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## **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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

The board of directors (the “Board” or the “Directors”) of China Tonghai International Financial Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

#### **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fee and commission income	4	<b>234,242</b>	244,191
Interest income			
— Calculated using the effective interest method	4	<b>424,552</b>	340,819
— Calculated using other method	4	<b>242,406</b>	270,102
Net investment gain/(loss)	4	<b>203,415</b>	(75,680)
<b>Total revenue</b>	4	<b>1,104,615</b>	779,432

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income/(loss)	5	<b>15,902</b>	(2,275)
Direct cost		<b>(165,747)</b>	(160,196)
Staff cost		<b>(255,215)</b>	(214,850)
Depreciation and amortisation	7	<b>(48,243)</b>	(42,440)
Expected Credit Loss (“E.C.L.”) provisions		<b>(372,627)</b>	(184,800)
Finance cost			
— Interest on borrowings	6	<b>(105,713)</b>	(107,520)
— Interest on lease liabilities	6	<b>(4,111)</b>	(4,611)
Other operating expenses	8	<b>(53,662)</b>	(56,883)
Share of result of an associate		<b>(206)</b>	(212)
Share of results of joint ventures		<b>(1,873)</b>	(2,036)
		<hr/>	<hr/>
<b>Profit before tax</b>	7	<b>113,120</b>	3,609
Tax (expense)/credit	9	<b>(9,870)</b>	1,738
		<hr/>	<hr/>
<b>Net profit attributable to equity holders of the Company</b>		<b>103,250</b>	5,347
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share for net profit attributable to equity holders of the Company</b>		<b><i>HK cent(s)</i></b>	<b><i>HK cent(s)</i></b>
— Basic and diluted	10	<b>1.680</b>	0.087
<b>Dividend per share</b>	11	<b>0.5</b>	Nil

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020			As at 31 December 2019		
		Current HK\$'000	Non-current HK\$'000	Total HK\$'000	Current HK\$'000	Non-current HK\$'000	Total HK\$'000
<b>ASSETS</b>							
Cash and cash equivalents		214,461	—	214,461	182,449	—	182,449
Bank balances held on behalf of clients		1,448,532	—	1,448,532	1,253,410	—	1,253,410
Financial assets held for trading and market making activities		1,956,168	113,039	2,069,207	1,630,972	188,022	1,818,994
Financial assets not held for trading and market making activities		117,494	8,050	125,544	152,059	6,073	158,132
Derivative financial instruments		94,899	—	94,899	17,119	—	17,119
Loans to margin clients	12	1,371,861	—	1,371,861	1,977,795	—	1,977,795
Advances to customers for merger and acquisition activities	13	189,448	—	189,448	54,813	166,588	221,401
Other loans	14	3,190,070	148,830	3,338,900	3,204,578	62,513	3,267,091
Reverse repurchase agreements	15	163,849	—	163,849	—	—	—
Accounts receivable	16	545,225	—	545,225	498,162	—	498,162
Prepayments, deposits and other receivables		118,614	—	118,614	59,975	—	59,975
Interest in an associate		—	1,904	1,904	—	2,110	2,110
Interests in joint ventures		—	39,118	39,118	—	38,615	38,615
Goodwill and other intangible assets		—	17,782	17,782	—	19,558	19,558
Other assets		—	24,068	24,068	—	23,275	23,275
Investment property		—	9,600	9,600	—	11,700	11,700
Property and equipment		—	99,120	99,120	—	110,468	110,468
Deferred tax assets		—	64,790	64,790	—	65,790	65,790
<b>TOTAL ASSETS</b>		<b>9,410,621</b>	<b>526,301</b>	<b>9,936,922</b>	<b>9,031,332</b>	<b>694,712</b>	<b>9,726,044</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Liabilities</b>							
Accounts payable	17	1,954,531	—	1,954,531	1,664,961	—	1,664,961
Obligations under repurchase agreements		1,965	—	1,965	—	—	—
Bank and other borrowings		1,872,838	—	1,872,838	2,037,029	—	2,037,029
Contract liabilities		5,864	—	5,864	4,988	—	4,988
Lease liabilities		35,196	44,814	80,010	31,626	58,642	90,268
Accruals and other payables		110,094	—	110,094	86,629	—	86,629
Tax payables		20,403	—	20,403	58,615	—	58,615
<b>TOTAL LIABILITIES</b>		<b>4,000,891</b>	<b>44,814</b>	<b>4,045,705</b>	<b>3,883,848</b>	<b>58,642</b>	<b>3,942,490</b>
<b>Equity</b>							
Share capital				20,657			20,657
Reserves				5,870,560			5,762,897
<b>TOTAL EQUITY</b>				<b>5,891,217</b>			<b>5,783,554</b>
<b>TOTAL LIABILITIES AND EQUITY</b>				<b>9,936,922</b>			<b>9,726,044</b>
<i>Net current assets</i>				<b>5,409,730</b>			<b>5,147,484</b>

## NOTES TO THE AUDITED RESULTS

*For the year ended 31 December 2020*

### 1 BASIS OF PREPARATION

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

The financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property 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

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

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

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

## 2.2 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these financial statements, in addition to the amendment to HKFRS 16, the HKICPA has issued a number of amendments, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 37, <i>Onerous Contracts-Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022

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

## 3 SEGMENT INFORMATION

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

2020	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Brokerage <i>HK\$'000</i>	Interest income <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Reportable segment revenue</b>							
Fee and commission income	14,406	41,680	170,046	—	—	8,110	234,242
Interest income	—	—	216,428	368,087	82,443	—	666,958
Net investment gain/(loss)	—	—	(41,434)	—	244,849	—	203,415
<b>Segment revenue from external customers</b>	<b>14,406</b>	<b>41,680</b>	<b>345,040</b>	<b>368,087</b>	<b>327,292</b>	<b>8,110</b>	<b>1,104,615</b>
Inter-segment revenue	1,430	3,588	10	—	—	1,186	6,214
<b>Reportable segment revenue</b>	<b>15,836</b>	<b>45,268</b>	<b>345,050</b>	<b>368,087</b>	<b>327,292</b>	<b>9,296</b>	<b>1,110,829</b>
<b>Reportable segment result</b>	<b>(13,420)</b>	<b>10,083</b>	<b>(15,460)</b>	<b>(90,595)</b>	<b>235,738</b>	<b>(2,965)</b>	<b>123,381</b>

2019	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Brokerage <i>HK\$'000</i>	Interest income <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Reportable segment revenue</b>							
Fee and commission income	44,898	23,163	166,454	—	—	9,676	244,191
Interest income	—	—	230,223	304,707	75,991	—	610,921
Net investment loss	—	—	(16,544)	—	(59,136)	—	(75,680)
<b>Segment revenue from external customers</b>	<b>44,898</b>	<b>23,163</b>	<b>380,133</b>	<b>304,707</b>	<b>16,855</b>	<b>9,676</b>	<b>779,432</b>
Inter-segment revenue	1,130	3,286	—	—	—	1,331	5,747
<b>Reportable segment revenue</b>	<b>46,028</b>	<b>26,449</b>	<b>380,133</b>	<b>304,707</b>	<b>16,855</b>	<b>11,007</b>	<b>785,179</b>
<b>Reportable segment result</b>	<b>698</b>	<b>(329)</b>	<b>9,531</b>	<b>50,903</b>	<b>(49,162)</b>	<b>(130)</b>	<b>11,511</b>

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:

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

### 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:

	<b>2020</b> <b><i>HK\$'000</i></b>	2019 <i>HK\$'000</i>
Customer A**	<b>145,623</b>	109,379

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

## 4 REVENUE

### (a) Revenue analysis

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Corporate finance business</b>		
<i>Fee and commission income:</i>		
— Placing and underwriting commission income	7,775	26,551
— Financial and compliance advisory services fee income	<u>6,631</u>	<u>18,347</u>
	<u>14,406</u>	<u>44,898</u>
<b>Asset management business</b>		
<i>Fee and commission income:</i>		
— Management fee income	15,268	18,223
— Performance fee income	<u>26,412</u>	<u>4,940</u>
	<u>41,680</u>	<u>23,163</u>
<b>Brokerage business</b>		
<i>Fee and commission income:</i>		
— Commission on dealings in securities		
— Hong Kong securities	67,410	59,201
— Other than Hong Kong securities	7,221	5,481
— Commission on dealings in futures and options contracts	73,528	77,459
— Handling, custodian and other service fee income	<u>21,887</u>	<u>24,313</u>
	<u>170,046</u>	<u>166,454</u>
<b>Interest income business</b>		
<i>Interest income calculated using the effective interest method:</i>		
— Interest income from other loans	368,079	304,662
— Interest income from cash clients receivables	1,709	2,216
— Interest income from trust bank deposits	11,521	13,527
— Interest income from initial public offering loans	2,970	530
— Interest income from house money bank deposits and others	40,273	19,884
<i>Interest income calculated using other method:</i>		
— Interest income from loans to margin clients	159,152	192,881
— Interest income from bonds measured at fair value through profit or loss and others	<u>83,254</u>	<u>77,221</u>
	<u>666,958</u>	<u>610,921</u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Investments and others business</b>		
<i>Fee and commission income:</i>		
— Financial media service fee income	8,110	9,676
<i>Net investment gain/(loss):</i>		
— Net realised loss on financial assets measured at amortised cost	(394)	(268)
— Net realised and unrealised gain/(loss) on financial assets measured at fair value through profit or loss	185,107	(84,493)
— Dividend income from financial assets measured at fair value through profit or loss	18,702	9,081
	<u>211,525</u>	<u>(66,004)</u>
<b>Total revenue</b>	<u><u>1,104,615</u></u>	<u><u>779,432</u></u>

**(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)**

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

*Note:*

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

## 6 FINANCE COST

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

## 7 PROFIT BEFORE TAX

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before tax is arrived at after charging:		
Depreciation and amortisation		
— Other intangible assets	1,823	2,446
— Property and equipment	46,420	39,994
	<u>48,243</u>	<u>42,440</u>
Other items		
— Net losses on disposals of property and equipment	60	53
— Expenses relating to short-term leases and other leases with remaining lease term ending within 12 months	442	671
— Direct operating expenses related to investment property	24	27
	<u>506</u>	<u>751</u>

## 8 OTHER OPERATING EXPENSES

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

## 9 TAX EXPENSE/(CREDIT)

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

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

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

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

## 10 EARNINGS PER SHARE

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

### Earnings

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
For purpose of basic and diluted earnings per share	103,250	5,347

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

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

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

	2020 <i>HK cents</i>	2019 <i>HK cents</i>
Basic and diluted	1.680	0.087

## 11 DIVIDENDS

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

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

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

## 12 LOANS TO MARGIN CLIENTS

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

### *Note:*

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

## 13 ADVANCES TO CUSTOMERS FOR MERGER AND ACQUISITION ACTIVITIES

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

## 14 OTHER LOANS

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

### Notes:

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

## 15 REVERSE REPURCHASE AGREEMENTS

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

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

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

## 16 ACCOUNTS RECEIVABLE

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

### *Notes:*

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

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

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

## 17 ACCOUNTS PAYABLE

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

### *Notes:*

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

## 18. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) As at 31 December 2020, a term loan of approximately HK\$202.2 million and unlisted debt securities of approximately HK\$22.7 million, issued by the same borrower group, were matured on 7 March 2021 and 24 March 2021, respectively. The term loan is collateralised by the same unlisted debt securities with an amount of approximately HK\$294.2 million and 308,867,000 listed shares of the same borrower group at market value of approximately HK\$65.8 million as at 31 December 2020. Both balances have not been repaid as of the date of this report. As of 31 December 2020, an E.C.L. provision of balance was made against the aggregated exposures of approximately HK\$12.7 million.
- (b) In March 2021, the Group issued short-term senior notes of HK\$50.5 million with an interest rate of 7.5% per annum to investors, which shall be repaid on 31 March 2021. Part of the notes were subscribed by related parties of the Group.
- (c) The Group has revised up its Annual Caps on maximum daily outstanding balance of the financial assistance provided to the Tohigh Group and the Oceanwide Holdings Group for the years ending 31 December 2021 and 2022 by increasing total of HK\$400 million each year on 26 February 2021. Details of the transaction were set out in the Company's circular dated on 28 January 2021. As of the date of this report, the Group provided term loans in the amount of approximately HK\$200 million and HK\$190 million to companies under Tohigh Group and the Oceanwide Holdings Group, respectively. Details of the term loan to Tohigh Group were set out in the Company's circular dated on 1 March 2021.
- (d) On 17 March 2021, the Group and the buyer, an independent third party, entered into a conditional sale and purchase agreement, pursuant to which the Group has conditionally agreed to sell and the buyer agreed to purchase the loan and the call option for a consideration of approximately HK\$261 million. The E.C.L. provisions for the loan of approximately HK\$58.2 million has been recognised for the year ended 31 December 2020. Details of the transaction were set out in the Company's announcement dated on 17 March 2021, which the details were disclosed on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

## **FINAL DIVIDEND**

The Board has proposed to recommend, at the forthcoming annual general meeting of the Company to be held on Friday, 21 May 2021 (the “2021 AGM”), a final dividend of HK0.5 cent per share (for the year ended 31 December 2019: nil) for the year ended 31 December 2020.

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

## **SPECIAL DIVIDEND**

The Board did not recommend to declare a special dividend for the time being.

## **CLOSURES OF REGISTER OF MEMBERS**

### **(a) Entitlement to attend and vote at the forthcoming annual general meeting**

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

### **(b) Entitlement to the proposed final dividend**

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Macro Environment**

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

### **Hong Kong Market Review**

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

### **Results and Overview**

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

Similar to previous years, we set out here the adjusted financial result for readers to understand our core business' performance better. Excluding the impact of certain fair value changes on investment and sophisticated provision amount, the Group's adjusted revenue for 2020 is HK\$886 million, which is 20% more than HK\$737 million for 2019. Adjusted profit before tax for 2020 is around HK\$143 million, which is 30% more than HK\$110 million for 2019. As compared to the adjustment items made in 2019, further

adjustment items were made in 2020 for a) unrealized valuation gain in one of our Private Equity (“P.E.”) investment; b) unrealized gain in one more listed stock; c) heavy provisions made to our other loans’ portfolio (where most of them are still current and our management has confidence to recover. Albeit so, the current accounting standard of “Expected Credit Loss” methodology would come up with such a high number of provision); and d) mark-to-market loss on our investment in our parent company’s USD bond.

<b>Adjusted results</b>	<b>2020</b> <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Adjusted revenue	<b>885,781</b>	736,673
Adjusted total expenses*	<b>(742,885)</b>	(627,134)
Adjusted profit before tax	<b><u>142,896</u></b>	<u>109,539</u>

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

The adjusted items for 2020 in details are as follows:

- 1) Fair value adjustment of the Group’s investment in the H shares of Haitong Securities (6837.HK) and in OneConnect Financial Technology (OCFT:US): As at year end 2020, the Group was still holding around HK\$142 million worth of Haitong Securities. The share price of which had decreased by roughly 25% in 2020 and it contributed an unrealized loss of HK\$45 million to our 2020 annual result. On the other hand, the share price of OneConnect Financial Technology had nearly doubled in 2020 and our holding of this company’s share had contributed an unrealized gain of HK\$85 million to our book.
- 2) Unrealized revaluation gain in PingAn HealthKconnect and seed funding investment of a P.E. fund: For 2020, our holding of PingAn HealthKconnect had contributed HK\$169 million profit to our book. Besides, our continue holding of the P.E. fund managed by our asset management team had resulted in a gain of HK\$64 million in 2020 (2019: HK\$41 million loss). The fact that the P.E. fund has numerous listed and unlisted company shares and the fluctuation in revaluation of the underlying companies would give rise to such unrealized revaluation gain or loss over the year. To be consistent with the approach of adjustment here in 2020, the comparative figure has been revised and does not tie to that similar figure in 2019 annual report.
- 3) The provision made to a basket of “other loans”: The biggest provision made in 2019 was HK\$120 million against a loan to a listed Chinese property developer, which we have further provided HK\$36 million in 2020. The accumulative provision percentage has then become 84% which our management has confidence that no further material provision amount should be made in the near future.

Besides that, a full provision on its current outstanding balance as of the date of this report has been provided against one client which increased the provision of HK\$154 million due to several delays in payment although it has repaid more than HK\$100 million in 2021 so far. We have also provided HK\$58 million provision on a syndicated loan which we are prepared to give up as a concession on a selling process.

- 4) Unrealized fair value loss in our investment in our parent company's USD bond: We have taken the theoretical market price from Bloomberg and determined that the fair value is 5% discount to our carrying cost. Although we think our parent company is financial sound and could repay this USD bond at maturity to us in full, the HKFRS requires us to make HK\$55 million unrealized fair value loss (i.e. 5% discount) to the 2020 result.

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

***Analysis of Continuing Connected Transactions — Revenue***

*For the financial year ended 31 December 2020*

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

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

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

***Analysis of Continuing Connected Transactions — Balance Sheet Items***

*As at 31 December 2020*

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

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

## **Business Review**

We have accomplished most of the operation targets in 2020.

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

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

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

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

## Financial Review

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

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

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

### *Corporate Finance Business*

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

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

### ***Asset Management Business***

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

### ***Brokerage Business***

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

### ***Interest Income Business***

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

## ***Investments and Others Business***

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

## ***Expenses***

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

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

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

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

## **Other Information**

### ***Capital Structure, Liquidity and Financial Resources***

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

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

### ***Contingent liabilities***

#### *Counterclaim by a Hong Kong listed company*

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

### ***Material acquisitions, disposals and significant investments***

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

### ***Charges on the Group's assets***

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

### ***Employees and remuneration policies***

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

### ***Risk management***

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

### ***Credit risk***

Credit risk is the risk in respect of loss arising from incompetence of a borrower, counterparty or issuer of financial instruments to meet its obligation, or potential deterioration of credit ratings. The Group has Credit Risk Approving Policy and Post Lending Monitoring Policy in place to dictate procedures and approving authorities required for all credit applications relating to increases in credit risk. The credit risks of the Group mainly arise from five business areas: corporate finance business, asset management business, brokerage business, interest income business and propriety

investment business. The Group's senior management and other executives have also set up a Business Assessment Committee to review and approve credit risky products/ transactions within each of the business line. Advance IT systems are also utilized by the Group to conduct daily monitoring on credit and concentration risk limits. Significant deals have to go through approval procedures by Executive Committee and/or the Board of Directors of our listed company.

### *Market risk*

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

### *Liquidity risk*

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

### *Operational risk*

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

of remedial action. The Group has a Business Continuity Policy and has a special task force to deal with whatever emergency situations may arise which could pose operational risks to us.

### *Regulatory compliance risk*

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

### **Prospects**

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

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

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

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

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the year ended 31 December 2020, 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 2020 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 2020.

## **THE AUDIT COMMITTEE AND REVIEW OF PRELIMINARY ANNOUNCEMENT BY KPMG**

The Audit Committee of the Company has reviewed the audited annual results of the Company for the year ended 31 December 2020. The figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by KPMG, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by KPMG on this announcement.

## **PUBLICATION OF THE AUDITED RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

The audited results announcement of the Group for the year ended 31 December 2020 is published on the websites of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.tonghaifinancial.com](http://www.tonghaifinancial.com) respectively. The Annual Report for the year ended 31 December 2020 of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

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

Hong Kong, 25 March 2021

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

***Executive Directors:***

Mr. HAN Xiaosheng (*Chairman*)  
Mr. FANG Zhou (*Deputy Chairman*)  
Mr. ZHANG Xifang  
Mr. LIU Hongwei  
Mr. Kenneth LAM Kin Hing

***Independent Non-executive Directors:***

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

***Non-executive Directors:***

Mr. LIU Bing  
Mr. ZHAO Yingwei  
Mr. ZHAO Xiaoxia