中國通海國際金融有限公司
CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 952)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "Board" or the "Directors") of China Tonghai International Financial Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRSs") as below. For the reasons explained in the paragraph headed "Review of Unaudited Annual Results" in this announcement, the auditing process for the annual results of the Group for the year ended 31 December 2019 has not been completed.

REVIEW OF UNAUDITED ANNUAL RESULTS

Due to the outbreak of COVID-19 (Novel Coronavirus), the auditing process for the annual results for the year ended 31 December 2019 has not been completed. The unaudited annual results contained herein have not been agreed with the auditors of the Company as required under Rule 13.49(2) of the Listing Rules. A further announcement relating to the audited results for the year ended 31 December 2019 will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2019** ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Audited)
Fee and commission income	4	**244,191**	277,429
Interest income			
— Calculated using the effective interest method	4	**340,819**	208,591
— Others	4	**270,102**	238,382
Net investment loss	4	**(75,680)**	(52,092)
Total revenue	4	**779,432**	672,310
Other income/(loss)	5	**(2,275)**	23,261
Direct cost		**(160,196)**	(181,304)
Staff cost		**(214,850)**	(164,967)
Depreciation and amortisation	7	**(42,440)**	(9,888)
Impairment loss		**(184,800)**	(89,890)
Finance cost			
— Interest on borrowings and repurchase agreements	6	**(107,520)**	(59,023)
— Interest on lease liabilities	6	**(4,611)**	—
Share of results of an associate		**(212)**	—
Share of results of joint ventures		**(2,036)**	1,597
Other operating expenses		**(56,883)**	(82,306)
Profit before tax	7	**3,609**	109,790
Tax credit/(expense)	8	**1,738**	(9,615)
Profit for the year, attributable to equity holders of the Company		**5,347**	100,175
Earnings per share for profit attributable to equity holders of the Company for the year		***HK cent(s)***	*HK cent(s)*
— Basic and diluted	9	**0.087**	1.612
Dividend per share	10	**Nil**	Nil

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Profit for the year, attributable to equity holders of the Company	**5,347**	100,175
Other comprehensive income for the year, including reclassification adjustments		
Item that may be reclassified subsequently to profit or loss		
— Exchange loss on translation of financial statements of foreign operations	**(858)**	(2,461)
Items that will not be reclassified subsequently to profit or loss		
— Changes in fair value of financial assets measured at fair value through other comprehensive income	**(170)**	(5,294)
— Capital distribution from financial assets measured at fair value through other comprehensive income, which represents recovery of part of the investment cost	**—**	1,285
Other comprehensive income for the year, including reclassification adjustments and net of tax	**(1,028)**	(6,470)
Total comprehensive income for the year, attributable to equity holders of the Company	**4,319**	93,705

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2019			As at 31 December 2018		
		Current	**Non-current**	**Total**	Current	Non-current	Total
	Notes	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)	**(Unaudited)**	**(Unaudited)**	(Audited)	(Audited)	(Audited)
ASSETS							
Cash and cash equivalents		**182,449**	**—**	**182,449**	357,300	—	357,300
Bank balances held on behalf of clients		**1,253,410**	**—**	**1,253,410**	1,321,371	—	1,321,371
Financial assets held for trading and market making activities		**1,610,308**	**188,022**	**1,798,330**	1,756,694	230,141	1,986,835
Financial assets not held for trading and market making activities		**152,059**	**6,073**	**158,132**	262,571	54,465	317,036
Derivative financial instruments		**17,119**	**—**	**17,119**	10,000	—	10,000
Loans to margin clients	12	**1,977,795**	**—**	**1,977,795**	2,810,720	—	2,810,720
Advances to customers for merger and acquisition activities		**242,065**	**—**	**242,065**	—	—	—
Other loans	13	**3,204,578**	**62,513**	**3,267,091**	2,570,621	37,410	2,608,031
Accounts receivable	11	**498,162**	**—**	**498,162**	600,288	—	600,288
Prepayments, deposits and other receivables		**59,975**	**—**	**59,975**	26,808	—	26,808
Interest in an associate		**—**	**2,110**	**2,110**	—	—	—
Interests in joint ventures		**—**	**38,615**	**38,615**	—	41,444	41,444
Goodwill and other intangible assets		**—**	**19,558**	**19,558**	—	20,376	20,376
Other assets		**—**	**23,275**	**23,275**	—	19,004	19,004
Investment property		**—**	**11,700**	**11,700**	—	11,200	11,200
Property and equipment		**—**	**110,468**	**110,468**	—	21,285	21,285
Deferred tax assets		**—**	**65,790**	**65,790**	—	25,915	25,915
TOTAL ASSETS		**9,197,920**	**528,124**	**9,726,044**	9,716,373	461,240	10,177,613
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable	14	**1,664,961**	**—**	**1,664,961**	1,846,261	—	1,846,261
Obligations under repurchase agreement		**—**	**—**	**—**	34,634	—	34,634
Bank and other borrowings		**2,037,029**	**—**	**2,037,029**	2,308,573	50,000	2,358,573
Contract liabilities		**4,988**	**—**	**4,988**	8,886	—	8,886
Lease liabilities		**31,626**	**58,642**	**90,268**	—	—	—
Accrual and other payables		**86,629**	**—**	**86,629**	110,122	—	110,122
Tax payables		**58,615**	**—**	**58,615**	22,523	—	22,523
TOTAL LIABILITIES		**3,883,848**	**58,642**	**3,942,490**	4,330,999	50,000	4,380,999
Equity							
Share capital				**20,657**			20,657
Reserves				**5,762,897**			5,775,957
TOTAL EQUITY				**5,783,554**			5,796,614
TOTAL LIABILITIES AND EQUITY				**9,726,044**			10,177,613
Net current assets				**5,314,072**			5,385,374

NOTES TO THE UNAUDITED RESULTS

For the year ended 31 December 2019

1 BASIS OF PREPARATION

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

The financial statements have been prepared on the historical cost basis except for certain financial assets and investment properties which are measured at fair value.

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

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Adoption of new and amended HKFRSs

During the year, the Group has adopted all the new and amended HKFRSs which are first effective for the reporting period. Except as explained below, the adoption of new and amended HKFRSs has no material impact on the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases — incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2.2 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3 SEGMENT INFORMATION

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

2019 (Unaudited)	**Brokerage and interest income** *HK$'000*	**Corporate finance** *HK$'000*	**Asset management** *HK$'000*	**Investments** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Reportable segment revenue						
Fee and commission income	**166,454**	**44,898**	**23,163**	**—**	**9,676**	**244,191**
Interest income	**610,921**	**—**	**—**	**—**	**—**	**610,921**
Net investment loss	**(16,544)**	**—**	**—**	**(59,136)**	**—**	**(75,680)**
Segment revenue from external customers	**760,831**	**44,898**	**23,163**	**(59,136)**	**9,676**	**779,432**
Inter-segment revenue	**—**	**1,130**	**3,286**	**—**	**1,331**	**5,747**
Reportable segment revenue	**760,831**	**46,028**	**26,449**	**(59,136)**	**11,007**	**785,179**
Reportable segment result	**126,912**	**698**	**(329)**	**(115,640)**	**(130)**	**11,511**

2018 (Audited)	Brokerage and interest income *HK$'000* (restated)	Corporate finance *HK$'000*	Asset management *HK$'000*	Investments *HK$'000* (restated)	Others *HK$'000*	Total *HK$'000*
Reportable segment revenue						
Fee and commission income	200,868	40,669	24,143	—	11,749	277,429
Interest income	446,973	—	—	—	—	446,973
Net investment loss	—	—	—	(52,092)	—	(52,092)
Segment revenue from external customers	647,841	40,669	24,143	(52,092)	11,749	672,310
Inter-segment revenue	3,652	3,525	7,789	—	4,196	19,162
Reportable segment revenue	651,493	44,194	31,932	(52,092)	15,945	691,472
Reportable segment result	170,224	7,988	4,026	(68,247)	596	114,587

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

	2019 ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Audited)
Reportable segment revenue	**785,179**	691,472
Elimination of inter-segment revenue	**(5,747)**	(19,162)
Consolidated revenue	**779,432**	672,310
Reportable segment result	**11,511**	114,587
Gain on revaluation of investment property	**500**	1,000
Other operating income	**—**	1,655
Share of results of an associate	**(212)**	—
Share of results of joint ventures	**(2,036)**	1,597
Unallocated corporate expenses	**(6,154)**	(9,049)
Consolidated profit before tax	**3,609**	109,790

Included in unallocated corporate expenses are the following items:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Payment to certain employees under a phantom share scheme and compensation to three executive directors of the Company	**—**	837
Expenses incurred in connection with the proposed rights issue, which has been terminated on 10 September 2018	**—**	3,690

In accordance with the service agreements of three executive directors, each of them is entitled a lump sum equivalent to their 12 months' salaries and HK$4.0 million compensation upon a change of control of the Company.

Under a phantom share scheme adopted in August 2016, certain employees are entitled an awarded cash payment.

Geographical information

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

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Customer A**	**109,379**	—

** Revenue from this customer is attributable to brokerage and interest income segments.

4 REVENUE

(a) Revenue analysis

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Brokerage business		
Fee and commission income:		
— Commission on dealings in securities		
— Hong Kong securities	**59,201**	59,925
— Other than Hong Kong securities	**5,481**	6,643
— Commission on dealings in futures and options contracts	**77,459**	119,471
— Handling, custodian and other service fee income	**24,313**	14,829
	166,454	200,868
Interest income business		
Interest income from loans to margin clients:	**192,881**	178,061
Interest income calculated using the effective interest method:		
— Interest income from other loans	**304,662**	173,859
— Interest income from cash clients receivables	**2,216**	1,832
— Interest income from trust bank deposits	**13,527**	11,328
— Interest income from initial public offering loans	**530**	673
— Interest income from house money bank deposits and others	**19,884**	20,899
Interest income from bonds measured at fair value through profit or loss and others:	**77,221**	60,321
	610,921	446,973
Corporate finance business		
Fee and commission income:		
— Placing and underwriting commission income	**26,551**	11,438
— Financial and compliance advisory services fee income	**18,347**	29,231
	44,898	40,669
Asset management business		
Fee and commission income:		
— Management fee income	**18,223**	18,864
— Performance fee income	**4,940**	5,279
	23,163	24,143

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Investments and others business		
Fee and commission income:		
— Financial media service fee income	**9,676**	11,749
Net investment loss:		
— Net realised loss on financial assets measured at amortised cost	**(268)**	(5,348)
— Net realised and unrealised loss on financial assets measured at fair value through profit or loss	**(84,493)**	(63,244)
— Dividend income from financial assets measured at fair value through profit or loss	**9,081**	16,416
— Dividend income from financial assets measured at fair value through other comprehensive income	**—**	84
	(66,004)	(40,343)
	779,432	672,310

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

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

5 OTHER INCOME/(LOSS)

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Changes in net asset value attributable to other holders of a consolidated investment fund	**(6,282)**	13,738
Exchange gains, net	**585**	3,045
Gain on revaluation of investment property	**500**	1,000
Write-back of other payables	**1,400**	1,368
Sundry income	**1,522**	4,110
	(2,275)	23,261

6 FINANCE COST

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Finance charges on obligations under repurchase agreements	**27**	3,456
Interest on bank and other borrowings	**107,493**	55,567
Interest on lease liabilities	**4,611**	—
	112,131	59,023

7 PROFIT BEFORE TAX

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Profit before tax is arrived at after charging:		
Depreciation and amortisation		
— Other intangible assets	**2,446**	2,421
— Property and equipment	**39,994**	7,467
	42,440	9,888
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**—**	39,677
Other items		
— Auditors' remuneration	**3,174**	2,290
— Net losses on disposals of property and equipment	**53**	153
— Expenses relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**671**	—
— Direct operating expenses related to investment property	**27**	24

8 TAX (CREDIT)/EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations are taxed at 8.25%, and assessable profits above HK$2 million are taxed at 16.5%. The profits of corporation not qualifying the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the years ended 31 December 2019 and 31 December 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime.

Tax on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current tax — Hong Kong profits tax		
— Current year	**42,311**	28,469
— Over provision in prior year	**(4,173)**	(420)
	38,138	28,049
Deferred tax	**(39,876)**	(18,434)
Total tax (credit)/expense	**(1,738)**	9,615

9 EARNINGS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
For purpose of basic and diluted earnings per share	**5,347**	100,175

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

	2019	2018
	(Unaudited)	(Audited)
For purpose of basic and diluted earnings per share	**6,163,561,547**	6,214,004,697

10 DIVIDENDS

The Board resolved not to declare the payment of dividend for the financial year ended 31 December 2019 (2018: Nil).

11 ACCOUNTS RECEIVABLE

	Notes	As at 31 December 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Accounts receivable from dealings in securities, futures and options contracts			
— Brokers and clearing houses	(a)	**475,517**	568,126
— Cash clients	(a)	**10,003**	13,245
— Clients for subscription of securities	(a)	**1,094**	27
Less: Impairment allowance		**(6,588)**	(5,770)
		480,026	575,628
Accounts receivable from asset management, corporate finance and other businesses			
— Clients	(a)	**26,108**	30,466
Less: Impairment allowance		**(7,972)**	(5,806)
		18,136	24,660
Net accounts receivable	(b)	**498,162**	600,288

Notes:

(a) Amounts due from brokers, clearing house and cash clients for the dealings in securities are required to be settled on the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) and the amounts due from clients for subscription of securities are required to be settled upon the allotment of the securities subscribed. Amounts due from brokers and clearing houses for the dealings in futures and options contracts are repayable on demand (except for the required margin deposits for the trading of futures and options contracts). There are no credit terms granted to clients for its asset management, corporate finance and other businesses. The amounts due from cash clients after the settlement dates bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread) and the amounts due from clients for subscription of securities as at 31 December 2019 bear interest at a fixed rate of 4.5% (31 December 2018: 2.5%) per annum.

(b) Ageing analysis of accounts receivable based on due date and net of impairment allowance is as follows:

	As at 31 December 2019 ***HK$'000*** **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Repayable on demand	**4,276**	1,524
0–30 days	**489,554**	590,751
31–90 days	**3,230**	3,982
Over 90 days	**1,102**	4,031
Net accounts receivable	**498,162**	600,288

12 LOANS TO MARGIN CLIENTS

	As at 31 December 2019 ***HK$'000*** **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Loans to margin clients		
— Measured at fair value through profit and loss	**1,977,795**	2,810,720

Note:

Margin clients are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a comprehensive analysis including but not limited to loan-to-market and loan-to-marginable value ratios ("lending ratios"), concentration risk, illiquid collaterals and overall availability of funds. The Group exercises continuous monitoring of outstanding margin loans to see if the actual lending ratios have exceeded the pre-determined levels as a credit risk control mechanism. Any excess in the lending ratios will trigger a margin call which the clients have to make good the shortfall. As at 31 December 2019, the market value of securities pledged by margin clients to the Group as collateral was HK$11,054,064,000 (31 December 2018: HK$10,722,507,000) and the Group is permitted to sell these collaterals if the client defaults in margin calls. Loans to margin clients are repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

13 OTHER LOANS

	Notes	As at 31 December 2019 *HK$'000* (Unaudited)	As at 31 December 2018 *HK$'000* (Audited)
Other loans			
— Unsecured	(a)	**2,748,743**	1,876,375
— Secured	(a, b)	**684,147**	749,407
		3,432,890	2,625,782
Less: impairment allowance		**(165,799)**	(17,751)
		3,267,091	2,608,031
Analysis of the net amount into current and non-current portions:			
— Current		**3,204,578**	2,570,621
— Non-current		**62,513**	37,410
		3,267,091	2,608,031

Notes:

(a) The loans bear interest at fixed rate ranging from 5.5% to 20.0% (31 December 2018: 5.0% to 9.5%) per annum.

(b) As at 31 December 2019 and 2018, the collaterals held by the Group for the secured loans mainly include shares of listed companies, shares and assets of private companies.

14 ACCOUNTS PAYABLE

	Notes	**As at 31 December 2019 *HK$'000* (Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Accounts payable from dealings in securities, futures and options contracts			
— Brokers and clearing house	(a)	**8,336**	30,905
— Cash clients	(a)	**1,289,951**	706,408
— Margin clients	(b)	**354,208**	1,107,775
Accounts payable from other businesses			
— Clients		**12,466**	1,173
	(c)	**1,664,961**	1,846,261

Notes:

(a) Accounts payable to brokers, clearing house and cash clients are repayable on demand up to the settlement dates of their respective transactions (normally two or three business days after the respective trade dates).

(b) Accounts payable to margin clients are repayable on demand (except for the required margin deposits received from clients for their trading of futures and options contracts).

(c) No ageing analysis in respect of accounts payable is disclosed as, in the opinion of the Board, the ageing analysis does not give additional value in view of the business nature.

15 EVENT AFTER THE REPORTING PERIOD

Since early 2020, the outbreak of Novel Coronavirus raised the uncertainty towards the business environment and operations of the Group. The Group will closely monitor the impacts and devise the contingency measures accordingly. If necessary, the Group will promptly carry out measures to mitigate the potential impacts. The Group will continue to review the contingency measures and evaluate risk management effectiveness. In view of the rapid spread of Novel Coronavirus, it is not appropriate to estimate the potential impacts on the Group's financial performance at present stage due to the possible significant fluctuations.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

i) Macro Environment

Despite the worrying factors around global financial markets in 2019, including U.S.-China trade dispute, Brexit and U.S. interest rate trend, the performance of the global stock markets in 2019 was outstanding in the last decade. The stock markets of the U.S., Brazil and Germany rose by one more than 20% in 2019. During the first half of the year, the yield on the benchmark 10-year U.S. Treasury Note broke below the 3-month yield. The inversion of the U.S. Treasury yield curve perceives a U.S. economic recession and triggers fear and panic in the global financial markets. With the alarm of inverted Treasury yield curve, the U.S. Federal Reserve has lowered the Fed fund rates and implemented policies for expanding its balance sheet. The Federal Reserve had reduced the interest rate three times in 2019, by 0.25% each time, first year ever since the 2008 financial tsunami and resulted in easing the market's panic sentiment. Thereafter, China and the U.S. agreed to resume trade negotiations and then reached the "Phase One Trade Agreement" by the end of 2019, leading to significant improvement on the investor sentiment around the world in the fourth quarter.

The Novel Coronavirus has been spreading across the world since the beginning of 2020. Under the threat of the outbreak of Novel Coronavirus, all economic fields are exposed to certain degree of impact, and it was expected that the economy as a whole might slow down significantly in the first half of the year. While fighting the Novel Coronavirus pandemic, governments and central banks of different countries have cut interest rates and implemented stimulus measures to tackle with the economic impact of the outbreak. In particular, the U.S. Federal Reserve has cut rates by 0.5% and 1% in just the first two weeks of March 2020 and restarted quantitative easing measures. Facing the huge global and local challenges, the Hong Kong Monetary Authority has also followed correspondingly and lowered the Base Rate according to its pre-set formula. However, the Organisation for Economic Co-operation and Development (OECD) has warned that the outbreak of Novel Coronavirus will drag the global economy into the deepest recession since the 2008 financial tsunami. It would be difficult to determine the duration of the public health crisis as a result of this outbreak. Despite of the challenges, we are fully confident to the prospect of China and Hong Kong, and we believe Hong Kong's economy will swiftly recover once the epidemic alleviates.

ii) Hong Kong Market Review

The Hong Kong stock market had been volatile in 2019, the Hang Seng Index surged then eased. With the resumption of U.S.-China trade negotiations, the market surged from January and returned to the level of 30,000 points in April, reaching the highest of 30,280 points in the year. However, the U.S.-China trade negotiations were on the edge of collapse afterwards, dragging the Hang Seng Index to fall until August at the low of 24,899 points, erasing all the gains since the beginning of the year. Thereafter, China and the U.S. resumed trade negotiations, central banks around the world restarted accommodative monetary policies, Alibaba had its secondary listing in Hong Kong at the end of November, and the atmosphere of the local social events had eased, leading to a gradual improvement in the confidence of the capital market. As a result, the market picked up towards the end of the year 2019, with the Hang Seng Index 2,344 points (9%) higher year-on-year and the Hang Seng China Enterprises Index 1,044 points (10%) higher year-on-year.

As at the end of 2019, Hong Kong stock market has a total of 2,449 listed companies comprising 2,071 Main Board counters and 378 GEM counters. In 2019, 183 companies were newly listed#, and the total market capitalization of the Hong Kong stock market increased to HK$38.2 trillion, representing an increase of HK$8.3 trillion (28%) as compared to HK$29.9 trillion as at the end of 2018.

comprising companies on the Main Board and the GEM (the number of listed companies that were transferred from the GEM to the Main Board is included)

iii) Results and Overview

The Group experienced a difficult year in 2019. Facing the shortage of overseas capital for Chinese companies, the sustained U.S.-China trade war, the tightened requirements of the Securities and Futures Commission of Hong Kong ("SFC") on margin financing and the social events in Hong Kong during the second half of the year, licensed financial institutions in Hong Kong were operating in a significantly adverse environment in 2019, and there is no exception for the Group.

The Group recorded revenue of HK$779 million for 2019, as compared to HK$672 million for 2018, representing a year-on-year increase of 16%. Profit before tax for 2019 was HK$3.61 million, as compared to HK$110 million for 2018, representing a year-on-year decrease of 97%. Net profit for 2019 was around HK$5.35 million, as compared to HK$100 million for 2018, representing a year-on-year decrease of 95%. The Group does not recommend the payment of any final dividend for 2019 (2018: Nil).

Excluding the impact of certain material one-off or fair value changes items (the Group presented adjusted data as the impact of those items would distort the year-on-year comparison on the recurring business of the Group), the Group's adjusted revenue for 2019 was HK$723 million, as compared to HK$690 million for 2018 on the same basis, representing a year-on-year increase of 5%. Adjusted profit before tax for 2019 was around HK$96 million, as compared to HK$199 million for 2018 on the same basis, representing a year-on-year decrease of 52%. The changes were mainly attributable to the listing of a private equity investment of the Group in the U.S. stock market in December 2019. Its value as reflected by the share price at the end of last year were below our investment cost for more than HK$100 million.

Adjusted results	**2019** ***HK$'000***	2018 *HK$'000*
Adjusted revenue	**722,857**	689,844
Other net operating income/(losses)	**(2,275)**	23,261
Adjusted total expenses	**(624,859)**	(513,856)
Adjusted profit before tax	**95,723**	199,249

The adjusted items are as follows:

1) Impairment loss for the publicly offered bonds of China Energy Reserve invested by the Group (historical investment cost amounted to US$14 million): The Group invested in the one-year bond of China Energy Reserve with a face value of US$15 million in 2017. There was event of default for China Energy Reserve in the first half of 2018, and the Company disposed face value of US$1 million in the second half of 2018. As at the end of 2018 and 2019, there was debt restructuring but had not been validly approved by relevant creditors. As such, the Company made a provision equal to approximately 68% of the bonds, with a face value of US$14 million held as at the end of 2018 (technically accounted for at amortised cost according to the HKFRSs), and made a 95% provision in 2019. Thus, in respect of the adjustment to expenses in the table above, the Group reduced HK$28.53 million in 2019 and HK$71.93 million in 2018 to the bonds of China Energy Reserve.

2) Fair value adjustment of the Group's investment in the H shares of Haitong Securities (6837.HK) according to the closing price: The Group invested approximately HK$390 million in the H shares of Haitong Securities in the first half of 2018, and the Group held them all until the end of 2018. In 2019, the Group seized the market opportunity to dispose of part of its holding at a profit, and realised gains were recorded in 2019. The market price of such H shares was volatile in 2018 and 2019, the Group accounted for such shares at the closing price at the end of two consecutive years, resulting in a material impact to the Group's profit or loss, which was unrelated to the actual operation trend. The Group considers it as a medium-to-long-term investment, and the actual operating results should not be misrepresented by fluctuations in the stock price of such shares. Thus, in respect of the adjustment to revenue in the table above, the Group reduced HK$83.63 million in 2019 and increased HK$92.02 million in 2018 for investment on the H share of Haitong Securities.

3) Revaluation gain or loss in the seed funding investment of a private equity fund: To support the project of our own private equity fund, the Group invested in a private equity fund managed by our asset management team at a cost of approximately HK$157 million (US$20 million) in 2018. The underlying assets then comprised several high-quality unlisted enterprises. The Company engaged an independent valuer to value the investment and accounted for it at the fair value in accordance with the HKFRSs. As the fair value of an unlisted enterprise could fluctuate considerably, despite the fact that the increase/decrease in fair value was reflected in the books, the asset could not be realised immediately. It is uncertain whether such increase/decrease in fair value could be attained in future financial years. Thus, in respect of the adjustment to revenue in the table above, the Group increased HK$27.05 million in 2019 and reduced HK$74.49 million in 2018 for those valuation of unlisted investees in the fund.

4) Specific provision for other loan to a listed Chinese property developer: The principal amount of such other loan was approximately HK$180 million (HK$193 million with accrued interest), and the Group made a provision equal to approximately 65% of the carrying amount in aggregate in an amount of approximately HK$125 million in 2019 (2018: no specific provision). At the beginning of 2019, such property developer went into a state of credit default. The Group is in negotiation with all creditors on debt restructuring, and no definitive plan has been made at the moment. Thus, in respect of the adjustment to expenses in the table above, the Group reduced HK$120 million to the loan to the listed Chinese property developer in 2019, whereas no adjustment was made in 2018.

The Group had held special general meetings in the past to approve the Group's on-going transactions with connected parties. Although the actual amount used was below the approved limit, it represented a significant portion of net assets. To let readers understand the proportions of revenue from continuing connected transactions in various segments, the Company presents the relevant data in the following table, those continuing connected transactions were approved by the special general meetings held on 20 November 2017 and 11 October 2019:

Analysis of Continuing Connected Transactions — Revenue

For the financial year ended 31 December 2019

			Analysis:			
		Revenue	**Continuing connected transactions**		**Independent third parties' transactions**	
		HK$ million (Unaudited)	*HK$ million* (Unaudited)		*HK$ million* (Unaudited)	
1)	Brokerage business	166	—		166	
2)	Interest income business	611	207		404	
	— Loans to margin clients	193	4		189	
	— Other loans	305	115		190	
	— Others	113	88		25	
3)	Corporate finance business	45	—		45	
4)	Asset management business	23	4		19	
5)	Investments and others business	(66)	3		(69)	
		779	214	27%	565	73%

As shown in the table above, revenue from continuing connected transactions accounted for 27% of the Company's total revenue. The proportion of continuing connected transactions in interest income is high, accounted for 34% of total interest income, as the Company provided a considerable amount of loans to connected parties. In the other four business segments, the proportions of revenue from continuing connected transactions are relatively small. The proportions of continuing connected transactions to items in the balance sheet of the Group are analysed in the table below:

Analysis of Continuing Connected Transactions — Balance Sheet Items

As at 31 December 2019

		Analysis:			
		Continuing connected transactions		**Independent third parties' transactions**	
	HK$ million (Unaudited)	*HK$ million* (Unaudited)		*HK$ million* (Unaudited)	
Major items extracted from the balance sheet:					
Financial assets held for trading and market making activities	1,798	724		1,074	
— Listed debt securities	16	—		16	
— Listed equity securities	592	—		592	
— Unlisted debt securities	741	724		17	
— Unlisted equity securities	233	—		233	
— Unlisted mutual funds	28	—		28	
— Private equity fund	188	—		188	
Financial assets not held for trading and market making activities	158	97		61	
— Unlisted debt securities	152	97		55	
— Unlisted equity securities	6	—		6	
Derivative financial instruments	17	—		17	
Loans to margin clients	1,978	55		1,923	
Advances to customers for merger and acquisition activities	242	—		242	
Other loans	3,267	1,543		1,724	
	7,460	2,419	32%	5,041	68%

As loans to connected parties were executed in different forms in practice, each item was classified by its actual form in accordance with the relevant HKFRSs. The asset class as reflected by the Group amounted to HK$2,419 million, accounting for approximately 25% of total assets and approximately 42% of net assets. Its major components are: 1) other loans of HK$1,543 million (unsecured loans generally granted to connected parties by our subsidiaries); 2) bonds that were readily tradable of HK$821 million; and 3) margin loans of HK$55 million (margin loans provided to subsidiaries with SFC type 1 licence by the Group, which were generally secured by the shares of listed companies in Hong Kong held by connected parties). These items were further classified into current or non-current assets in accordance with the HKFRSs for the purpose of financial statements, but for the sake of simplicity, current and non-current assets of the same nature were combined in the analysis above.

iv) Business Review

In respect of our operation targets for 2019, the overall completion rate has improved as compared with 2018, though not achieved. The Group's market share in the secondary market of Hong Kong stock market recorded a slight year-on-year increase. At the end of 2019, the Group's margin loans to clients amounted to HK$1,978 million (trade date basis), representing a decrease of 30% from HK$2,811 million (trade date basis) at the end of 2018, was due mainly to our cooperative measures to comply with the requirement from SFC on tightening margin loans during the fourth quarter, while the interest rate of margin loans charged to clients increased significantly. Fair value loss on margin loans in 2019 was 0.8% (2018: less than 0.1%), which was still at moderate level. In 2019, the Group has newly entered into 1 sponsor engagement for initial public offerings (2018: 4). We have also entered into 15 new engagement letters as financial advisor/independent financial advisor, completed 8 equity capital market projects and 5 debt capital market projects (2018: 12, 8 and 6). At the end of 2019, our assets under management ("AUM") reached US$282 million, increasing by over 13% from US$250 million at the end of 2018, which was mainly due to the Group's newly developed products on investment management. It is worth mentioning that the Group received various awards in 2019, including the "Listed Company Award of Excellence 2019" (Main Board) by Hong Kong Economic Journal for two consecutive years and the "Corporate Governance Award" — The "Listed Enterprise Excellence Awards 2019" by Capital Weekly in recognition of its outstanding performance and corporate governance strategic planning over the past year. Subsidiaries of the Group have reached new heights of excellence in Financial Services, sweeping two accolades at "Financial Services Awards of Excellence 2019" by the Hong Kong Economic Journal. China Tonghai Asset Management Limited scooped "the Awards of Excellence — Asset Management" while China Tonghai Securities Limited ("China Tonghai Securities") garnered "the Awards of Excellence — Diversified Securities Management". China Tonghai Capital Limited, which is a subsidiary of the Group, also won the "Best Privatisation" from The Asset Triple A Country Awards. The widely recognised achievements of the Group in various aspects underlined our strong capabilities.

v) Financial Review

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

Revenue	**2019** *HK$ million*	**Proportion**	2018 *HK$ million*	Proportion	Change
Brokerage business	**166**	**20%**	201	28%	(17%)
Interest income business	**611**	**72%**	447	63%	37%
Corporate finance business	**45**	**5%**	41	6%	10%
Asset management business	**23**	**3%**	24	3%	(4%)
Total income excluding investments and other businesses	**845**	**100%**	713	100%	19%

From the above table, the proportion of interest income business increased from 63% in 2018 to 72% in 2019, while the proportion of brokerage business decreased at a relatively larger extent from 28% in 2018 to 20% in 2019, and the proportion of income from the other two businesses remained stable.

Brokerage Business

In 2019, total income from brokerage business recorded HK$166 million, a year-on-year decline of approximately 17% from HK$201 million in 2018, mainly due to the decrease in commission on dealings in futures and options. Commission income on futures and options products declined from HK$119 million in 2018 to HK$77 million in 2019, a year-on-year decline of approximately 35%, mainly due to the decline in transaction volume of futures and options products at substantially the same percentage. Handling, custodian and other service income increased by approximately 60% from HK$15 million to HK$24 million, mainly due to the handling fees from some one-off transactions.

Interest Income Business

The Group's interest income business include interest income from margin loans, interest income from other loans, interest income from proprietary investment business and interest income from treasury operation. Total revenue from interest income business in 2019 recorded HK$611 million, as compared to HK$447 million in 2018, representing a year-on-year increase of approximately 37%. In particular, interest income from loans to margin clients recorded HK$193 million in 2019, as compared to HK$178 million in 2018, a year-on-year increase of approximately 8%, which was mainly due to the increase in average margin loans balances and average loan interest rate. In addition, interest income from other loans also rose sharply in 2019, from HK$174 million in 2018 to HK$305 million in 2019, representing a year-on-year increase of approximately 75%. The increase was mainly due to the significant growth of other loan balance, which also took into account of loans to connected parties through the continuing connected transaction frameworks. For proprietary investment and treasury operation, interest income from the treasury business of clients' trust and house money as well as the investment business of proprietary investment in fixed income products in 2019 amounted to approximately HK$111 million, as compared to HK$93 million in 2018, representing a year-on-year increase of approximately 19%. The increase was mainly due to the increase in the portion of proprietary debt investment and interest rate. Interest income from other loans mainly represents the interests arising from loans measured at amortised costs. Interest income from proprietary investment and treasury operation mainly comprise of interests arising from trust fixed deposits at bank, bonds measured at amortised costs and bonds measured at fair value through profit or loss.

Corporate Finance Business

The Group's corporate finance business comprises sponsorship for listing, financial advisory, financing consultation service, equity capital market and debt capital market. It consists of revenue booked in China Tonghai Capital Limited, which is our subsidiary and some commission income from placing and underwriting booked under China Tonghai Securities which is another subsidiary. In 2019, total income from corporate finance business recorded HK$45 million, as compared to HK$41 million in 2018, representing a year-on-year increase of approximately 10%.

In 2019, commission-based income (from placing, underwriting and sub-underwriting deals) amounted to HK$26.55 million, representing a year-on-year increase of approximately 132% from HK$11.44 million in 2018. The major reason was the commission income recorded from Tai Hing Group Holdings Limited (Stock Code: 6811), where we acted as a joint global coordinator. In 2019, fee-based income (from sponsorship, financial advisory, compliance advisory engagements) was approximately HK$18.35 million, representing a year-on-year decline of approximately 37% from HK$29.23 million in 2018. The decline was mainly due to the fact that the listing sponsor projects were not completed in 2019 as scheduled.

Asset Management Business

In 2019, total revenue from asset management business recorded HK$23.16 million, representing a year-on-year decline of 4% as compared to HK$24.14 million in 2018. The decline was mainly due to the decrease in performance fees. Average AUM for 2019 has grown significantly compared to that in 2018 while several new asset management products are products with low management fee, thus a decrease in general management fee is recorded. Our asset management business currently includes the management of China Tonghai China Focus Segregated Portfolio ("CTCF", a private fund incorporated in the Cayman Islands), Oceanwide Greater China UCITS fund ("UCITS", a European public fund registered in Luxemburg), private equity funds named Oceanwide Pioneer Limited Partnership, Oceanwide Oceanpine Limited Partnership, Oceanwide Elite Limited Partnership, China Tonghai Kilmorey Guaranteed Return Segregated Portfolio, Golden Global SP1, a Merger and Acquisition Fund, China Tonghai Funds SPC Limited — China Tonghai Minsheng Trust A Shares Segregated Portfolio and various discretionary accounts and so on.

Investments and Others Business

In 2019, losses from investments and others business recorded HK$66.00 million, as compared to a loss of HK$40.34 million in 2018. The main reason for the losses for the year was the fair value losses of the aforesaid private equity investment and seed funding investment in the private equity fund. Fortunately, the fair value gain of another H share investment of the Group had offset part of the negative impact brought by the aforesaid losses.

Expenses

In 2019, direct costs recorded HK$160 million, representing a year-on-year decline of 12% from HK$181 million in 2018. The decline was mainly due to the decrease in income from brokerage business, where its corresponding commission expenses are a major component of direct costs.

In 2019, staff costs recorded HK$215 million, representing a year-on-year increase of approximately 30% from HK$165 million in 2018. The increase was mainly resulted from three factors: firstly, the general increase in the number of employees; secondly, the overall single-digit percentage annual salary increment; thirdly, the recruitment of higher caliber staff to build up business teams.

In 2019, impairment loss recorded approximately HK$185 million, representing a year-on-year increase of approximately 106% from HK$90 million in 2018. Apart from the aforesaid two specific provisions, the remaining balance in 2019 represented some general provisions made against those remaining other loans.

Finance cost in 2019 rose sharply, increasing from HK$59 million in 2018 to HK$108 million in 2019 and representing a year-on-year increase of approximately 83%. The Group's average total borrowings recorded a significant year-on-year increase. The outstanding total borrowings of the Group have increased gradually from HK$570 million in early January 2018 to HK$2.4 billion in late 2018 while the outstanding total borrowings of the Group has stood above HK$2 billion for most of the time in 2019. The decrease in outstanding total borrowings is due to our repayment of HK$200 million to China Minsheng Banking Corp., Ltd., Hong Kong Branch (the "CMBC HK Branch") in December 2019 and repayment of loans to other banks.

vi) Other Information

Capital Structure, Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow as well as through the utilisation of banking facilities and short-term loans and notes. From time to time, the Company may raise capital by issuing new shares or debt instruments. The Group's cash and short-term deposits as at the end of 2019 stood at around HK$182 million (2018: HK$357 million).

At the end of 2019, the Group's total borrowings amounted to HK$2,037 million, decreased by 15% from HK$2,393 million at the end of 2018. Borrowings mainly consisted of three components. The first component was bank facilities and secured financing of around HK$1,826 million (2018: HK$2,308 million), of which the Group had available aggregate banking facilities of around HK$4,249 million (2018: HK$3,840 million), and most was secured by the legal charge on certain securities as owned by the margin clients of the Group. The second component was notes issued to related parties and independent third parties, which amounted to HK$211 million at the end of 2019 (2018: HK$50 million). The third component was the obligations under repurchase agreement, which recorded HK$Nil as at the end of 2019 (2018: HK$35 million). At the end of 2019, the Group's gearing ratio (leverage) was 35% (2018: 41%), being calculated as total borrowings over net assets. The management has applied prudent risk and credit management on the increased borrowing. In addition, the Group is required to strictly follow regulatory re-pledging ratios and prudent bank borrowing benchmarks that govern the extent of bank borrowings in the securities margin lending business.

Contingent liabilities

Counterclaim by a Hong Kong listed company

On 4 February 2019, China Tonghai Securities, our subsidiary, initiated legal proceedings against a Hong Kong listed company (the "Defendant") in the High Court of the Hong Kong Special Administrative Region in respect of the failure of payment of commission fees to China Tonghai Securities under the agreement on provision of financial agency services dated 28 March 2018 (the "Agency Agreement"). According to the Agency Agreement, it was agreed that the Defendant shall pay a service fee of HK$1.20 million for China Tonghai Securities' performance of financial agency services, and commission fees amounting to 2.5% of the value of securities subscribed by or total value of capital financing and relevant transactions of investors referred by China Tonghai Securities (service fee of HK$1.20 million could be deducted from the commission upon the successful completion of capital financing). China Tonghai Securities has referred investors to the Defendant, and the Defendant succeeded in raising HK$450 million through our referral, with capital financing completed on 3 December 2018. Apart from the payment of partial financial service fees of HK$0.9 million, the Defendant has not paid the remaining commission fees of HK$10.35 million to China Tonghai Securities (not yet booked). The Defendant submitted its defense and counterclaim in mid-2019, and both parties will exchange witness statements prior to the first quarter of 2020. Save as disclosed above, the Directors consider that the Group has no other contingent liabilities. Although the possible consequence of the above case is now uncertain, the Directors consider any possible legal obligations arising from the above counterclaim would not impose any material impact on the financial position of the Group.

Material acquisitions and disposals

For the current year, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies.

Charges on the Group's assets

At the end of 2019, assets of HK$1,200 million (2018: HK$810 million) were charged to banks for facilities.

Employees and remuneration policies

In 2019, the Group had 242 full time employees (2018: 221) in Hong Kong and 30 full time employees (2018: 31) in Mainland China. In addition, the Group has 87 self-employed sales representatives (2018: 91). Competitive total remuneration packages are offered to employees by reference to industry remuneration research reports, prevailing market practices and standards and individual merit. Salaries are reviewed annually, and bonuses are paid with reference to individual performance appraisals, prevailing market conditions and the Group's financial performance. Other benefits offered by the Group include a mandatory provident fund scheme and medical and health insurance. In addition, the Group has maintained a restricted Share Award Scheme and a phantom share scheme as means for reward and staff retention.

Risk management

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

Credit risk

Credit risk is the risk in respect of loss arising from incompetence of a borrower, counterparty or issuer of financial instruments to meet its obligation, or potential deterioration of credit ratings. The Group has Credit Risk Approving Policy and Post Lending Monitoring Policy in place to dictate procedures and approving authorities required for all credit applications relating to increases in credit risk. The credit risks of the Group mainly arise from six business areas: brokerage business, asset management business, debt and equity underwriting/trading business, loans lending business, propriety investment and capital raising business. The Group's senior management has also set up a Business Assessment Committee to review and approve credit risky products/transactions within each of the business line. Advance risk IT systems are also utilised by the Group to conduct daily monitoring on credit and concentration risk limits.

Market risk

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

Liquidity risk

Liquidity risk refers to the risk that the Group might face in obtaining sufficient capital and funds in a timely manner to meet its payment obligations and capital requirements for normal business activities. The Treasury Department is responsible for management and allocation of funds for the Group. The Finance Department has a monitoring system to ensure compliance to relevant rules, including Financial Resources Rules (FRR) and financial covenants of lending banks. In addition, the Group has maintained good relationships with banks to secure stable channels for short-term financing such as borrowing and repurchases. The Group may also raise long-term working capital through public and private offerings of corporate bonds. The Group has also established a liquidity system to ensure it has sufficient liquid assets to meet any emergency liquidity needs.

Operational risk

Operational risk is the risk of financial loss arises mainly from negligence or omission of internal procedural management, information system failures or personnel misconduct of staffs. The Group actively schedules briefing sessions to improve risk awareness amongst employees, and instructs all departments to establish internal procedural and control guidelines. There is an Operational Risk Events Reporting procedure to ensure that all risk events are timely reported to the Risk, Compliance and IT departments for immediate implementation of remedial action.

Regulatory compliance risk

As a financial group operating regulated businesses, we endeavour to meet the stringent and evolving regulatory requirements, including but not limited to those related to investor interest protection and market integrity and stability maintenance. Our compliance team working closely together with internal and external professionals has continually reviewed our internal control processes to reduce the regulatory risks that can impact the Group's operation.

vii) Prospects

Encountering the prevailing complex, ever-changing and highly volatile market environment, the Group will take a more prudential stance towards its business. More efforts are put on the following three aspects:

1) Increase fee-based income: The Company will deploy more resources in boosting fee-based income. By continuous consolidation of sales and marketing efforts on securities, corporate finance and assets management businesses, the Company is determined to expand the respective market share and to lift business volume.

2) Enhance risk management: Given the subjective market factors, the Group has provided a relatively larger amount of provisions in 2019. We have learnt a lesson from the past and have strengthened risk control for various aspects with an aim to maximise the recoverability of the existing non-performing loans, while reduces the possibility of making provisions for new loans in the future. Such targets would be realized via reducing concentration risks, decelerating loan portfolio expansion rate and attracting higher quality customers.

3) Deepen our business interaction with the controlling shareholder: The Company will further deepen business interaction with Oceanwide Holdings Co., Ltd. (Stock Code: 000046.SZ) and the Group's controlling shareholders and the business interaction with its non-listed group. Under the continuing connected transaction frameworks as approved by shareholders for 2019, the Company has expanded the absolute cap amount for businesses with our parent company. We hope to operate more connected businesses in the future, and bring higher return to the Group and shareholders as a whole by better utilising various established networks and competitive edges of our controlling shareholder.

Looking forward, we will continue to be united and dedicated to strive for the benefits of the Company and all shareholders, as evidenced by the recent hard work of the whole Group in combat with Novel Coronavirus epidemic. We hope that with the end of the epidemic and the recovery of Hong Kong and the world to normal times, the Group's results would make new heights and we would bring higher return to all shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 2019, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any listed securities of the Company.

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has applied the principles and complied with the code provisions set out in Appendix 14 of the Listing Rules, titled "Corporate Governance Code and Corporate Governance Report", throughout the year ended 31 December 2019 and subsequent period up to the date of this announcement, save for the deviations from code provision A.5.1 which stipulates that a Nomination Committee should be established. In view of the stage of business growth, the existing size of the board and business operation of the Group, it is considered more beneficial and effective to have the relevant function performed by the Board itself rather than through the establishment of such committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

In response to specific enquiry, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the year ended 31 December 2019.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the auditors of the Company and the material differences (if any) as compared with the unaudited annual results contained herein, and (ii) the proposed date on which the forthcoming annual general meeting will be held. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed and the annual results will be agreed with the auditors of the Company on or before 30 April 2020.

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company (which comprises five independent non-executive directors) has reviewed the unaudited annual results of the Company for the year ended 31 December 2019 set out in this announcement.

PUBLICATION OF THE UNAUDITED RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The unaudited results announcement of the Group for the year ended 31 December 2019 is published on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.tonghaifinancial.com respectively. The Annual Report for the year ended 31 December 2019 of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
China Tonghai International Financial Limited
HAN Xiaosheng
Chairman

Hong Kong, 26 March 2020

As at the date of this announcement, the Board of the Company comprises:

Executive Directors:
Mr. HAN Xiaosheng *(Chairman)*
Mr. ZHANG Bo *(Deputy Chairman)*
Mr. ZHANG Xifang
Mr. FENG Henian
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing

Non-executive Directors:
Mr. Bernard POULIOT
Mr. LIU Bing
Mr. ZHAO Yingwei
Mr. ZHAO Xiaoxia

Independent Non-executive Directors:
Mr. Roy LO Wa Kei
Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun