 as at 31 December 2019. We were also unable to obtain sufficient appropriate audit evidence that we considered necessary to substantiate the occurrence, completeness and accuracy of the referral expenses and other charges of HK\$17,075,000 for the year ended 31 December 2019.”

## **THE VIEW OF THE BOARD AND THE AUDIT COMMITTEE AND THE ACTION TAKEN TO ADDRESS THE DISCLAIMER OF OPINION**

The Board has provided all necessary information to the Auditor for preparing the 2019 Annual Results. The Board has from time to time closely communicated with the audit committee of the Company (the “**Audit Committee**”) and the Auditor on the updated business situation and financial performance of the Group, in particular, the issues raised by the Auditor during the Audit Committee meetings held on 27 March 2020 and 23 April 2020. As advised by the Auditor, the disclaimer of opinion was due to denial of the Auditor’s access to the evidence relating to the Group’s Legacy Systems and the data contained in the databases and servers maintained by Banclogix which are necessary for the purpose of the audit. There were also no other alternative audit procedures that the Auditor could perform to satisfy themselves for issuance of an unmodified opinion. As such, the Audit Committee is fully aware of the basis and the reasons for such disclaimer of opinion issued by the Auditor.

The Board and the Audit Committee believe the root cause for the disclaimer of opinion is the uncooperative attitude of Banclogix in response to requests of information which led to inability of the Company’s management to provide the level of information and audit evidence in the below areas to the satisfaction of the Auditor:

1. The accessibility to the data stored on back-ups of the shared drives and file servers;
2. The accessibility to the trading servers which related to the testing of revenue completeness;
3. The accessibility to e-mail data which contained but not limited to correspondence regarding disengagement of PRC clients; and
4. The accessibility to information relating to IT general controls, application controls and report testing.

The Board, including the Audit Committee, has critically reviewed and understand the basis of the opinion put forward by the Auditor. No disagreement had been raised by the Board, including the Audit Committee, and the Audit Committee members have agreed with the Auditor’s views and relevant accounting treatment about the annual disclosure and expressed no further comments on it.

To tackle the above issues, the Board has spent tremendous effort to migrate the IT platform completely from Banclogix to under CLSA Limited (“CLSA”) control since August 2019. The Board has adopted and accomplished different measures of IT platform migration including (i) shared drives and file servers migration – completed in December 2019; (ii) trading servers migration – completed in December 2019; (iii) e-mail migration – completed in October 2019. As disclosed in the Company’s announcements dated 9 March 2020 and 23 March 2020, the Company has terminated the Renewed Information Technology Services Agreement with Banclogix and entered into the New Information Technology Services Agreement with CLSA which has taken effect on 17 March 2020. The Board, including the Audit Committee, believes that the above measures already addressed the issues raised by the Auditor under the Disclaimer of Opinion and there is no carry forward effect on the financial statements for the year ending 31 December 2020 given the new IT services provider (i.e. CLSA) has resolved the issues.

By order of the Board  
**CLSA Premium Limited**  
**YUAN Feng**  
*Executive Director*

Hong Kong, 24 April 2020

As at the date of this announcement, the Directors are as follows:

***Executive Directors***

Mr. YUAN Feng (*Deputy Chief Executive Officer*)

Mr. WU Fei

***Non-executive Directors***

Mr. LI Jiong (*Chairman*)

Mr. Stephen Gregory McCOY

Mr. XU Jianqiang

***Independent Non-executive Directors***

Mr. WU Jianfeng

Mr. Christopher Wesley SATTERFIELD

Ms. HU Zhaoxia

Mr. JIN Shaoliang