THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Central Wealth Group Holdings Limited**, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中達集團控股有限公司

CENTRAL WEALTH GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 139)

NOTIFIABLE TRANSACTIONS IN RELATION TO ACQUISITIONS AND DISPOSALS OF THE SECURITIES THROUGHOUT THE PERIOD AND POSSIBLE VERY SUBSTANTIAL DISPOSAL MANDATE FOR DISPOSAL(S) OF LISTED SECURITIES AND PROPOSED RE-ELECTION OF DIRECTORS AND NOTICE OF SPECIAL GENERAL MEETING

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 39 of this circular.

A notice convening the SGM to be held at Unit 1801-2, 18/F, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong on Wednesday, 23 March 2022 at 10:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for use by the Shareholder at the SGM is enclosed with this circular. The Company reminds the Shareholders who wish to exercise his/her/its voting rights that they must appoint the Chairman of the SGM as his/her/its proxy to exercise his/her/its right to vote at the SGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding of the SGM or any adjournment thereof (as the case may be).

The proxy form can be downloaded from the Company's website at http://www.cwghl.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited ("**HKSCC**")), you should consult directly with your banks, brokers, custodians or HKSCC (as the case may be) to assist you in the appointment of proxy.

28 February 2022

CONTENTS

Due to the recent development of Coronavirus Disease 2019 (the "**COVID-19**") pandemic and the announcement of the Government of Hong Kong on the latest Prevention and Control of Disease (Prohibition on Gathering) Regulation (Chapter 599G of the Laws of Hong Kong) and Prevention and Control of Disease (Requirements and Directions) (Business and Premises) Regulation (Chapter 599F of the Laws of Hong Kong) (together, the "**Regulations**"), including a ban on conducting of physical general meeting of companies, the Company will adopt the following special arrangements at the SGM:

(a) The SGM will be held with the minimum number of persons present as is legally required to form a quorate meeting by the Directors and/or other senior staff members who are Shareholders or proxy. **No other Shareholder, proxy or corporate representative should attend the SGM in person. Any other person who attempts to attend the SGM in person will be denied entry to the venue of the SGM.**

(b) If a Shareholder (other than those who are required to attend the SGM physically to form a quorate meeting) wishes to vote on any resolutions at the SGM, he/she/it must appoint the Chairman of the SGM as his/her/its proxy to exercise his/her/its right to vote at the SGM. If a person who is not the Chairman of the SGM is appointed as proxy, that person will not be permitted entry to the SGM and will not be able to exercise the vote.

(c) The SGM will be conducted through electronic means where all participants can participate and ask questions at the SGM. In order to do so, any Shareholders who wishes to join the SGM must contact the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, to register no later than 10:00 a.m. on Monday, 21 March 2022 (being not less than 48 hours before the SGM) by email to is-enquiries@hk.tricorglobal.com or by telephone hotline (852) 2980 1333.

(d) Shareholders can submit questions relevant to the business of the SGM by email to is-enquiries@hk.tricorglobal.com in advance. The Board will arrange for as many of the questions asked to be answered as possible at the SGM.

The Company is closely monitoring the constantly evolving COVID-19 pandemic situation in Hong Kong. Should any changes be made to the SGM arrangements, we will notify the Shareholders via an announcement posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cwghl.com).

The Company reminds the Shareholders who wish to exercise his/her/its voting rights that they must appoint the Chairman of SGM as their proxy to vote on the relevant resolutions at the SGM.

DEFINITIONS

In this circular, unless the context otherwise requires, the following terms have the following meanings:

"Acquisitions"	the acquisitions of the relevant Securities through CWII, DGL and CWC(SH) throughout the Period
"Announcement"	announcement of the Company dated 30 December 2021 in relation to, among other matters, the Acquisitions, the Disposals, the Disposal Mandate and the Possible Disposal(s)
"Approved Sale Shares"	up to 8,460,250 consolidated CMBC Shares (representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation)
"Board"	board of Directors
"Business Day(s)"	day(s) (excluding Saturday, Sunday and public holiday) on which banks in Hong Kong are open for business
"China Dili"	China Dili Group, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1387)
"China Dili Share(s)"	ordinary share(s) of China Dili
"China Shandong"	China Shandong Hi-Speed Financial Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 412)
"China Shandong Group"	China Shandong and its subsidiaries from time to time
"China Shandong Share(s)"	ordinary share(s) of China Shandong
"close associate(s)"	has the meaning as ascribed to it under the Listing Rules
"CMBC"	CMBC Capital Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1141)

"CMBC Group"	CMBC and its subsidiaries from time to time
"CMBC Share(s)"	ordinary share(s) of CMBC
"CMBC Share Consolidation"	the consolidation of every forty (40) issued and unissued then CMBC Shares in the share capital of CMBC into one (1) consolidated CMBC Share in the share capital of CMBC which was with effect from 29 December 2021
"Company"	Central Wealth Group Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 139)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"CWC(SH)"	中達基石(上海)企業諮詢有限公司 (Central Wealth Cornerstone., (Shanghai) Consulting Co Ltd.*), a company established in the PRC and is indirectly wholly-owned by the Company
"CWII"	Central Wealth Infrastructure Investment Limited, a company incorporated in the British Virgin Islands with limited liability and is indirectly wholly-owned by the Company
"DGL"	Desert Gold Limited, a company incorporated in the British Virgin Islands with limited liability and is indirectly wholly-owned by the Company
"Disposals"	the disposals of the relevant Securities through CWII and DGL throughout the Period
"Director(s)"	director(s) of the Company
"Disposal Mandate"	the general and conditional mandate to be granted by the Shareholders to the Directors at the SGM to dispose of up to 8,460,250 consolidated CMBC Shares (representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation) during the Mandate Period
"Group"	the Company and its subsidiaries

"Haichu Fund"	海楚正金10號私募證券投資基金 (Haichu Zhengjin Private Equity Investment Fund 10*), a private equity investment fund established in the PRC
"Haichu Fund Interest(s)"	interest(s) in Haichu Fund
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKEX"	Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 388)
"HKEX Group"	HKEX and its subsidiaries from time to time
"HKEX Share(s)"	ordinary share(s) of HKEX
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons
"Last Trading Day"	30 December 2021, being the last full trading day of the Shares on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	25 February 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Mandate Period"	period of 12 months from the date of the passing of the relevant resolution(s) approving the Disposal Mandate and the Possible Disposal(s) at the SGM
"Meituan"	Meituan, a company incorporated in the Cayman Islands with limited liability and the Class B shares of which are listed on the Main Board of the Stock Exchange (stock code: 3690)
"Meituan Share(s)"	Class B shares of Meituan

"Minimum Selling Price"	HK$2.33 per consolidated CMBC Share (equivalent to approximately HK$0.058 per then CMBC Share prior to the CMBC Share Consolidation)
"percentage ratio(s)"	percentage ratio(s) as set out in Rule 14.07 of the Listing Rules
"Period"	period from 1 January 2020 to 18 June 2021
"Possible Disposal(s)"	the proposed disposal(s) of up to 8,460,250 consolidated CMBC Shares (representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation) by the Group under the Disposal Mandate
"PRC"	People's Republic of China, which shall, for the purpose of this circular, exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
"Securities"	collectively, the China Shandong Shares, the CMBC Shares, the HKEX Shares, the China Dili Shares, the Meituan Shares and the Haichu Fund Interests
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at Unit 1801-2, 18/F, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong on Wednesday, 23 March 2022 at 10:00 a.m. to consider and, if thought fit, to approve the resolutions contained in the notice of the meeting which is set out on pages SGM-1 to SGM-4 of this circular
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	share option scheme adopted by the Company on 27 September 2013, with details set out in the circular of the Company dated 15 July 2013
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	the United States of America
"%"	per cent.

中達集團控股有限公司
CENTRAL WEALTH GROUP HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 139)

Executive Directors:
Mr. Chen Xiaodong *(Chairman)*
Ms. Chen Jingxian *(Vice Chairman)*
Mr. Wang Jun *(Chief Executive Officer)*
Mr. Yu Qingrui
Ms. Song Caini
Mr. Chen Hongjin

Independent non-executive Directors:
Mr. Kwok Chi Kwong
Mr. Wu Ming
Mr. Liu Hongwei

Registered address:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Unit 1801-2,
18/F, Far East Finance Centre,
No. 16 Harcourt Road,
Hong Kong

28 February 2022

To the Shareholders

Dear Sir or Madam,

NOTIFIABLE TRANSACTIONS IN RELATION TO ACQUISITIONS AND DISPOSALS OF THE SECURITIES THROUGHOUT THE PERIOD AND POSSIBLE VERY SUBSTANTIAL DISPOSAL MANDATE FOR DISPOSAL(S) OF LISTED SECURITIES AND PROPOSED RE-ELECTION OF DIRECTORS AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement dated 30 December 2021 in relation to, among other things, the Acquisitions, the Disposals, the Disposal Mandate and the Possible Disposal(s).

ACQUISITIONS AND DISPOSALS OF THE SECURITIES

As disclosed in the Announcement, through a series of transactions conducted during the Period, the Group had acquired and disposed of the Securities through CWII, DGL and CWC(SH) (all of which are wholly-owned subsidiaries of the Company).

The Acquisitions and Disposals constituted discloseable transactions, major transactions and a very substantial disposal of the Company, as the case may be.

At the relevant times, as one or more of the applicable percentage ratios for certain transactions under the Acquisitions and Disposals, when aggregated or on a standalone basis, exceeded 5% but all of them were less than 25% under Chapter 14 of the Listing Rules, such transactions constituted discloseable transactions of the Company and were subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

At the relevant times, as one or more of the applicable percentage ratios for certain transactions under the Acquisitions and Disposals, when aggregated or on a standalone basis, exceeded 25% but all of them were less than 100% under Chapter 14 of the Listing Rules, such transactions constituted major transactions of the Company and were subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

At the relevant times, as one or more of the applicable percentage ratios for certain transactions under the Disposals, when aggregated, exceeded 75% under Chapter 14 of the Listing Rules, such transactions constituted a very substantial disposal of the Company and were subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The omission by the Company to comply with the Listing Rules requirements to make timely disclosure for the transactions under the Acquisitions and Disposals was due to inadvertent mistake from the Company having believed that the Acquisitions and Disposals were of a revenue nature in the ordinary and usual course of business of certain members of the Group and that they would therefore be exempt from the requirements under Chapter 14 of the Listing Rules pursuant to Rule 14.04(1)(g) of the Listing Rules.

DISPOSAL MANDATE

As further disclosed in the Announcement, the Company proposes to seek approval for the Disposal Mandate from the Shareholders at the SGM in advance to allow the Directors to dispose of up to 8,460,250 consolidated CMBC Shares, representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation and approximately 0.72% of the total issued share capital of CMBC as at the Latest Practicable Date, during the Mandate Period.

Assuming that all of the Approved Sale Shares held by the Group will have been disposed of within the Mandate Period at the Minimum Selling Price, one or more applicable percentage ratios of the Possible Disposal(s), when aggregated with the relevant transactions under the Disposals conducted in the previous 12-month period from the relevant Possible Disposal(s), will exceed 75% under Chapter 14 of the Listing Rules. The Possible Disposal(s), when aggregated with the relevant transactions under the Disposals conducted in the previous 12-month period from the relevant Possible Disposal(s), will constitute a very substantial disposal of the Company and be subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company will seek approval of the Shareholders at the SGM for the Disposal Mandate and the Possible Disposal(s) to allow the Company to dispose of up to 8,460,250 consolidated CMBC Shares (representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation) held by the Group during the Mandate Period.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisitions and Disposals; (ii) further details of the Disposal Mandate and the Possible Disposal(s); (iii) further details of the proposed re-election of Directors; (iv) the notice of the SGM; and (v) such other information as required under the Listing Rules.

(I) ACQUISITIONS AND DISPOSALS OF THE SECURITIES

The Board announces that through a series of transactions conducted during the Period, the Group had acquired and disposed of the Securities through CWII, DGL and CWC(SH) (all of which are wholly-owned subsidiaries of the Company).

A. China Shandong Shares

Through a series of transactions by CWII during November 2020, the Group had acquired a total of 564,242,000 China Shandong Shares (representing approximately 2.34% of the total issued China Shandong Shares as at the Latest Practicable Date) on the open market and through bought and sold notes at an aggregate consideration of approximately HK$208,889,000 (inclusive of transaction costs) and an average price of approximately HK$0.370 per China Shandong Share. The price CWII paid for in each transaction was the market price of the China Shandong Shares and was financed by internal resources of the Group.

Among the 564,242,000 China Shandong Shares, as to 214,242,000 China Shandong Shares were acquired through the open market and the identities of the counterparties of the transactions cannot be ascertained. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties and their respective ultimate beneficial owners are Independent Third Parties.

Among the 564,242,000 China Shandong Shares, as to 350,000,000 China Shandong Shares were acquired from Mr. Li To（李滔）at an aggregate consideration of HK$129,500,000. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Li To（李滔）is an Independent Third Party.

Listing Rules Implications

As one or more of the applicable percentage ratios for the acquisitions of the China Shandong Shares, when aggregated, exceeded 25% but all of them were less than 100% under Chapter 14 of the Listing Rules, the acquisitions together constituted a major transaction of the Company and was subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Information of China Shandong

China Shandong is an exempted company incorporated in Bermuda with limited liability and its shares are listed on the Main Board of the Stock Exchange (stock code: 412). China Shandong and its subsidiaries are principally engaged in various kinds of financial services, including provision of securities brokerage services, financial leasing, operation of an asset trading platform, investments in securities, money lending, investment holding, online investment and technology-enabled lending services, online new media services and assets management.

The following financial information is extracted from the 2019 and 2020 annual reports of China Shandong, respectively:

	Year ended 31 December		
	2020	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	1,272,354	894,149	427,196
(Loss) before taxation	(3,265)	(1,927,203)	(748,324)
(Loss) after taxation	(18,307)	(1,961,815)	(691,176)
Net asset value	9,656,748	10,251,457	4,878,246

Reproduction of the management discussion and analysis of the China Shandong Group for the three years ended 31 December 2018, 2019 and 2020 as extracted from the published annual reports of the China Shandong Group for the relevant years is set out in Appendix VI to this circular.

The consolidated statements of profit or loss and other comprehensive income of the China Shandong Group for the years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021, the consolidated statements of financial position of the China Shandong Group as at 31 December 2018, 31 December 2019, 31 December 2020 and 30 June 2021 and the consolidated statements of changes in equity and consolidated statements of cash flows of the China Shandong Group for each of the corresponding periods then ended are published financial information which are available on the website of the Stock Exchange. In the opinions of the independent auditor of the China Shandong Group as stated in the respective annual reports of the China Shandong Group, the consolidated financial statements of the China Shandong Group for each of the three years ended 31 December 2018, 2019 and 2020 give a true and fair view of the consolidated financial position of the China Shandong Group and of the consolidated financial performance and consolidated cash flows of the China Shandong Group for each of the years then ended.

The Directors noted that the consolidated financial statements of China Shandong and the Company for the three years ended 31 December 2020 have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), the condensed consolidated interim financial information of China Shandong and the Company for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and that the principal accounting policies and accounting standards adopted by China Shandong in the preparation of its consolidated financial statements are materially consistent with those adopted by the Company in the preparation of its consolidated financial statements.

Reasons for and benefits of the acquisitions

The Company considered that the then future prospect of China Shandong was promising and the acquisitions represented an investment opportunity of the Group. As the China Shandong Shares are listed on the Main Board of the Stock Exchange, the Group will be able to realise the investment in the open market, which represents an efficient mean for the realisation of the investment. The Directors held positive views towards the then prospects of China Shandong and were of the view that the acquisitions provided the Group with a good investment opportunity to expand its investment portfolio.

As the acquisitions were made at market price, the Directors were of the view that the terms of the acquisitions were fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, the Group (through CWII) beneficially owns 564,242,000 China Shandong Shares, representing approximately 2.34% of the total issued share capital of China Shandong as at the Latest Practicable Date. The investment in China Shandong is accounted for as equity investments at fair value through other comprehensive income of the Company and China Shandong's financial results have not been consolidated into the accounts of the Group.

B. CMBC Shares

Through a series of transactions by CWII during October 2020 to March 2021, the Group had acquired a total of 471,280,000 then CMBC Shares (representing 11,782,000 consolidated CMBC Shares upon the CMBC Share Consolidation and approximately 1.01% of the total issued CMBC Shares as at the Latest Practicable Date) on the open market at an aggregate consideration of approximately HK$58,460,189 (inclusive of transaction costs) and an average price of approximately HK$0.124 per then CMBC Share. The price CWII paid for in each transaction was the market price of the then CMBC Shares and was financed by internal resources of the Group.

Through a series of transactions by CWII and DGL during January 2020 to May 2021, the Group had disposed of a total of 3,459,775,829 then CMBC Shares (representing approximately 86,494,395 consolidated CMBC Shares upon the CMBC Share Consolidation and approximately 7.41% of the total issued CMBC Shares as at the Latest Practicable Date) on the open market and through bought and sold notes at an aggregate consideration of approximately HK$426,634,154 (exclusive of transaction costs) and an average price of approximately HK$0.123 per then CMBC Share, as compared to an average purchase price of approximately HK$0.34 per then CMBC Share of all those 3,459,775,829 then CMBC Shares which had been disposed of. The price received in each transaction was the market price of the then CMBC Shares and was received in cash on settlement.

Among the 3,459,775,829 then CMBC Shares, as to 2,664,455,829 then CMBC Shares were disposed of through the open market at an average price of approximately HK$0.13 per then CMBC Share, as compared to an average purchase price of approximately HK$0.33 per then CMBC Share of all those 2,664,455,829 then CMBC Shares which had been disposed of. For the transactions that were made through the open market, the identities of the counterparties of the transactions cannot be ascertained. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties and their respective ultimate beneficial owners are Independent Third Parties.

Among the 3,459,775,829 then CMBC Shares, as to 795,320,000 then CMBC Shares were disposed of to CMBC International Investment Limited at an aggregate consideration of HK$89,795,400 with an average price of approximately HK$0.11 per then CMBC Share, as compared to an average purchase price of approximately HK$0.35 per then CMBC Share of all those 795,320,000 then CMBC Shares which had been disposed of. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, CMBC International Investment Limited is an investment company incorporated in the British Virgin Islands with limited liability and is a controlling shareholder of CMBC; which is beneficially and wholly-owned by CMBC International Investment (HK) Limited, a company incorporated in Hong Kong with limited liability; which is in turn beneficially and wholly-owned by CMBC International Holdings Limited, a company incorporated in Hong Kong with limited liability; which is in turn beneficially and wholly-owned by 中國民生銀行股份有限公司 (China Minsheng Banking Corp., Ltd.*), a joint stock limited company incorporated in the PRC with limited liability which, together with its subsidiaries, is principally engaged in corporate banking and personal banking, treasury business, financial leasing, fund and asset management, investment banking and other financial services in the PRC, the H shares of which are listed on the Stock Exchange (stock code: 1988) and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600016). To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, CMBC International Investment Limited and its ultimate beneficial owners are Independent Third Parties.

Listing Rules Implications

As one or more of the applicable percentage ratios for the acquisitions of the then CMBC Shares, when aggregated, exceeded 5% but all of them were less than 25% under Chapter 14 of the Listing Rules, the acquisitions together constituted a discloseable transaction of the Company and was subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios for the disposals of the then CMBC Shares, when aggregated, exceeded 75% under Chapter 14 of the Listing Rules, the disposals together constituted a very substantial disposal of the Company and was subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Information of CMBC

CMBC is a company incorporated in Bermuda with limited liability and its shares are listed on the Main Board of the Stock Exchange (former stock code: 1141 and current stock code upon the CMBC Share Consolidation: 2995). CMBC and its subsidiaries are principally engaged in (i) securities business, (ii) investment and financing, (iii) asset management and (iv) corporate finance and advisory business.

The following financial information is extracted from the 2019 and 2020 annual reports of CMBC and the 2021 interim report of CMBC, respectively:

	six months ended 30 June	Year ended 31 December		
	2021	**2020**	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)			
Revenue	461,012	1,019,185	978,683	791,190
Profit before taxation	233,808	485,180	425,240	284,737
Profit after taxation	201,189	393,220	356,863	245,196
Net asset value	2,738,362	2,599,968	2,222,243	1,876,076

Reasons for and benefits of the acquisitions and disposals

The Company considered that the then future prospect of CMBC was promising and the acquisitions represented an investment opportunity of the Group. As the CMBC Shares are listed on the Main Board of the Stock Exchange, the Group will be able to realise the investment in the open market, which represents an efficient mean for the realisation of the investment. The Directors held positive views towards the then prospects of CMBC and were of the view that the acquisitions provided the Group with a good investment opportunity to expand its investment portfolio.

On the other hand, the disposals provided the Group with an opportunity to realise its investment in CMBC. The Group intended to use the proceeds from the disposals for general working capital, in particular, (i) as to approximately 30% of the proceeds for the repayment of short-term borrowings; (ii) as to approximately 68% of the proceeds for the purchase of securities; and (iii) as to approximately 2% of the proceeds for the settlement of administrative expenses. As at the Latest Practicable Date, all the proceeds from the disposals had been fully utilised for the same intended purposes as mentioned above. As a result of the disposals, the Group suffered a book loss of approximately HK$735.3 million, being the difference between the consideration received from the disposals of approximately HK$426,634,154 and the aggregate costs of the then relevant CMBC Shares (exclusive of transaction costs) of approximately HK$1,161,926,672, where the Board considered that the aforesaid disposals were fair and reasonable and in the interest of the Company and its Shareholders as a whole, taking into account that (i) the average closing price of the then CMBC Shares of approximately HK$0.128 per then CMBC Share throughout the period from January 2020 to May 2021; (ii) there was an overall decreasing trend in the trading price of the then CMBC Shares with the trading price ranging from HK$0.098 per then CMBC Share to HK$0.183 per then CMBC Share throughout the period from January 2020 to May 2021 during which the aforesaid disposals took place, and the Group considered that suffering of the loss as illustrated above would be in any event inevitable even if the Group intended to mitigate loss arising from the investment in a timely manner in response to the then market conditions and the then market performance of the then CMBC Shares at the relevant time; (iii) while the Group was also at the material time exploring other possible investment alternatives with better return, the Group had utilised the proceeds from certain disposals of the then CMBC Shares for investment in other listed securities which then had relatively better performance than the then CMBC Shares; and (iv) notwithstanding that the Group had acquired certain then CMBC Shares during the period from October 2020 to March 2021 in light of, among others, a series of share buy-back exercises of the then CMBC Shares conducted by CMBC contemporaneously, which the Group believed that the price of the then CMBC Shares may rise following such exercises, the Board was no longer optimistic of the then growth and prospect of CMBC since March 2021 and ceased to acquire further CMBC Shares from the market thereafter.

As the transactions were made at market price, the Directors were of the view that the terms of the transactions were fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, the Group (through CWII and DGL) beneficially owns 8,460,250 consolidated CMBC Shares, representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation and approximately 0.72% of the total issued share capital of CMBC as at the Latest Practicable Date. The investment in CMBC is accounted for as equity investments at fair value through other comprehensive income of the Company and CMBC's financial results have not been consolidated into the accounts of the Group.

C. HKEX Shares

Through a series of transactions by CWII during July 2020 to February 2021, the Group had acquired a total of 1,329,200 HKEX Shares (representing approximately 0.10% of the total issued HKEX Shares as at the Latest Practicable Date) on the open market at an aggregate consideration of approximately HK$556,278,956 (inclusive of transaction costs) and an average price of approximately HK$418.51 per HKEX Share. The price CWII paid for in each transaction was the market price of the HKEX Shares and was financed by internal resources of the Group.

Through a series of transactions by CWII during January 2020 to March 2021, the Group had disposed of a total of 1,349,200 HKEX Shares (representing approximately 0.11% of the total issued HKEX Shares as at the Latest Practicable Date) on the open market at an aggregate consideration of approximately HK$566,924,730 (exclusive of transaction costs) and an average price of approximately HK$420.19 per HKEX Share, as compared to an average purchase price of approximately HK$421.14 per HKEX Share of all those 1,349,200 HKEX Shares which had been disposed of. The price received in each transaction was the market price of the HKEX Shares and was received in cash on settlement.

As the transactions were made through the open market, the identities of the counterparties of the transactions cannot be ascertained. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties and their respective ultimate beneficial owners are Independent Third Parties.

Listing Rules Implications

As one or more of the applicable percentage ratios for the disposals of the HKEX Shares, when aggregated or on a standalone basis, exceeded 5% but all of them were less than 25% under Chapter 14 of the Listing Rules, the disposals constituted discloseable transactions of the Company and were subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios for the acquisitions of the HKEX Shares, when aggregated or on a standalone basis, exceeded 25% but all of them were less than 100% under Chapter 14 of the Listing Rules, the acquisitions constituted major transactions of the Company and were subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Information of HKEX

HKEX is a company incorporated in Hong Kong with limited liability and its shares are listed on the Main Board of the Stock Exchange (stock code: 388). HKEX and its subsidiaries are principally engaged in the operation of stock exchange.

The following financial information is extracted from the 2019 and 2020 annual reports of HKEX, respectively:

	Year ended 31 December		
	2020	**2019**	**2018**
	HK$m	*HK$m*	*HK$m*
Revenue	16,835	13,565	14,252
Profit before taxation	13,332	10,951	10,883
Profit after taxation	11,487	9,390	9,291
Net asset value	49,236	44, 501	40,903

Reproduction of the management discussion and analysis of the HKEX Group for the three years ended 31 December 2018, 2019 and 2020 as extracted from the published annual reports of the HKEX Group for the relevant years is set out in Appendix VII to this circular.

The consolidated statements of profit or loss and other comprehensive income of the HKEX Group for the years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021, the consolidated statements of financial position of the HKEX Group as at 31 December 2018, 31 December 2019, 31 December 2020 and 30 June 2021 and the consolidated statements of changes in equity and consolidated statements of cash flows of the HKEX Group for each of the corresponding periods then ended are published financial information which are available on the website of the Stock Exchange. In the opinions of the independent auditor of the HKEX Group as stated in the respective annual reports of the HKEX Group, the consolidated financial statements of the HKEX Group for each of the three years ended 31 December 2018, 2019 and 2020 give a true and fair view of the consolidated financial position of the HKEX Group and of the consolidated financial performance and consolidated cash flows of the HKEX Group for each of the years then ended.

The Directors noted that the consolidated financial statements of HKEX and the Company for the three years ended 31 December 2020 have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by HKICPA, the condensed consolidated interim financial information of HKEX and the Company for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and that the principal accounting policies and accounting standards adopted by HKEX in the preparation of its consolidated financial statements are materially consistent with those adopted by the Company in the preparation of its consolidated financial statements.

Reasons for and benefits of the acquisitions and disposals

The acquisitions and disposals of the HKEX Shares were in line with the Group's principal activities on securities dealing and financial investments, and allowed the Group to increase the long term return of funds of the Company by capitalising the opportunities arising from the investment in the HKEX Shares.

The Group intended to use the proceeds from the disposals for (i) as to approximately 91% of the proceeds for general working capital, in particular, for the purchase of securities; and (ii) as to approximately 9% of the proceeds for other investment in wholly-owned subsidiary. As at the Latest Practicable Date, all the proceeds from the disposals had been fully utilised for the same intended purposes as mentioned above. As a result of the disposals, the Group suffered a book loss of approximately HK$1.3 million, being the difference between the consideration received from the disposals of approximately HK$566,924,730 and the aggregate costs of the relevant HKEX Shares (exclusive of transaction costs) of approximately HK$568,198,971, where the Board considered that the aforesaid disposals were fair and reasonable and in the interest of the Company and its Shareholders as a whole, taking into account (i) the average closing price of the HKEX Shares of approximately HK$353.13 per HKEX Share throughout the period from January 2020 to March 2021 with the trading price ranging from HK$211.4 per HKEX Share to HK$567 per HKEX Share, which indicated a volatile share price performance of the HKEX Shares during the relevant period; (ii) that the investments in the HKEX Shares were considered as short term investments which the Group aimed at realising such investments within one year; (iii) the then volatile market condition and uncertainties caused by, in particular, the impact of the Sino-US trade war and the outbreak of the COVID-19 pandemic throughout the period from January 2020 to March 2021 during which the aforesaid disposals took place; and (iv) that the Board considered that suffering of the loss as illustrated above would be in any event inevitable and the Group endeavoured to mitigate further loss arising from the short term investments in a timely manner in response to the then market conditions and uncertainties, which was in line with its then investment strategy.

As the transactions were made at market price, the Directors were of the view that the terms of the transactions were fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, the Group does not beneficially own any HKEX Shares. The investment in HKEX was accounted for as equity investments at fair value through profit or loss of the Company and HKEX's financial results had not been consolidated into the accounts of the Group.

D. China Dili Shares

Through a series of transactions by CWII during November 2020, the Group had acquired a total of 14,012,000 China Dili Shares (representing approximately 0.16% of the total issued China Dili Shares as at the Latest Practicable Date) on the open market at an aggregate consideration of approximately HK$24,748,732 (inclusive of transaction costs) and an average price of approximately HK$1.766 per China Dili Share. The price CWII paid for in each transaction was the market price of the China Dili Shares and was financed by internal resources of the Group.

As the transactions were made through the open market, the identities of the counterparties of the transactions cannot be ascertained. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties and their respective ultimate beneficial owners are Independent Third Parties.

Listing Rules Implications

As one or more of the applicable percentage ratios for the acquisitions of the China Dili Shares, when aggregated, exceeded 5% but all of them were less than 25% under Chapter 14 of the Listing Rules, the acquisitions together constituted a discloseable transaction of the Company and was subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Information of China Dili

China Dili is an exempted company incorporated in Cayman Islands with limited liability and its shares are listed on the Main Board of the Stock Exchange (stock code: 1387). China Dili and its subsidiaries are principally engaged in the operation of agriculture wholesale markets in the PRC.

The following financial information is extracted from the 2019 and 2020 annual reports of China Dili, respectively:

	Year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	1,450,148	1,421,019	1,128,654
Profit/(Loss) before taxation	354,521	805,450	(254,925)
Profit/(Loss) after taxation	203,320	570,455	(348,601)
Net asset value	13,104,750	8,824,278	8,513,547

Reasons for and benefits of the acquisitions

The Company considered that the then future prospect of China Dili was promising and the acquisitions represented an investment opportunity of the Group. As the China Dili Shares are listed on the Main Board of the Stock Exchange, the Group will be able to realise the investment in the open market, which represents an efficient mean for the realisation of the investment. The Directors held positive views towards the then prospects of China Dili and were of the view that the acquisitions provided the Group with a good investment opportunity to expand its investment portfolio.

As the acquisitions were made at market price, the Directors were of the view that the terms of the acquisition were fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, the Group (through CWII) beneficially owns 14,012,000 China Dili Shares, representing approximately 0.16% of the total issued share capital of China Dili as at the Latest Practicable Date. The investment in China Dili is accounted for as equity and fund investments at fair value through profit or loss of the Company and China Dili's financial results have not been consolidated into the accounts of the Group.

E. Meituan Shares

Through a series of transactions by CWII during July 2020 to June 2021, the Group had acquired a total of 1,338,000 Meituan Shares (representing approximately 0.02% of the total issued Meituan Shares as at the Latest Practicable Date) on the open market at an aggregate consideration of approximately HK$409,181,527 (inclusive of transaction costs) and an average price of approximately HK$305.82 per Meituan Share. The price CWII paid for in each transaction was the market price of the Meituan Shares and was financed by internal resources of the Group.

Through a series of transactions by CWII during July 2020 to June 2021, the Group had disposed of a total of 1,338,000 Meituan Shares (representing approximately 0.02% of the total issued Meituan Shares as at the Latest Practicable Date) on the open market at an aggregate consideration of approximately HK$406,062,700 (exclusive of transaction costs) and an average price of approximately HK$303.48 per Meituan Share, as compared to an average purchase price of approximately HK$305.82 per Meituan Share of all those 1,338,000 Meituan Shares which had been disposed of. The price received in each transaction was the market price of the Meituan Shares and was received in cash on settlement.

As the transactions were made through the open market, the identities of the counterparties of the transactions cannot be ascertained. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties and their respective ultimate beneficial owners are Independent Third Parties.

Listing Rules Implications

As one or more of the applicable percentage ratios for the acquisitions and disposals of the Meituan Shares, when aggregated or on a standalone basis, exceeded 5% but all of them were less than 25% under Chapter 14 of the Listing Rules, the acquisitions and disposals constituted discloseable transactions of the Company and were subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Information of Meituan

Meituan is an exempted company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability and its Class B shares are listed on the Main Board of the Stock Exchange (stock code: 3690). Meituan is the PRC's leading e-commerce platform for services. It provides a platform using technology to connect consumers and merchants and offers diversified daily services, including food delivery, in-store, hotel and travel booking and other services and sales.

The following financial information is extracted from the 2019 and 2020 annual reports of Meituan, respectively:

	Year ended 31 December		
	2020	**2019**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	114,794,510	97,528,531	65,227,278
Profit/(Loss) before taxation	4,437,875	2,762,388	(115,490,807)
Profit/(Loss) after taxation	4,707,612	2,236,165	(115,492,695)
Net asset value	97,634,275	92,054,394	86,509,772

Reasons for and benefits of the acquisitions and disposals

The acquisitions and disposals of the Meituan Shares were in line with the Group's principal activities on securities dealing and financial investments, and allowed the Group to increase the long term return of funds of the Company by capitalising the opportunities arising from the investment in the Meituan Shares.

The Group intended to use the proceeds from the disposals for general working capital, in particular, (i) as to approximately 28% of the proceeds for the repayment of short-term borrowings; and (ii) as to approximately 72% of the proceeds for the purchase of securities. As at the Latest Practicable Date, all the proceeds from the disposals had been fully utilised for the same intended purposes as mentioned above. As a result of the disposals, the Group suffered a book loss of approximately HK$3.1 million, being the difference between the consideration received from the disposals of approximately HK$406,062,700 and the aggregate costs of the relevant Meituan Shares (exclusive of transaction costs) of approximately HK$409,181,527, where the Board considered that the aforesaid disposals were fair and reasonable and in the interest of the Company and its Shareholders as a whole, taking into account (i) the average closing price of the Meituan Shares of approximately HK$287.43 per Meituan Share throughout the period from July 2020 to June 2021 with the trading price ranging from HK$179.4 per Meituan Share to HK$451.4 per Meituan Share, which indicated a volatile share price performance of the Meituan Shares during the relevant period; (ii) that the investments in the Meituan Shares were considered as short term investments which the Group aimed at realising such investments within one year; (iii) the then volatile market condition and uncertainties caused by, in particular, the impact of the Sino-US trade war and the outbreak of the COVID-19 pandemic throughout the period from July 2020 to June 2021 during which the aforesaid disposals took place; and (iv) that the Board considered that suffering of the loss as illustrated above would be in any event inevitable and the Group endeavoured to mitigate further loss arising from the short term investments in a timely manner in response to the then market conditions and uncertainties, which was in line with its then investment strategy.

As the transactions were made at market price, the Directors were of the view that the terms of the transactions were fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, the Group does not beneficially own any Meituan Shares. The investment in Meituan was accounted for as equity and fund investments at fair value through profit or loss of the Company and Meituan's financial results had not been consolidated into the accounts of the Group.

F. Haichu Fund Interests

Through a series of transactions by CWC(SH) during September and November 2020, the Group had acquired a total of 20,635,921.69 units of Haichu Fund Interests (representing approximately 58.6% of the total number of units of issued Haichu Fund Interests as at the date of the Announcement) on the open market at an aggregate consideration of approximately HK$31,375,680 and an average price of approximately HK$1.52 per unit of Haichu Fund Interests. The price CWC(SH) paid for in each transaction was the market price of the Haichu Fund Interests and was financed by internal resources of the Group.

As the transactions were made through the open market, the identities of the counterparties of the transactions cannot be ascertained. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties and their respective ultimate beneficial owners are Independent Third Parties.

Listing Rules Implications

As one or more of the applicable percentage ratios for the acquisitions of the Haichu Fund Interests, when aggregated, exceeded 5% but all of them were less than 25% under Chapter 14 of the Listing Rules, the acquisitions constituted discloseable transactions of the Company and were subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Information of Haichu Fund

Haichu Fund is a private equity investment fund established in the PRC on 9 September 2019 and is managed by 上海海楚資產管理有限公司 (Shanghai Haichu Asset Management Co. Ltd.*), whose ultimate beneficial owner is Mr. Liu Jie（劉頡）, a director and the responsible officer of an indirect wholly-owned subsidiary of the Company, namely, Central Wealth Asset Management Limited（中達資產管理有限公司）. The Haichu Fund is principally engaged in investment in PRC high yield bonds in the infrastructure construction industry.

The following financial information is extracted from the 2020 annual report of Haichu Fund:

	Year ended 31 December	
	2020	**2019**
	HK$'000	*HK$'000*
Revenue	11,157	1,560
(Loss)/Profit before taxation	(14,822)	33,677
(Loss)/Profit after taxation	(14,822)	33,677
Net asset value	78,961	119,857

Reasons for and benefits of the acquisitions

The acquisitions of the Haichu Fund Interests were in line with the Group's principal activities on securities dealing and financial investments, and allowed the Group to increase the long term return of funds of the Company by capitalising the opportunities arising from the investment in the Haichu Fund Interests.

As the transactions were made at market price, the Directors were of the view that the terms of the transactions were fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, the Group (through CWC(SH)) beneficially owns 6,140,107.94 units of Haichu Fund Interests, representing approximately 100% of the total number of units of issued Haichu Fund Interests as at the Latest Practicable Date. The investment in Haichu Fund was accounted for as equity and fund investments at fair value through profit or loss of the Company and Haichu Fund's financial results have not been consolidated into the accounts of the Group.

Information of the Company and the Group

The Company is incorporated in Bermuda with limited liability. The principal activity of the Company is investment holding. The Group is principally engaged in securities and futures dealing business, trading of debts and equity investments and money lending business.

CWII is a company incorporated in the British Virgin Islands with limited liability and is indirectly wholly-owned by the Company. CWII is principally engaged in the investment in and trading of securities.

DGL is a company incorporated in the British Virgin Islands with limited liability and is indirectly wholly-owned by the Company. DGL is principally engaged in the investment in and trading of securities.

CWC(SH) is a company established in the PRC and is indirectly wholly-owned by the Company. CWC(SH) is principally engaged in advisory service in debt capital market and investment in the fund.

Investment Strategy of the Group

The investment strategy of the Group is, among others, to achieve long-term return within an acceptable risk level by investing in a broad diversification of portfolio, including but not limited to stocks, bonds, funds, structured products and derivatives in different business sectors. The Group will seek to diversify the investment portfolios when opportunities arise. The Group may acquire or realise the investments from time to time where to do so will be in the best interests of the Group and will review its investment strategy regularly in response to changes in the market situation.

Listing Rules Implications

The Acquisitions and Disposals constituted discloseable transactions, major transactions and a very substantial disposal of the Company, as the case may be.

Discloseable Transactions

At the relevant times, as one or more of the applicable percentage ratios for certain transactions under the Acquisitions and Disposals, when aggregated or on a standalone basis, exceeded 5% but all of them were less than 25% under Chapter 14 of the Listing Rules, such transactions constituted discloseable transactions of the Company and were subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Major Transactions

At the relevant times, as one or more of the applicable percentage ratios for certain transactions under the Acquisitions and Disposals, when aggregated or on a standalone basis, exceeded 25% but all of them were less than 100% under Chapter 14 of the Listing Rules, such transactions constituted major transactions of the Company and were subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Very Substantial Disposal

At the relevant times, as one or more of the applicable percentage ratios for certain transactions under the Disposals, when aggregated, exceeded 75% under Chapter 14 of the Listing Rules, such transactions constituted a very substantial disposal of the Company and were subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the Acquisitions and Disposals and therefore none of them were required to abstain from voting on the relevant Board resolutions approving the same according to the Listing Rules.

The omission by the Company to comply with the Listing Rules requirements to make timely disclosure for the transactions under the Acquisitions and Disposals was due to inadvertent mistake from the Company having believed that the Acquisitions and Disposals were of a revenue nature in the ordinary and usual course of business of certain members of the Group and that they would therefore be exempt from the requirements under Chapter 14 of the Listing Rules pursuant to Rule 14.04(1)(g) of the Listing Rules.

Remedial Actions

The Company would like to apologise for the above non-compliances and has published the Announcement and this circular to provide details of the Acquisitions and Disposals. The Acquisitions and Disposals will be further put forward to the SGM for approval and ratification by the Shareholders.

To avoid any similar delay in the future and to tighten the Group's internal control procedures, the Company will (i) review and oversee the legal and regulatory compliance procedures and internal controls of the Group to ensure that all existing and further transactions of the Company fully comply with the Listing Rules; (ii) provide written guideline on the procedures for similar transactions to all Directors, senior management and relevant personnel of the Company, which would include requiring prior notification to an executive Director and the company secretary of the Company before entering into similar transactions and closely monitoring the transactions entered into from time to time; and (iii) provide further training to the Directors, the senior management and the relevant personnel of the Company to help them better understand the requirements of the Listing Rules and identify any potential notifiable transactions of the Group on a timely basis.

(II) DISPOSAL MANDATE

As disclosed in the section headed "ACQUISITIONS AND DISPOSALS OF THE SECURITIES" above, the Group (through CWII and DGL) had disposed of a total of 3,459,775,829 then CMBC Shares during the Period. Such disposals together constituted a very substantial disposal of the Company. As at the Latest Practicable Date, the Group (through CWII and DGL) beneficially owns 8,460,250 consolidated CMBC Shares, representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation and approximately 0.72% of the total issued share capital of CMBC as at the Latest Practicable Date, while the investment in CMBC is accounted for as equity investments at fair value through other comprehensive income of the Company and CMBC's financial results have not been consolidated into the accounts of the Group.

Given the volatile nature of the stock market, in order for the Group to dispose of the CMBC Shares at the best possible prices at the right time, it would not be practicable to seek prior Shareholders' approval for every disposal. Therefore, to enable flexibility in future disposals of the CMBC Shares at appropriate time(s) and price(s) so as to capitalise as much return as possible to the Group, the Company proposes to seek approval for the Disposal Mandate from the Shareholders at the SGM in advance to allow the Directors to dispose of up to 8,460,250 consolidated CMBC Shares (representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation) during the Mandate Period. Depending on the prevailing market conditions, the Group may dispose of the Approved Sale Shares in tranches from time to time during the Mandate Period.

The Disposal Mandate shall be conditional upon the approval by the Shareholders at the SGM.

Details of the Disposal Mandate

The Disposal Mandate to be sought from the Shareholders at the SGM will be on the following terms:

1. Mandate Period

The Disposal Mandate is for the Mandate Period, i.e. a period of 12 months from the date of the passing of the relevant resolution(s) approving the Disposal Mandate and the Possible Disposal(s) at the SGM.

2. Maximum number of the CMBC Shares to be disposed of

The Disposal Mandate shall authorise and empower the Board to dispose of up to 8,460,250 consolidated CMBC Shares held by the Group, representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation and approximately 0.72% of the total issued share capital of CMBC as at the Latest Practicable Date.

3. Scope of Authority

The relevant designated Directors shall be authorised and empowered to determine, decide, execute and implement with full discretion all matters relating to the Possible Disposal(s), including but not limited to the number of batches of Possible Disposal(s), the number of the CMBC Shares to be sold in each Possible Disposal and the timing of each Possible Disposal.

4. Manner of Authority

The Possible Disposal(s) shall be conducted (i) in the open market on the Stock Exchange to Independent Third Party(ies) through the trading system of the Stock Exchange; and/or (ii) in the off-market through block trades by entering into placing agreement(s) with licensed corporation(s) which carry(ies) out Type 1 (dealing in securities) regulated activity under the SFO and shall be Independent Third Party(ies) as placing agent(s), to dispose of, in part or in whole, the Approved Sale Shares to third party purchaser(s), who and whose ultimate beneficial owner(s) are Independent Third Party(ies). In the event that any purchaser of the Approved Sale Shares is a connected person of the Company, the Company will comply with the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For any block trade, the terms and conditions of the sale would be negotiated on an arm's length basis. As at the Latest Practicable Date, there is no potential purchaser who has indicated its intention to purchase the Approved Sale Shares from the Group.

The selling price of the Approved Sale Shares shall be at the then market price(s) of the CMBC Shares at the relevant material time, provided that:

(i) each Possible Disposal in the open market or in the off market shall be at market price of no more than 20% discount to the average closing price as quoted on the Stock Exchange for the five (5) consecutive trading days immediately before the date of each Possible Disposal during the Mandate Period; and

(ii) the Minimum Selling Price of the Possible Disposals shall be no less than HK$2.33 per consolidated CMBC Share.

The maximum 20% discount to the average closing price of the CMBC Shares for the five (5) consecutive trading days immediately prior to the date(s) of the relevant Possible Disposal(s) represents the range of discounts to the referenced closing price which the Company may consider in the exercise of the Disposal Mandate, having regard to the then prevailing share price performance of CMBC and market sentiment. Whilst the Company will use its endeavours to dispose of the Approved Sale Shares at the best available price to the Company, the proposed maximum 20% discount to the average closing price of the CMBC Shares would allow the Company to have flexibility to dispose of the Approved Sale Shares within a reasonable price range in the event that the market sentiment is not favourable.

Based on the closing price of the consolidated CMBC Shares in the past one year immediately before the Latest Practicable Date, the highest closing price was HK$6.96 per consolidated CMBC Share and the lowest closing price was HK$2.43 per consolidated CMBC Share and the average closing price was HK$3.77 per consolidated CMBC Share. In addition, the average closing price of the then CMBC Shares for the year ended 31 December 2020, the last twelve months from 1 November 2020 to 31 October 2021, the last six months from 1 May 2021 to 31 October 2021, the last 30 trading days and the last 5 trading days preceding the Latest Practicable Date was approximately HK$0.134 per then CMBC Share, HK$0.108 per then CMBC Share, HK$0.098 per then CMBC Share, HK$2.81 per consolidated CMBC Share and HK$2.54 per consolidated CMBC Share, respectively.

Based on the daily trading volume of the consolidated CMBC Shares in the past one year immediately before the Latest Practicable Date, the highest daily trading volume of the consolidated CMBC Shares was 41,489,830 consolidated CMBC Shares, while the lowest daily trading volume of the consolidated CMBC Shares was 155,250 consolidated CMBC Shares, and the average trading volume of the consolidated CMBC Shares in the past one year immediately before the Latest Practicable Date was approximately 3,685,887 consolidated CMBC Shares. The total number of 8,460,250 Approved Sale Shares (representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation) to be disposed of under the Disposal Mandate represents approximately 2.30 times of the average daily trading volume of the consolidated CMBC Shares in the past one year immediately before the Latest Practicable Date.

In order to make the Approved Sale Shares held by the Group to be more attractive in block trade, the Directors consider that it is fair and reasonable for the Company to offer certain percentage of discount to the market price. For illustration purpose, using the average closing price of the consolidated CMBC Shares of approximately HK$2.54 per consolidated CMBC Share for the five (5) consecutive trading days immediately before the Latest Practicable Date, if the Approved Sale Shares are proposed to be sold at 20% discount to the 5-day average closing price of the CMBC Shares, the proposed selling price calculated is approximately HK$2.03 per consolidated CMBC Share. In the event that the selling price calculated by up to 20% discount to the 5-day average closing price of the consolidated CMBC Shares is lower than the Minimum Selling Price (i.e. HK$2.33 per consolidated CMBC Share), the proposed selling price shall nevertheless be confined to the Minimum Selling Price pursuant to the Disposal Mandate.

Taking into account the trading prices and trading volumes of the then CMBC Shares in the past one year immediately before the Latest Practicable Date as illustrated above, the bearish market sentiment on the then CMBC Shares and the flexibility to be vested in the Company to dispose of the CMBC Shares within a reasonable price range in the event that market sentiments and market conditions are not favourable, the Directors consider that the proposed maximum discount of 20% to the 5-day average closing price of the CMBC Shares immediately before the date of each Possible Disposal is fair and reasonable.

The proposed maximum discount of 20% to the 5-day average closing price of the CMBC Shares will allow flexibility for the Group to dispose of the CMBC Shares within a reasonable price range promptly in response to the fluctuation in market conditions. Whilst the Group will try to dispose of the CMBC Shares under the Disposal Mandate at the best available price to the Company, disposal of any CMBC Shares under the Disposal Mandate shall be subject to approval by at least one of the executive Directors to ensure that such disposal would be conducted at the best available price to the Company subject to the aforesaid proposed maximum discount as at the time of relevant Possible Disposal(s), which would safeguard the interests of the Company and the Shareholders that the CMBC Shares would not be disposed of at a significant discount.

In view of the foregoing, the Company considers that the terms of the Disposal Mandate are fair and reasonable.

5. Compliance

The Possible Disposal(s) shall comply with relevant applicable laws and regulations, including any applicable trading regulations in Hong Kong. The Group will also report on the progress of the Possible Disposal(s) in the relevant interim report as well as the annual report of the Company in compliance with the Listing Rules. The Company will re-comply with the Listing Rules requirements and seek another Shareholders' approval for any other disposal(s) of CMBC Shares in the event that they cannot be completed under the Disposal Mandate within the Mandate Period.

6. Minimum Selling Price

The Minimum Selling Price of HK$2.33 per consolidated CMBC Share (equivalent to approximately HK$0.058 per then CMBC Share prior to the CMBC Share Consolidation) represents:

(a) a discount of approximately 4.12% to the closing price of HK$2.43 per consolidated CMBC Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 39.16% to the closing price of HK$3.83 per consolidated CMBC Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 8.27% to the average closing price of approximately HK$2.54 per consolidated CMBC Share (representing approximately HK$0.064 per then CMBC Share prior to the CMBC Share Consolidation) as quoted on the Stock Exchange for the last 5 trading days preceding the Latest Practicable Date;

(d) a discount of approximately 17.08% to the average closing price of approximately HK$2.81 per consolidated CMBC Share (representing approximately HK$0.07 per then CMBC Share prior to the CMBC Share Consolidation) as quoted on the Stock Exchange for the last 30 trading days preceding the Latest Practicable Date;

(e) a discount of approximately 40.86% to the average closing price of approximately HK$3.94 per consolidated CMBC Share (representing approximately HK$0.098 per then CMBC Share prior to the CMBC Share Consolidation) as quoted on the Stock Exchange for the last six months from 1 May 2021 to 31 October 2021;

(f) a discount of approximately 46.19% to the average closing price of approximately HK$4.33 per consolidated CMBC Share (representing approximately HK$0.108 per then CMBC Share prior to the CMBC Share Consolidation) as quoted on the Stock Exchange for the last twelve months from 1 November 2020 to 31 October 2021;

(g) a discount of approximately 56.53% to the average closing price of approximately HK$5.36 per consolidated CMBC Share (representing approximately HK$0.134 per then CMBC Share prior to the CMBC Share Consolidation) as quoted on the Stock Exchange for the year ended 31 December 2020;

(h) equal to the unaudited net asset value per CMBC Share of approximately HK$0.058 per then CMBC Share based on the unaudited net asset value of CMBC as at 30 June 2021 and 46,978,667,729 then CMBC Shares in issue prior to the CMBC Share Consolidation; and

(i) equal to the unaudited net asset value per CMBC Share of approximately HK$2.33 per consolidated CMBC Share based on the unaudited net asset value of CMBC as at 30 June 2021 and 1,174,466,693 consolidated CMBC Shares in issue as at the Latest Practicable Date.

The Minimum Selling Price was determined with reference to (i) the unaudited net asset value per then CMBC Share of approximately HK$0.058 as at 30 June 2021; (ii) the unaudited net asset value per consolidated CMBC Share of approximately HK$2.33 as at 30 June 2021; (iii) market performance of the then CMBC Shares as quoted on the Stock Exchange for the year ended 31 December 2020, the last twelve months from 1 November 2020 to 31 October 2021, the last six months from 1 May 2021 to 31 October 2021, the last 30 trading days and the last 5 trading days as well as the overall plummeting trend of the trading price of the then CMBC Shares throughout these two years as reflected in the decreasing average closing prices of the consolidated CMBC Shares throughout the respective periods illustrated in (c) to (g) above; and (iv) the prevailing market sentiments, market conditions and the uncertainty of global economy in light of the outbreak of the COVID-19 pandemic.

The Company considers that the Minimum Selling Price will allow flexibility for the Directors to accommodate fluctuation in market conditions in the exercise of the Disposal Mandate and at the same time reflect the lowest acceptable price to dispose of the Approved Sale Shares, while it will safeguard the interests of the Company and its Shareholders such that the Approved Sale Shares would not be disposed of at a significant discount in the event that the market conditions are unfavourable, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

Reasons for the Disposal Mandate

The Company acquired the CMBC Shares for investment purpose. Having regard to the current market conditions, the Board decided to have an investment portfolio with less securities investments and to solidify the financial and cash position of the Group.

In light of the uncertainty in the future global economy with the continuing COVID-19 pandemic and having considered the funding needs of the Group (including but not limited to the Group's need for the repayment of the short-term borrowings as particularised in the section headed "Financial Impact and Use of Proceeds" below), the Company considers that the Possible Disposal(s) represent an opportunity to realise its investments and to allow the Group to reallocate its resources.

Given the volatility of the stock market, disposing of shares at the best possible prices requires prompt disposal actions at the right timing and it would not be practicable to seek prior Shareholders' approval for each disposal. To allow flexibility in effecting future disposals of the CMBC Shares at appropriate time(s) and price(s) so as to maximise the returns to the Group, the Company proposes to seek approval for the Disposal Mandate and the Possible Disposal(s) from the Shareholders at the SGM in advance to allow the Directors to dispose of the Approved Sale Shares during the Mandate Period.

The Possible Disposal(s) will be made with reference to the market prices on the open market. The Board is of the view that the Disposal Mandate and the Possible Disposal(s) are on normal commercial terms, and that the terms are fair, reasonable and in the interests of the Company and its Shareholders as a whole.

Financial Impact and Use of Proceeds

Based on the closing price of HK$2.43 per consolidated CMBC Share as at the Latest Practicable Date, the aggregate value of the Approved Sale Shares was approximately HK$20,558,408. The Company will use the proceeds from the Possible Disposal(s) for general working capital purpose, in particular, for the repayment of short-term borrowings (including the amount of HK$32,391,803 owing by the Group to CMBC Securities Company Limited as at 31 January 2022 under the margin account maintained with it which shall be repayable on demand).

For illustrating the effect of the Possible Disposal(s) on the earnings, assets and liabilities of the Company, on the assumption that all of the Approved Sale Shares would have been disposed of at HK$2.43 per consolidated CMBC Share, being the closing price of each consolidated CMBC Share as at the Latest Practicable Date, the Group is expected to recognise a revaluation loss of approximately HK$24,788,532 which will affect the comprehensive income of the Group on the day of disposal for the year ending 31 December 2021 and is calculated on the basis of the difference between the market value of the Approved Sale Shares as at 31 December 2020 and the disposal prices (excluding stamp duty and related expenses). The revaluation loss equals to the deficit of the consideration of approximately HK$20,558,408, being the market value of all the Approved Sale Shares as at the Latest Practicable Date, under the net book value of approximately HK$45,346,940 of the then CMBC Shares as at 31 December 2020 (based on the closing price per consolidated CMBC Share of approximately HK$5.36 as at 31 December 2020 and that all of the Approved Sale Shares would be disposed of). The Possible Disposal(s) will have no effect on the liabilities of the Group for the year ended 31 December 2020. For the avoidance of doubt, the actual revaluation gain/loss to be recorded by the Group as a result of the Possible Disposal(s) will be subject to the actual selling prices of the Approved Sale Shares and will be subject to final audit to be performed by the Company's auditors. The Group will exercise its endeavours to achieve best available terms but the disposal price shall be subject to market fluctuations and the economic environment at the time of execution of each Possible Disposal.

For illustrating the effect of the Possible Disposal(s) on the earnings, assets and liabilities of the Company, on the assumption that all of the Approved Sale Shares would have been disposed of at the Minimum Selling Price, the Group is expected to recognise a revaluation loss of approximately HK$25,634,557 which will affect the comprehensive income of the Group on the day of disposal for the year ending 31 December 2021 and is calculated on the basis of the difference between the market value of the Approved Sale Shares as at 31 December 2020 and the disposal prices (excluding stamp duty and related expenses). The revaluation loss equals to the deficit of the consideration of approximately HK$19,712,383, being the value of all the Approved Sale Shares at the Minimum Selling Price, under the net book value of approximately HK$45,346,940 of the then CMBC Shares as at 31 December 2020 (based on the closing price per consolidated CMBC Share of approximately HK$5.36 as at 31 December 2020 and that all of the Approved Sale Shares would be disposed of). The Possible Disposal(s) will have no effect on the liabilities of the Group for the year ended 31 December 2020. For the avoidance of doubt, the actual revaluation gain/loss to be recorded by the Group as a result of the Possible Disposal(s) will be subject to the actual selling prices of the Approved Sale Shares and will be subject to final audit to be performed by the Company's auditors. The Group will exercise its endeavours to achieve best available terms but the disposal price shall be subject to market fluctuations and the economic environment at the time of execution of each Possible Disposal.

In view of the foregoing, the illustrative revaluation loss of HK$24,788,532 (or HK$25,634,557, if the Minimum Selling Price is adopted) represents approximately 2.16% (or 2.23%) of the unaudited net asset value of the Group as at 30 June 2021 of approximately HK$1,149,923,000, which is expected to have an insignificant financial impact to the Group. In any event, the Minimum Selling Price merely reflects the lowest acceptable price to dispose of the Approved Sale Shares to allow flexibility for the Directors to accommodate fluctuation in market conditions in the exercise of the Disposal Mandate. The Company will endeavour to effect Possible Disposal(s) at appropriate time(s) and price(s) so as to maximise the returns to the Group. Taking into account that the financial impact of the Possible Disposal(s) to the Group as illustrated above is expected to be insignificant and all the reasons as set out in the section headed "Reasons for the Disposal Mandate" in this circular, the Board considers that the Disposal Mandate is fair, reasonable and in the interests of the Company and its Shareholders as a whole.

Listing Rules Implications

Assuming that all of the Approved Sale Shares held by the Group will have been disposed of within the Mandate Period at the Minimum Selling Price, one or more applicable percentage ratios of the Possible Disposal(s), when aggregated with the relevant transactions under the Disposals conducted in the previous 12-month period from the relevant Possible Disposal(s), will exceed 75% under Chapter 14 of the Listing Rules. The Possible Disposal(s), when aggregated with the relevant transactions under the Disposals conducted in the previous 12-month period from the relevant Possible Disposal(s), will constitute a very substantial disposal of the Company and be subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company will seek approval of the Shareholders at the SGM for the Disposal Mandate and the Possible Disposal(s) to allow the Company to dispose of up to 8,460,250 consolidated CMBC Shares (representing 338,410,000 then CMBC Shares prior to the CMBC Share Consolidation) held by the Group during the Mandate Period.

None of the Directors has a material interest in the Disposal Mandate and the Possible Disposal(s) and therefore none of them are required to abstain from voting on the relevant Board resolutions approving the same according to the Listing Rules.

Waiver

Pursuant to Rule 14.68(2)(a)(i) of the Listing Rules, for a circular issued in relation to a very substantial disposal, the Company is required to include financial information of the company being disposed of for the relevant period in the circular, where such financial information must be reviewed by the Company's auditors or reporting accountants according to the relevant accountant standards as specified under Rule 14.68(2)(a)(i) of the Listing Rules. According to Note 2 to Rule 14.68(2)(a)(i) of the Listing Rules, the Stock Exchange may be prepared to relax the requirements set forth therein if the assets of the company being disposed of are not consolidated in the Company's accounts before the disposal (the "**VSD Rules Requirements**").

In the present case, the Group's investment in CMBC is accounted for as equity investments at fair value through other comprehensive income of the Company and CMBC's financial results have not been consolidated into the accounts of the Group, the Stock Exchange may exercise its discretion to relax the VSD Rules Requirements according to Note 2 to Rule 14.68(2)(a)(i) of the Listing Rules. Taking into account that as at the Latest Practicable Date, the Company only held a minority interest in the CMBC Shares through CWII and DGL, where the Group, being merely a passive investor having minority interest therein, cannot have access to the financial information of CMBC other than such information disclosed to public by CMBC pursuant to the Listing Rules, it is considered to be impractical for the Company to prepare the financial information of CMBC required under Rule 14.68(2)(a)(i) of the Listing Rules and such information would be of minor importance only for the assessment of the impact of the Possible Disposal(s) under the Disposal Mandate.

Furthermore, having considered that (a) CMBC is a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange (stock code: 1141) and it should have published its financial information (including audited accounts) in accordance with the relevant requirements under the Listing Rules (such as Chapter 4 of the Listing Rules), where such published financial information would have been reviewed by the auditors of CMBC according to the relevant accounting standard as required in the relevant Listing Rules; (b) the audited accounts of CMBC for each of the three years ended 31 December 2018, 2019 and 2020 were reviewed and audited by the auditors of CMBC which were registered under the Hong Kong Professional Accountants Ordinance, which, in their opinions, give a true and fair view of the consolidated financial position of the CMBC Group and of the consolidated financial performance and cash flows of the CMBC Group for each of the years then ended; (c) the consolidated financial statements of CMBC and the Company for the three years ended 31 December 2020 have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA, while the condensed consolidated interim financial information of CMBC and the Company for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA, and the principal accounting policies and accounting standards adopted by CMBC in the preparation of its consolidated financial statements are materially consistent with those adopted by the Company in the preparation of its consolidated financial statements; (d) publication of financial information by CMBC on the website of the Stock Exchange on a regular basis in accordance with the Listing Rules would enable existing and prospective Shareholders to assess its activities and financial position in a timely manner; and (e) each of (i) the consolidated statements of profit or loss and other comprehensive income of the CMBC Group for the three years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021, (ii) the consolidated statements of financial position of the CMBC Group as at 31 December 2018, 31 December 2019, 31 December 2020 and 30 June 2021, (iii) the consolidated statements of changes in equity and (iv) consolidated statements of cash flows of the CMBC Group for each of the corresponding periods then ended are set out in Appendix II to this circular as disclosure alternative to the preparation and inclusion of the accountants' report of the CMBC Group in this circular as required under the VSD Rules Requirements, which the Board is of the view that such financial information of the CMBC Group as set out therein would provide sufficient information to the existing and prospective Shareholders to assess the then financial position of the CMBC Group, a waiver from strict compliance with the VSD Rules Requirements, thereby not including an accountants' report of CMBC in this circular, would not be considered to be prejudicial or detrimental to the interests of the existing or prospective Shareholders.

In this connection, the Company has applied to the Stock Exchange for a waiver from strict compliance with the VSD Rules Requirements and the Stock Exchange has granted a waiver to the Company from strict compliance with the VSD Rules Requirements in this circular.

(III) PROPOSED RE-ELECTION OF DIRECTORS

Reference is made to the announcements of the Company respectively dated 28 December 2021 and 21 February 2022 in relation to, among others, (i) the appointment of Mr. Wang Jun ("**Mr. Wang**") as an executive Director, the chief executive officer and a member of the Executive Committee of the Company with effect from 28 December 2021; (ii) the appointment of Ms. Chen Jingxian ("**Ms. Chen**") as the vice chairman of the Board, an executive Director and a member of the Executive Committee of the Company with effect from 21 February 2022; and (iii) the appointments of Ms. Song Caini ("**Ms. Song**") and Mr. Chen Hongjin ("**Mr. Chen**") as executive Directors and members of the Executive Committee of the Company both with effect from 21 February 2022 (collectively, "**Proposed Re-election of Directors**"). Pursuant to the Company's Bye-laws, any Director who is appointed either to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the first general meeting of the Company after his/her appointment and shall then be eligible for re-election at that meeting. Accordingly, each of Mr. Wang, Ms. Chen, Ms. Song and Mr. Chen shall retire and, being eligible, has offered himself/herself for re-election at the SGM. The biographical details and other information of Mr. Wang, Ms. Chen, Ms. Song and Mr. Chen are respectively set out in Appendix IV to this circular.

SGM

The notice convening the SGM is set out on pages SGM-1 to SGM-4 of this circular.

The SGM will be held at Unit 1801-2, 18/F, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong on Wednesday, 23 March 2022 at 10:00 a.m. for the Shareholders to consider and, if thought fit, to (i) approve and ratify the relevant transactions under the Acquisitions and Disposals; (ii) approve the Disposal Mandate and the Possible Disposal(s); and (iii) approve the Proposed Re-election of Directors. Ordinary resolutions approving (and/or ratifying, as the case may be) each of (i) the relevant transactions under the Acquisitions and Disposals; (ii) the Disposal Mandate and the Possible Disposal(s); and (iii) the Proposed Re-election of Directors will be conducted by way of a poll at the SGM.

Due to the recent development of the COVID-19 pandemic and in view of the latest Regulations, **Shareholders are reminded to refer to the section headed "Special Arrangements For the SGM" on page iii of this circular.**

The SGM will be conducted through electronic means where all participants can participate and ask questions in the SGM. In order to do so, any Shareholders who wishes to join the SGM must contact the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, to register no later than 10:00 a.m. on Monday, 21 March 2022 (being not less than forty-eight (48) hours before the SGM) by email to is-enquiries@hk.tricorglobal.com or by telephone hotline (852) 2980 1333.

Please complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). **The Company reminds the Shareholders who wish to exercise his/her/its voting rights that they must appoint the Chairman of SGM as their proxy to vote on the relevant resolutions at the SGM.**

Any Shareholder with a material interest in the Acquisitions, the Disposals, the Disposal Mandate and the Possible Disposal(s) as well as the Proposed Re-election of Directors and his/her/its close associates will be required to abstain from voting at the SGM to (i) approve and ratify the relevant transactions under the Acquisitions and Disposals; (ii) approve the Disposal Mandate and the Possible Disposal(s); and (iii) approve the Proposed Re-election of Directors. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder has a material interest in the Acquisitions, the Disposals, the Disposal Mandate and the Possible Disposal(s) as well as the Proposed Re-election of Directors, and accordingly no Shareholder (and his/her/its close associates) is required to abstain from voting on the resolutions at the SGM to (i) approve and ratify the relevant transactions under the Acquisitions and the Disposals; (ii) approve the Disposal Mandate and the Possible Disposal(s); and (iii) approve the Proposed Re-election of Directors.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll (except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands). Accordingly, the Company will procure that the Chairman of the SGM shall demand voting on the resolutions set out in the notice of SGM be taken by way of poll. The results of the poll will be published on the websites of the Company and the Stock Exchange in accordance with the Listing Rules following the SGM.

RECOMMENDATION

The Directors are of the view that the terms of the relevant transactions under the Acquisitions and Disposals were fair and reasonable, and were in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve and ratify the relevant transactions under the Acquisitions and Disposals.

The Directors are also of the view that the terms of the Disposal Mandate and the Possible Disposal(s) are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Disposal Mandate and the Possible Disposal(s).

The Directors also recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Proposed Re-election of Directors.

WARNING

There is no assurance that the Company will proceed with the Possible Disposal(s) after obtaining the Disposal Mandate. Whether and when the Company will proceed with the Possible Disposal(s) or not will depend on a number of factors including without limitation the prevailing market sentiments and market conditions at the proposed time of executing the Possible Disposal(s). Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the Shares.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
By and on behalf of the Board
Central Wealth Group Holdings Limited
Chen Xiaodong
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2020 and the six months ended 30 June 2021 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.cwghl.com):

- The unaudited consolidated financial statements of the Group for the six months ended 30 June 2021 have been set out on pages 3 to 27 of the interim report of the Company for the six months ended 30 June 2021 (the "**2021 Interim Report**") published on 16 September 2021. Please see below the link to the 2021 Interim Report:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0916/2021091600900.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2020 have been set out on pages 71 to 212 of the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**") published on 16 April 2021. Please see below the link to the 2020 Annual Report:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0416/2021041600373.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2019 have been set out on pages 70 to 208 of the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**") published on 23 April 2020. Please see below the link to the 2019 Annual Report:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042300502.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2018 have been set out on pages 66 to 228 of the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**") published on 29 April 2019. Please also see below the link to the 2018 Annual Report:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429779.pdf

2. INDEBTEDNESS STATEMENT

The following table sets forth a breakdown of the indebtedness of the Group as at 31 December 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular:

	At 31 December 2021
	HK$'000
Current	
Bank borrowings – secured *(note a)*	71,664
Notes payables *(note b)*	50,000
Other borrowings – secured *(note c)*	32,109
Other borrowings – unsecured *(note d)*	236,000
Lease liabilities *(note e)*	4,018
	393,791
Non-current	
Lease liabilities *(note e)*	6,599
Total indebtedness	400,390

Notes:

(a) As at 31 December 2021, the bank borrowings are secured by listed equity and debt investments securities pledged to the Group held by certain margin clients, and bear interest ranging from 3.0% to 4.9% per annum.

(b) As at 31 December 2021, the senior note issued to an independent third party bears interest at a rate of 9% per annum and will mature on 7 September 2022.

(c) As at 31 December 2021, the secured other borrowings are secured by listed securities held by the Group as equity investments at fair value through other comprehensive income of approximately HK$40,399,328. The secured other borrowings bear interest ranging from 9% to 12% per annum and will be repayable in 2022.

(d) As at 31 December 2021, the unsecured other borrowings bear interest at 7% per annum and will be repayable on demand to Globally Finance Limited, a subsidiary of Future World Financial Holdings Limited.

(e) The Group entered into several lease agreements for leasing office premises and staff quarter with lease terms ranging from 2 to 3 years. The Group recognised right-of-use assets and lease liabilities for these leases. The interest rates of the lease liabilities ranged from 3.8% to 5.95% per annum.

As at the close of business on 31 December 2021, the Group did not have any significant contingent liabilities.

Save as aforesaid, and apart from intra-group liabilities and normal trade payable in the ordinary course of business of the Group, as at the close of business on 31 December 2021, the Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, the date to which the latest published audited financial statements of the Group were made up.

4. WORKING CAPITAL

As at the date of this circular, the Company has received the comfort letter issued by its auditors, namely Moore Stephens CPA Limited, regarding the sufficiency of working capital of the Group. Taking into account the present financial resources available to the Group, including internally generated funds and available credit facilities, the effect of the Acquisitions, the Disposals, the Disposal Mandate and the Possible Disposal(s), and in the absence of unforeseeable circumstances, the Directors, after due and careful consideration, are of the opinion that the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in securities and futures dealing business, trading of debts and equity investments and money lending business.

There is no change in the Group's principal activities since 30 June 2021, being the date to which the latest published unaudited consolidated interim financial statements of the Group were made up, and the Group's principal businesses are not expected to have any changes as a result of the Possible Disposal(s) to be conducted under the Disposal Mandate.

The uncertainty associated with the resurgence in COVID-19 pandemic continue to exist in this financial year. Even with the launch of massive vaccination programme around the world, the infection rate of COVID-19 has risen to high levels in recent weeks prior to the Latest Practicable Date because of the spreading of the Omicron variant. The Group remains alert and cautious on the uncertainty caused by COVID-19 pandemic to the global environment.

The Group will monitor the market trends and may adjust its strategies and plans in response to the changes in the market condition. Nevertheless, the Group is still optimistic about the Hong Kong stock markets and debt capital markets.

In the trading of debts and equity investments business, the Group will continue to identify quality investments to broaden our portfolio for a stable and recurring income base and long-term value for the Shareholders.

The Directors will explore further business opportunities in the money lending sector and develop the Group's customer base as and when appropriate.

6. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the reproduction of the management discussion and analysis of the Group's operations for the financial years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, respectively. The information reproduced below is principally extracted from the sub-sections headed "Economy Review", "Business Review" and "Financial Review" under the "Management Discussion and Analysis" section of the annual report of the Company for each of the three financial years ended 31 December 2020 and the interim report of the Company for the six months ended 30 June 2021 to provide further information relating to the financial conditions and results of business operations of the Group during the respective periods stated.

Unless otherwise specified, capitalised terms used in this section shall have the same meanings as those defined in the respective annual reports or interim report of the Company. These extracted materials below were prepared prior to the date of this circular and speak as of the date they were originally published, and any opinion and beliefs stated were made by the then Directors at such time when the related annual report(s) or interim report of the Company was or were issued.

For the year ended 31 December 2018

Review of Results

We are pleased to present the results of the Group for the year ended 31 December 2018 ("**FY2018**"). The Group recorded a revenue of approximately HK$174.5 million as compared to the revenue of approximately HK$228.1 million last period. The revenue mainly comprised the brokerage and commission income of approximately HK$150.1 million and interest income from money lending business of approximately HK$31.6 million. The net loss for FY2018 was approximately HK$67.1 million as compared to the net profit of approximately HK$368.9 million for the last period. Basic loss per Share attributable to ordinary equity holders of the parent for FY2018 was approximately HK$0.005 (31 December 2017: basic earnings per share of HK$0.033). The Group's net loss for FY2018 was mainly attributable to (i) the impairment loss on investment in an associate of approximately HK$51.3 million; (ii) the share of loss of an associate of approximately HK$13.9 million; (iii) the impairment losses on other financial assets and contract assets of approximately HK$17.3 million. The unrealized fair value loss on equity investments at fair value through other comprehensive income (the "**FVTOCI**") of FY2018 of approximately HK$943.8 million and the share of other comprehensive loss of an associate of approximately HK$108.7 million were taken to revaluation reserve account and resulted in a decrease in the Group's other comprehensive income and total net assets.

Economy review

The Sino-US trade wars and midterm elections highlighted U.S. economy in 2018 for investors. Since July 2018, U.S. imposed tariffs on billions of dollars worth of Chinese products and China retaliated in the same way. The trade war resulted in billions of dollars of losses for both sides, hitting industries including autos, technology and agriculture, etc. With the U.S. economy and the equity market are in good shape, the U.S. economy advanced 2.9%, above 2.2% in 2017 and the highest growth rate since 2015. Due to the escalation of the Sino-US trade war, the exchange rate of Renminbi weakened against US dollar in the second half of the year.

Driven by the consumer market, the GDP growth in Mainland China reached 6.6% for 2018. The unemployment rate remained stable, and consumer prices increased modestly. Urban and rural residents continued to experience income growth. In light of the stable economic development, the consumer goods market generally maintained a steady growth. Despite the above, Chinese consumers worried about a weaker global economy, and the lingering Sino-US trade war has affected China's economy.

Hong Kong's economy expanded by 1.3% year-on-year in real terms in the fourth quarter of 2018, after the growth of 2.8% in the preceding quarter. For 2018 as a whole, Hong Kong's GDP grew by 3% in real terms that was faster than the trend growth of 2.8% over the past ten years for the second year. Despite the good performance in economy, Hong Kong, as the world's freest economy, was greatly affected by the global environment. With the unsatisfactory performance in the global and China market, during FY2018, the Hang Seng Index has a largest decline since the global financial crisis. The property market perform well in the first half of 2018, driven by low interest rate and limited supply. The property market then entered into a moderate consolidation phase in the second half of 2018 surrounded by external uncertainties.

Business Review

Brokerage and Placing Commission

Brokerage & margin financing

The business is carried on through Instant Achieve Limited ("**IAL**"), a wholly-owned subsidiary of the Group, which in turn owns 100% equity interest in Central Wealth Securities Investment Limited ("**CWSI**") and Central Wealth Futures Limited ("**CWF**"). CWSI and CWF are incorporated in Hong Kong with limited liability and are carrying on business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities, as the case may be, under the SFO.

During FY2018, the commission income from securities and futures dealing was approximately HK$21.0 million and the interest income from the securities margin financing was approximately HK$31.4 million. The Group will maintain its prudent credit policy and risk management approach with a view to achieve a sustainable business environment.

Debt capital market business

The business is carried on through IAL, which in turn owns 100% equity interest in CWSI. CWSI is incorporated in Hong Kong with limited liability and is carrying on business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO.

The Group through CWSI has been providing debt capital market ("**DCM**") service to support debt financing need of China domiciled companies since July 2017. The Company has so far participated in 24 debt issues with roles of joint global coordinator, joint book-runner, joint lead manager or placing agent with an aggregate issue size of approximately US$3,602 million as at 31 December 2018. The debts were issued through either private or public offerings with coupon rates ranging from 5% to 10% per annum. According to the information published on Bloomberg as of 26 March 2019, CWSI ranked as the 64th manager in the issuance of offshore China bonds in the year of 2018 based on the issuance volume credited to each involved party. During FY2018, the provision of DCM service has recorded an income of approximately HK$97.7 million. The Group will continue to strengthen our services in the coming year and broaden our service range with an aim to provide one stop service to our customers.

Asset management

The business is carried on through IAL, which in turn owns 100% equity interest in Central Wealth Asset Management Limited ("**CWAM**"). CWAM is incorporated in Hong Kong with limited liability and is carrying on business in type 9 (asset management) regulated activities under the SFO.

During FY2018, the Group has kicked off the asset management business through CWAM. The asset management business engages in provision of investment management services on diversified and comprehensive investment products including private funds and discretionary accounts to individual, corporate and institutional clients. Currently, our investment funds mainly focus on the China's bond market as it is the third largest in the world and offers attractive yield opportunities. It is expected that the market will continue to grow and transform with the rest of the economy, which, the Group believes, will become more capital market oriented and open to foreign investors. The assets under management have reached approximately US$197.1 million as at 31 December 2018.

Property Investments

The Group principally focuses on the luxury property investments in Hong Kong market and currently holds one luxury property located at No. 2 Lincoln Road, Kowloon Tong in Hong Kong ("**No. 2 Lincoln Road Property**"). The Group has disposed of a property located at No. 1 Lincoln Road, Kowloon Tong in Hong Kong ("**No. 1 Lincoln Road Property**") to Future World Financial Holdings Limited ("**FWF**") for the consideration shares of approximately HK$342.5 million and recorded a gain of approximately HK$65.6 million during FY2018. For details, please refer to the announcements respectively dated 29 December 2017, 22 January 2018, 12 February 2018, 12 March 2018, 16 March 2018 and 25 April 2018 and the circular of the Company dated 21 March 2018. During FY2018, the rental income from No. 2 Lincoln Road Property was approximately HK$5.4 million. The Group will continue to monitor its property portfolio with an aim to generate a stable rental income and to achieve capital appreciation.

Financial Investments and Services

Financial investments and trading

During FY2018, the Hang Seng Index was volatile with fluctuations between 24,585 points and 33,154 points. Due to the unsatisfactory performance of global equity market, in particular the U.S. stock market, the Group recorded realized losses on disposal of equity investments at fair value through profit or loss of approximately HK$14.4 million.

Money lending business

During FY2018, the interest income from the money lending business was approximately HK$31.6 million. The net balance of loan book recorded a decrease of approximately HK$177.3 million to approximately HK$299.5 million as compared to approximately HK$476.8 million as at 31 December 2017. The money lending business charged annual interest rates at a range from 5% to 12% (31 December 2017: range from 5% to 12%). The Group will continue to maintain its prudent credit policy and risk management approach with a view to achieve a sound financial management and sustainable business environment.

Prospects

Looking ahead, with the implementation of the belt and road initiative, the development of Guangdong-Hong Kong-Macau Greater Bay Area (the "**Greater Bay Area**") and the completion of several major infrastructure projects like the Hong Kong-Zhuhai-Macao Bridge and the Express Railway Link in the coming years, Hong Kong has great potential to create synergy with countries and cities nearby. Further, the Stock Exchange has announced new rules to encourage the new listings of biotech companies and companies with weighted voting rights structure. It is expected that Hong Kong will be benefited from the new listing regime.

In the longer run, the listing platforms of the Mainland and Hong Kong will complement and supplement each other more on the back of the development of the Greater Bay Area, rise of more Chinese unicorns which would drive the new economy forward, and greater connectivity between the two capital markets.

Nonetheless, continuing political and economic uncertainties remained on a number of fronts. Trade tensions between the U.S. and China, as well as uncertainty of President Trump's policies could derail the global economic recovery. Besides, we shall not overlook the downside risks due to the expectation of U.S. interest hike and the threat of geopolitical tension which continue to cloud the global economic recovery.

In the early 2019, the situation began to improve as the U.S. and China started to reach a compromise on the trade deal and the China's authorities had already announced stimulus measures. These include a series of tax cuts and the lowering of the bank reserve requirement to boost small businesses and consumption.

In light of these macroeconomic challenges, the Group will continue to stay alert, but positive, to pursue its prudent investment strategy in developing its existing and new businesses.

Financial Review

The Group for FY2018 recorded a revenue of approximately HK$174.5 million as compared to the revenue of approximately HK$228.1 million last period. The Group's revenue principally comprised the interest income from money lending business of approximately HK$31.6 million, commission income from provision of DCM service of approximately HK$97.7 million, the commission income from securities and futures dealing of approximately HK$21.0 million, interest income from securities margin financing of approximately HK$31.4 million and property rental income of approximately HK$6.7 million.

The Group's net loss for FY2018 was mainly attributable to (i) the impairment loss on investment in an associate of approximately HK$51.3 million; (ii) the share of loss of an associate of approximately HK$13.9 million; (iii) the impairment losses on other financial assets and contract assets of approximately HK$17.3 million. The Group recorded a total comprehensive loss of approximately HK$1,119.2 million for FY2018 compared to the total comprehensive income of approximately HK$950.1 million for last period.

As at 31 December 2018, the Group's net asset value was approximately HK$1,848.8 million compared to the net asset value of approximately HK$2,723.9 million as at 31 December 2017. The consolidated net asset value per Share as at 31 December 2018 was approximately HK$0.13 (31 December 2017: HK$0.21). The Group's total assets and total liabilities were approximately HK$2,890.9 million (31 December 2017: HK$4,228.6 million) and approximately HK$1,042.1 million (31 December 2017: HK$1,504.7 million). The decrease was mainly due to the fair value loss through other comprehensive income and share of other comprehensive loss of an associate.

Liquidity and Financial Resources

During FY2018, the Group generally financed its operation with internally generated cash flow, overdrafts, bank and other borrowings and other fund raising activities. The Group's cash and bank balances as at 31 December 2018 were approximately HK$100.9 million (31 December 2017: HK$123.4 million).

As at 31 December 2018, the Group had bank overdrafts of approximately HK$45.1 million (31 December 2017: HK$59.5 million), interest-bearing bank borrowings of approximately HK$298.7 million (31 December 2017: HK$331.8 million), interest-bearing other borrowings of approximately HK$472.2 million (31 December 2017: HK$525.9 million) and non-current notes payable of approximately HK$86.6 million (31 December 2017: HK$86.6 million).

As at 31 December 2018, the Group's current ratio was approximately 1.14 times (31 December 2017: 1.65 times) based on current assets of approximately HK$914.4 million (31 December 2017: HK$2,072.5 million) and current liabilities of approximately HK$799.1 million (31 December 2017: HK$1,254.0 million). As at 31 December 2018, the Group had no capital commitment (31 December 2017: Nil). The Group also had no other contingent liabilities (31 December 2017: Nil).

Capital Structure

As at 31 December 2018, the Group's gearing ratio was approximately 48.82% (31 December 2017: 41.33%). Gearing ratio equals total borrowings divided by net asset value as at the end of the reporting period. The total borrowings of approximately HK$902.5 million includes bank and other borrowings, bank overdraft and notes payable.

The Group's bank balance, borrowings and interest payment are mainly denominated in Hong Kong and U.S. dollars. Most of the Group's revenue are made in Hong Kong dollars. Therefore, the exchange risks that the Group is exposed to are insignificant.

In June 2018, the Company placed a total of 2,000,000,000 Shares at HK$0.1 per placing share, representing 15.73% of its total issued capital at that time. The proceeds of HK$200.0 million was used for the repayment of loan. Detailed information was set out in the Company's announcements dated 21 May 2018 and 7 June 2018 respectively.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2018. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Significant Investments

As at 31 December 2018, the Group maintained a portfolio of equity investments including equity investments at fair value through other comprehensive income with a total carrying amount of approximately HK$1,296.2 million. The details of the portfolio of equity investments as at 31 December 2018 are respectively set out as follows:

31 December 2018

Stock Code	Name of the investees	Percentage of shareholding in the listed securities held by the Group as at 31 December 2018	Percentage of the fair value of the investment in listed securities to total assets of the Group as at 31 December 2018	Fair value of the investment in listed securities as at 31 December 2018	Carrying value of the investment in listed securities as at 31 December 2018	Fair value gains/(losses) of the investment in listed securities as at 31 December 2018	Realised gain/ (loss) for the year ended 31 December 2018
				HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments at fair value through other comprehensive income							
1004	China Smarter Energy Group Holdings Limited	0.26%	0.68%	19,757	40,528	(20,771)	(40,872)
1141	CMBC Capital Holdings Limited	8.23%	44.15%	1,276,397	1,415,427	(139,030)	(4,607)
	Total			1,296,154	1,455,955	(159,801)	(45,479)

Performance and prospects of the investees

1. China Smarter Energy Group Holdings Limited ("**China Smarter**")

China Smarter together with its subsidiaries (the "**China Smarter Group**") are principally engaged in (i) clean energy business and (ii) investment business. As mentioned in its interim report for the six months ended 30 September 2018, the China Smarter Group recorded a total revenue and other income amount to approximately HK$800 million for the period. The China Smarter Group's reported a net loss of approximately HK$163 million attributable to shareholders of China Smarter. The basic and diluted loss per share are HK1.74 cents for the period. As at 30 September 2018, the unaudited consolidated net asset value of the China Smarter Group was approximately HK$1,688 million. No dividend was received during FY2018.

The Paris Agreement came into effect in November 2016, which meant that the development of new energy will be further accelerated. The construction of a green, recycling and low-carbon energy system has become necessary for the social development, which provided a favorable social environment and a broad market for the development of renewable energy. The Company is optimistic about the long-term development of the clean energy industry, and thus is optimistic on the future prospect of China Smarter. The Group may realize the investments from time to time where to do so is to be in the best interests of the Group or where the terms on which such realization takes place would be particularly favorable to the Group.

As at 31 December 2018, the Group held 24,696,000 shares of China Smarter. China Smarter closed at HK$0.8 as at 31 December 2018 as compared to HK$1.0 as at 29 December 2017.

2. CMBC

The CMBC Group is principally engaged in (i) securities business, (ii) investment and financing and (iii) asset management and advisory business. As mentioned in its interim report for the six month ended 30 June 2018, the CMBC Group recorded a total revenue and other income of approximately HK$344.1 million for the period. The CMBC Group reported a net profit of approximately HK$100.4 million attributable to shareholders of CMBC. The basic and diluted earnings per share were both HK0.22 cents. As at 30 June 2018, the unaudited consolidated net asset value of the CMBC Group was approximately HK$1,096.2 million. No dividend was received during FY2018.

In May 2017, China Minsheng Banking Corp. Ltd. ("**China Minsheng Bank**") became the ultimate controlling shareholder of CMBC and since then the CMBC Group started its rapid development. Subsequently in August 2017 and October 2017, the CMBC Group acquired the entire issued share capital of CMBC Capital Finance Limited and CMBC International Capital Limited, respectively and as a result, the CMBC Group is licensed to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, as well as the licensed money lending business and has all material licenses required for services expected to be required by most of its potential clients at current stage.

Leveraging on the strong reputation, expertise and capability of China Minsheng Bank, and the licenses it possesses, the CMBC Group has achieved rapid growth in its financial performance. The Company has strong confidence in the experienced and competent management team of CMBC that they can lead CMBC to perform much better in the future and improve the earnings. The management of the Group considers that the investment in CMBC is for long term purpose. However, the Group would not rule out the possibility of realizing the investments from time to time where to do so is to be in the best interests of the Group or where the terms on which such realization takes place would be particularly favorable to the Group.

As at 31 December 2018, the Group held 3,927,375,829 shares of CMBC. CMBC closed at HK$0.325 as at 31 December 2018 as compared to HK$0.53 as at 29 December 2017.

Details of Charges on Assets

As at 31 December 2018, the Group had pledged certain listed equity investments of approximately HK$1,276.4 million (31 December 2017: HK$1,925.7 million) to secure the other borrowings. As at 31 December 2018, the Group had pledged its investment properties with a carrying amount of approximately HK$435.0 million to secure the bank borrowings (31 December 2017: HK$830.0 million).

Material Acquisition and Disposal

Acquisition of Interest in FWF and Disposal of No. 1 Lincoln Road Property

During FY2018, the Group disposed of its entire interest in Goodview Assets Limited, an indirect wholly owned subsidiary of the Company, to FWF for the consideration shares of approximately HK$342.5 million. The sole asset of the disposal company is No. 1 Lincoln Road Property. The disposal was completed on 25 April 2018. Upon completion, the Group has acquired 18.78% interest in FWF and treated FWF as investment in an associate. Details of the acquisition and disposal were set out in the announcements of the Company respectively dated 29 December 2017, 22 January 2018, 12 February 2018, 12 March 2018, 16 March 2018 and 25 April 2018, and the circular of the Company dated 21 March 2018.

Events after the Reporting Period

Change of Company Name and Stock Short Name

To better reflect the current status of the Group's business and its direction of future development, the Company's English name has been changed to "Central Wealth Group Holdings Limited" and the Company's secondary name in Chinese has been changed to "中達集團控股有限公司". Shares have been traded on the Stock Exchange under the new stock short name "CENTRALWEALTHGP" in English and "中達集團控股" in Chinese, with effect from 11 February 2019. The stock code of the Company remains unchanged as "139".

For details, please refer to the announcements of the Company respectively dated 29 November 2018, 27 December 2018 and 1 February 2019, and the circular of the Company dated 30 November 2018.

Employment, Training and Development

As at 31 December 2018, the Group had a total of 78 employees. The Group is committed to staff training and development and structured training programs for all employees. Remuneration packages are maintained at a competitive level and reviewed on a periodic basis. Bonuses and share options are awarded to certain employees according to individual performance and industry practice.

For the year ended 31 December 2019

Review of Results

The Group recorded a revenue of approximately HK$947.7 million for the year ended 31 December 2019 ("**FY2019**"), compared to a revenue of approximately HK$174.5 million for the year ended 31 December 2018. It was mainly attributable to the commission income generated from the provision of DCM services of approximately HK$790.6 million. The net profit before tax for FY2019 was approximately HK$248.5 million as compared to the net loss before tax of approximately HK$58.9 million for the year ended 31 December 2018. The significant increase in revenue and net profit before tax for FY2019 was mainly attributable to the outstanding performance in the provision of DCM services.

The net profit after tax for FY2019 was approximately HK$208.4 million as compared to the net loss after tax of approximately HK$67.1 million for the year ended 31 December 2018. Basic earnings per Share attributable to ordinary equity holders of the parent for FY2019 was approximately HK1.42 cents (31 December 2018: basic loss per share of approximately HK0.48 cent).

Economy Review

The global economy had a weak start in 2019 due to U.S.-China trade tensions. During FY2019, U.S.-China trade tensions have escalated again, as the U.S. has raised the rate of additional tariffs on billion worth of imports from China and indicated its intention to further extend the scope of these tariffs. U.S. also banned Huawei and other Chinese enterprises from purchasing from U.S. companies. China had also announced countermeasures. Lately, the situation had a sign of improvement as U.S. has signed first phase of U.S.-China trade deal with China and talks on second phase of U.S.-China trade deal have begun.

The Hong Kong economy contracted in 2019. Total exports of goods registered an enlarged decline, whereas exports of services deteriorated sharply as inbound tourism suffered severely from the local social incidents. Domestic demand also worsened significantly. The value of merchandise exports recorded a decline in 2019. Exports to the major advanced economies stayed weak. In contrast to the performance of the real economy, the local stock market rebounded as investor sentiment improved. This was mainly attributable to the receding concerns about further U.S. interest rate hikes.

Regarding the China's bond market on which our business focuses, the scale of issuance and the demand for the offshore U.S. dollar denominated bonds rose. Due to the weak performance of the global economy, high yield bonds were attractive to investors, especially the bonds issued by the local government financing vehicle (the "**Chengtou Bonds**") since they carry high yield with credit from the Chinese local government. Also, the domestic debt will be at the peak of repayment in the coming few years. It is likely that more companies will choose offshore market financing in future.

Business Review

In 2017, we saw opportunities and potentials in the China's bond market especially the Chengtou Bonds market. We have transformed opportunities into sustainable progress through our continuing effort and the competence of our professional team. During FY2019, the issue size of the DCM projects we participated and the income generated from the DCM business have been soaring. Our DCM business is getting on track.

In 2018, we have obtained type 4 (advising on securities) and type 9 (asset management) regulated activities licenses under the SFO to further expand our business to asset management. In future, we would continue to obtain other relevant financial license(s) in order to provide more comprehensive services to our clients.

During FY2019, Bloomberg added Chinese Renminbi denominated government and policy bank securities to the Bloomberg Barclays Global Aggregate Index. The addition of these securities will be phased in over a 20-month period starting from April 2019. In 2020, J.P. Morgan Chase & Co. begins to include Chinese government bonds in its Global Bond Index-Emerging Markets Global Diversified benchmark index.

We can see that China is winning more recognitions from global bond investors. We will further expand our business by leveraging our strength in linking China and other Asian countries with the global financial market through facilitating the development of the DCM.

Brokerage and Placing Commission

Brokerage & margin financing

The business is carried on through IAL, a wholly-owns subsidiary of the Group, which in turn owns 100% equity interest in CWSI and CWF. CWSI and CWF are incorporated in Hong Kong with limited liability and are carrying on business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities, as the case may be, under the SFO.

During FY2019, the commission income from securities and futures dealing was approximately HK$9.7 million and the interest income from the securities margin financing was approximately HK$41.5 million. The Group will maintain its prudent credit policy and risk management approach with a view to achieve a sustainable business environment.

DCM business

The business is carried on through IAL, which in turn owns 100% equity interest in CWSI. CWSI is incorporated in Hong Kong with limited liability and is carrying on business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO.

The Group through CWSI has been providing DCM services to support debt financing need of China domiciled companies since July 2017. During FY2019, the Group has participated in 45 debt issues with roles of joint global coordinator, joint book-runner, joint lead manager or placing agent with an aggregate issue size of approximately US$9.8 billion. The debts were issued through either private or public offerings with coupon rates ranging from 3% to 11.25% per annum. According to the information published on Bloomberg as of 25 March 2020, CWSI ranked as the 39th manager in the issuance of offshore China bonds in 2019 based on the issuance volume credited to each involved party. During FY2019, the provision of DCM services has recorded a commission income of approximately HK$790.6 million. The Group will continue to strengthen our services in the coming year and broaden our service range with an aim to provide one stop service to our customers.

Asset management

The business is carried on through IAL, which in turn owns 100% equity interest in CWAM. CWAM is incorporated in Hong Kong with limited liability and is carrying on business in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

During FY2019, the Group provides investment management services on diversified and comprehensive investment products including private funds and discretionary accounts to individual, corporate and institutional clients. Currently, our investment fund, namely the Central Wealth Investment Fund SPC ("**CWIF**"), mainly focuses on the China's bond market as it is the third largest bond market in the world and offers attractive yield opportunities. It is expected that the market will continue to grow and transform with the global economy. The Group believes that it will become more capital market oriented and open to foreign investors. Besides, CWAM also served as an investment advisor for clients providing advice on equity funds, fixed income funds and other investment products.

About CWIF

CWIF is a segregated portfolio company incorporated in Cayman Islands with limited liabilities in June 2018. CWIF has seven segregated portfolios as at 31 December 2019. The investment objectives of CWIF are to achieve a high rate of return through capital appreciation and seek fixed income returns with a high degree of security.

Investment strategies

The investment manager seeks to achieve the investment objectives by investing in fixed income financial tools, fixed income instruments traded in the bond market, bond funds, money market funds, bond initial offerings, structured products and derivatives. The portfolios mainly invest in offshore U.S. dollar denominated bonds issued by Chinese institutions. The portfolios start to invest in onshore CNY corporate bonds as well. The investment manager will continue to diversify the investment portfolios when opportunities arise.

Fund growth

As at 31 December 2019, the assets under management have reached approximately US$310.2 million (31 December 2018: US$197.1 million). The management fee and performance fee income was approximately HK$16.2 million during FY2019.

Property Investments

The Group principally focuses on the luxury property investments in Hong Kong market and currently holds one luxury property located at No. 2 Lincoln Road, Kowloon Tong in Hong Kong ("**No. 2 Lincoln Road Property**"). During FY2019, the rental income from No. 2 Lincoln Road Property was approximately HK$1.4 million and the Group recorded a loss on revaluation of No. 2 Lincoln Road Property of HK$45 million. The Group will continue to monitor its property portfolio with an aim to generate a stable rental income and to achieve capital appreciation.

The Group has entered into a conditional formal agreement on 20 March 2020 to dispose of the No. 2 Lincoln Road Property. For details, please refer to the announcements published by the Group respectively dated 4 February 2020, 12 February 2020, 28 February 2020 and 23 March 2020.

Financial Investments and Services

Financial investments and trading

During FY2019, the Hang Seng Index started at 25,824.44 points and closed at 28,189.75 points. Despite the local stock market rebounded, the Group recorded unrealized fair value losses on equity investments at fair value through profit or loss of approximately HK$4.8 million.

As at 31 December 2019, the Group had debts investments at fair value through profit or loss of approximately HK$168.5 million. During FY2019, the interest income from debt investments amounted to approximately HK$7.1 million. The Group recorded unrealized fair value gains on debt investments at fair value through profit or loss of approximately HK$19.8 million.

Money lending business

During FY2019, the interest income from the money lending business was approximately HK$37.0 million. The net balance of loan book recorded an increase of approximately HK$57.2 million to approximately HK$356.7 million as compared to approximately HK$299.5 million as at 31 December 2018. The money lending business charged annual interest rates at a range from 5% to 12% (31 December 2018: range from 5% to 12%). The Group will continue to maintain its prudent credit policy and risk management approach with a view to achieve a sound financial management and sustainable business environment.

Prospects

U.S. and China signed a preliminary agreement of a "phase one" trade deal in January 2020. Under the agreement, China will boost its purchases of U.S. manufactured goods, agricultural products, energy and services over the next two years. Despite U.S. and China promise at least a cease-fire between the world's two biggest economies, the trade wars are far from over.

Global debts hit a record high in 2019, led by a surge in borrowings in U.S. and China. The global economy faced escalating risks from rising levels of corporate debt, with companies around the world needing to repay or refinance over the next few years.

The outbreak of new coronavirus recently has seriously damaged the global economy. The number of confirmed cases of the new coronavirus has overtaken the 2003 SARS outbreak in global, as the virus was confirmed to have spread across the world. The sudden restrictions on travel to and from the city and country could hit the global economy especially in the tourism and retail sales sectors. The economic impact will be significant if the virus continues to spread.

Besides, we shall not overlook the downside risks due to the expectation of U.S. interest hike and the threat of geopolitical tension which continue to cloud the global economic recovery. Also the Group will evaluate the economic impact of a weaker yuan as China may use it as the countermeasure to U.S. tariffs.

In light of these macroeconomic challenges, the Group will continue to stay alert, but positive, to pursue its prudent investment strategy in developing its existing and new businesses.

Financial Review

The Group for FY2019 recorded a revenue of approximately HK$947.7 million as compared to the revenue of approximately HK$174.5 million last year. The Group's revenue principally comprised the interest income from money lending business of approximately HK$37.0 million, commission income from provision of DCM services of approximately HK$790.6 million, commission income from securities and futures dealing of approximately HK$9.7 million, interest income from securities margin financing of approximately HK$41.5 million and property rental income of approximately HK$1.4 million.

The Group recorded other comprehensive loss of approximately HK$907.8 million for FY2019 (other comprehensive loss for the year ended 31 December 2018: approximately HK$1,052.1 million). It was mainly attributable to a fair value loss of approximately HK$901.1 million on equity investments at fair value through other comprehensive income (for the year ended 31 December 2018: approximately HK$943.8 million). As at 31 December 2019, the Group's net asset value was approximately HK$1,215.3 million (31 December 2018: HK$1,848.8 million).

Major Customers

During FY2019, the Group's largest customer and five largest customers accounted for approximately 37.07% and 68.04% respectively of the Group's total revenue. As far as the Directors are aware, none of the Directors, their associates or any Shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers of the Group.

Liquidity and Financial Resources

During FY2019, the Group generally financed its operation with internally generated cash flow, overdrafts, bank and other borrowings and other fund raising activities. The Group's cash and bank balances as at 31 December 2019 were approximately HK$99.2 million (31 December 2018: HK$100.9 million).

As at 31 December 2019, the Group had bank overdrafts of approximately HK$117.1 million (31 December 2018: HK$45.1 million), interest-bearing bank borrowings of approximately HK$261.3 million (31 December 2018: HK$298.7 million), interest-bearing other borrowings of approximately HK$429.9 million (31 December 2018: HK$472.2 million) and non-current notes payable of approximately HK$86.6 million (31 December 2018: HK$86.6 million).

As at 31 December 2019, the Group's current ratio was approximately 1.41 times (31 December 2018: 1.14 times) based on current assets of approximately HK$1,367.9 million (31 December 2018: HK$914.4 million) and current liabilities of approximately HK$966.9 million (31 December 2018: HK$799.1 million). As at 31 December 2019, the Group had no capital commitment (31 December 2018: Nil). The Group also had no other contingent liabilities (31 December 2018: Nil).

Capital Structure

As at 31 December 2019, the Group's gearing ratio was approximately 73.6% (31 December 2018: 48.82%). Gearing ratio equals total borrowings divided by net asset value as at the end of the reporting period. The total borrowings of approximately HK$894.9 million includes bank and other borrowings, bank overdraft and notes payable.

The Group's bank balance, borrowings and interest payment are mainly denominated in Hong Kong dollar and U.S. dollars. Most of the Group's revenue are made in U.S. dollars. Therefore, the exchange risks that the Group is exposed to are insignificant.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2019. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Significant Investments

As at 31 December 2019, the Group maintained a portfolio of investments including equity investments at fair value through other comprehensive income, equity and fund investments at fair value through profit or loss and debt investments at fair value through profit or loss with a total carrying amount of approximately HK$790.7 million.

The Directors consider that equity investments, debt investments and fund investments with a market value that account for more than 5% of the Group's net assets at the reporting date as significant investments. The details of the equity investments, debt investments and fund investments which accounted for more than 5% of the Group's net assets as at 31 December 2019 are set out below:

Significant Investments

Stock Code	Name of the investees	Percentage of shareholding in the listed securities held by the Group as at 31 December 2019	Percentage of the fair value of the investment in listed securities to total assets of the Group as at 31 December 2019	Fair value of the investment in listed securities as at 31 December 2019	Carrying value of the investment in listed securities as at 31 December 2019	Fair value gains/(losses) of the investment in listed securities as at 31 December 2019	Realised gain/(loss) for the year ended 31 December 2019
				HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments at fair value through other comprehensive income							
1141	CMBC Capital Holdings Limited	6.97%	19.60%	475,747	1,192,721	(716,974)	(97,899)
	Others	N/A	1.27%	30,903	123,462	(92,559)	(153,430)
	Total			506,650	1,316,183	(809,533)	(251,329)
Equity and fund investments at fair value through profit or loss							
1141	CMBC Capital Holdings Limited	0.48%	1.34%	32,410	52,127	(19,717)	–
	Others	N/A	3.42%	83,095	68,183	14,912	52
	Total			115,505	120,310	(4,805)	52
Debt investments at fair value through profit or loss*							
	Total			168,530	148,777	19,753	111

* *The debt investments are invested though Fortune China Bond SPII, none of the debt investments account for more than 5% of the Group's net assets at the reporting date.*

Performance and prospects of the investees

1. CMBC

The CMBC Group is principally engaged in (i) securities business, (ii) investment and financing and (iii) asset management and advisory business. As mentioned in its interim report for the six months ended 30 June 2019, the CMBC Group recorded a total revenue and other income of approximately HK$450.1 million for the six months ended 30 June 2019. The CMBC Group has reported a net profit of approximately HK$150.3 million attributable to owners of CMBC. The basic and diluted earnings per share were both HK0.32 cent. As at 30 June 2019, the audited consolidated net asset value of the CMBC Group was approximately HK$2,129.5 million. The CMBC Group has not declared an interim dividend for the six months ended 30 June 2019.

In May 2017, China Minsheng Bank became the ultimate controlling shareholder of CMBC and since then the CMBC Group started its rapid development. Subsequently in August 2017 and October 2017, the CMBC Group acquired the entire issued share capital of CMBC Capital Finance Limited and CMBC International Capital Limited, respectively and as a result, the CMBC Group is licensed to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, as well as the licensed money lending business and has all material licenses required for services expected to be required by most of its potential clients at current stage.

Leveraging on the strong reputation, expertise and capability of China Minsheng Bank, and the licenses it possesses, the CMBC Group has achieved rapid growth in its financial performance. The Company has strong confidence in the experienced and competent management team of CMBC that they can lead CMBC to perform much better in the future and improve the earnings. The management of the Group considers that the investment in CMBC is for long term purpose. However, the Group would not rule out the possibility of realizing the investments from time to time where to do so is to be in the best interests of the Group or where the terms on which such realization takes place would be particularly favorable to the Group.

As at 31 December 2019, the Group held 3,553,545,829 shares of CMBC. CMBC closed at HK$0.143 as at 31 December 2019 as compared to HK$0.325 as at 31 December 2018.

2. Fortune China Bond SP II

Fortune China Bond SP II now mainly invests in the U.S. dollar denominated bonds including the Chengtou Bonds issued by Chinese institutions. The coupon rates of the bonds range from 4.58% to 8.75% per annum with maturity period ranging from one year to perpetual.

The investment objectives of Fortune China Bond SP II are to achieve a high rate of return through capital appreciation and seek fixed income returns with a high degree of security. The investment manager seeks to achieve the investment objectives by investing in fixed income financial tools, fixed income instruments traded in the bond market, bond funds, money market funds, bond initial offerings, structured products and derivatives.

In recent years, the Chinese government has done a series of fruitful work in simplifying the overseas debt issuance approval process and procedures. It has further implemented measures in the area of bond connection, capital use, and financing leverage. The Chinese government maintains a relatively flexible regulatory policy for China's bond market and encourages Chinese companies to raise funds overseas. This helps accelerate the internationalization of Reminbi and Chinese enterprises.

Since China's bond yield is lower than that of last year, the return for investors is not attractive. Although the Chengtou Bonds is limited by its lower credit rating, it has local government's credit and pays a higher yield. It is expected that the demand and issuance of the Chengtou Bonds will rise in the future.

As at 31 December 2019, the Group held 4,945.2799 participating shares of Fortune China Bond SP II, representing approximately 29.26% interest of Fortune China Bond SP II.

Details of Charges on Assets

As at 31 December 2019, the Group had pledged certain listed equity investments of approximately HK$499.6 million (31 December 2018: HK$1,276.4 million) to secure the other borrowings. As at 31 December 2019, the Group had pledged its investment properties with a carrying amount of HK$390.0 million to secure the bank borrowings (31 December 2018: HK$435.0 million).

Change of Company Name and Stock Short Name

To better reflect the current status of the Group's business and its direction of future development, the Company's English name has been changed to "Central Wealth Group Holdings Limited" and the Company's secondary name in Chinese has been changed to "中達集團控股有限公司". Shares have been traded on the Stock Exchange under the new stock short name "CENTRALWEALTHGP" in English and "中達集團控股" in Chinese, with effect from 11 February 2019. The stock code of the Company remains unchanged as "139". For details, please refer to the announcements of the Company, respectively dated 29 November 2018, 27 December 2018 and 1 February 2019, and the circular of the Company dated 30 November 2018.

Employment, Training and Development

As at 31 December 2019, the Group had a total of 91 employees. The Group is committed to staff training and development and structured training programs for all employees. Remuneration packages are maintained at a competitive level and reviewed on a yearly basis. Bonuses and share options are awarded to certain employees according to individual performance and industry practice.

For the year ended 31 December 2020

Review of Results

The Group recorded a revenue of approximately HK$669.9 million for the year ended 31 December 2020 ("**FY2020**"), compared to a revenue of approximately HK$947.7 million for the year ended 31 December 2019. It was mainly attributable to the commission income generated from the provision of DCM services of approximately HK$469.2 million. The net profit before tax for FY2020 was approximately HK$35.4 million as compared to the net profit before tax of approximately HK$248.5 million for the year ended 31 December 2019. The significant decrease in revenue and net profit before tax for the year was mainly attributable to the outbreak of COVID-19 pandemic in 2020 and the resulting anti-epidemic measures and lockdowns, which have slowed down the progress of various projects of the Group in China.

The net profit after tax for FY2020 was approximately HK$27.8 million as compared to the profit after tax of approximately HK$208.4 million for the year ended 31 December 2019. Basic earnings per share attributable to owners of the Company for FY2020 was approximately HK0.18 cent (31 December 2019: approximately HK1.42 cents).

Economy Review

In 2020, COVID-19 outbreak began and rapidly evolved into a pandemic. To curb the spread of the disease, the governments of China, North America and most parts of the world have taken the stringent anti-epidemic measures including travel bans, social distancing, city and regional lockdowns in order to keep people apart and suppress the virus. The global economy was seriously disrupted and contracted sharply in FY2020, much worse than that in the global financial crisis in 2008.

For 2020 as a whole, Hong Kong's real GDP fell by 6.1% and the unemployment rate increased to approximately 6.6%. On a year-on-year basis, total exports of goods recorded accelerated growth in the fourth quarter due to the further revival of import demand in many major markets, especially China. However, exports of services plunged further as inbound tourism remained at standstill. Exports and imports trade were adversely affected by the weaker performance of the global economy and various external factors. Under the threat of COVID-19 pandemic and austere labour market conditions, domestic demand also decreased and private consumption expenditure stayed subdued, reflecting pessimistic local economic and consumer sentiment.

In line with real economy, the local stock market dropped significant as investor sentiment getting worse. In the first half year, the Hang Seng Index plunged by more than 6,000 points to the depth of 21,696 points and it recouped some losses and closed at 24,427 points at the end the first half. In the second half year, Hang Seng Index continued to rise by 2,804 points to 27,231 points at the end of 2020. The rising unemployment rate in city is putting pressure on local housing price. Hong Kong's property market remains resilient, but uncertainty persists.

The China's U.S. dollar bonds market was volatile, with the market sentiment hardly hit by the threat of COVID 19 pandemic. During FY2020, the issuance volume dropped sharply due to deteriorating investors' confidence and the increasing liquidity and credit risks. The market showed a significant rebound in June when the governments around the world stepped up a series of fiscal stimulus packages to restore the economy and inject liquidity in the financial markets. According to Bloomberg, the total issuance volume of U.S. dollar bonds, in the primary market for FY2020 was approximately US$211.5 billion, representing a decrease of approximately 4.66% compared to that of last year.

Business Review

Brokerage and Placing Commission

Brokerage & margin financing

The business is carried on through IAL, a wholly-owned subsidiary of the Group, which in turn owns 100% equity interest in CWSI and CWF. CWSI and CWF are incorporated in Hong Kong with limited liability and are carrying on business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities, as the case may be, under the SFO.

During FY2020, the commission income from securities and futures dealing was approximately HK$9.2 million (31 December 2019: HK$9.7 million) and the interest income from the securities margin financing was approximately HK$44.3 million (31 December 2019: HK$41.5 million). The Group will maintain its prudent credit policy and risk management approach with a view to achieve a sustainable business environment.

DCM business

The business is carried on through IAL, which in turn owns 100% equity interest in CWSI. CWSI is incorporated in Hong Kong with limited liability and is carrying on business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO.

In recognition of the robust potential in the China's U.S. dollar bonds market, the Group has established a foothold and teamed up to participate as a major player in this growing market in 2017. The market is principally classified into, by industry four business segments, namely industrial, property development, financial and urban construction investment.

During FY2020, the Group has so far participated in 58 debt issues with roles of joint global coordinator, joint book-runner, joint lead manager or placing agent with an aggregate issue size of approximately US$9.7 billion as at 31 December 2020. The debts were issued through either private or public offerings with coupon rates ranging from 2.3% to 13.75% per annum. According to the information published on Bloomberg in 2020, CWSI ranked as the 37th manager in the issuance of offshore China bonds for FY2020 based on the issuance volume credited to each involved party. During FY2020, the provision of DCM services has recorded a commission income of approximately HK$469.2 million. The Group will continue to strengthen our services in the coming period and broaden our service range with an aim to provide one stop service to our customers.

Asset management

The business is carried on through IAL, which in turn owns 100% equity interest in CWAM. CWAM is incorporated in Hong Kong with limited liability and is carrying on business in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

During FY2020, the Group engaged in the provision of investment management services on diversified and comprehensive investment products including private funds and discretionary accounts to individual, corporate and institutional clients. Currently, our investment fund, namely CWIF, mainly focuses on the China's bond market as it is the second largest bond market in the world and offers attractive yield opportunities. It is expected that the market will continue to grow and transform with the global economy. The Group believes that it will become more capital market oriented and open to foreign investors. Besides, CWAM also served as an investment advisor for clients providing advice on equity fund, fixed income funds and other investment products.

About CWIF

CWIF is a segregated portfolio company incorporated in Cayman Islands with limited liabilities in June 2018. CWIF has twelve segregated portfolios as at 31 December 2020. The investment objectives of CWIF are to achieve a high rate of return through capital appreciation and seek fixed income returns with a high degree of security.

Investment strategies

The investment manager seeks to achieve the investment objectives by investing in fixed income financial tools, fixed income instruments traded in the bond market, bond funds, money market funds, bond initial offerings, structured products and derivatives. The portfolios now mainly invest in offshore U.S. dollar denominated bonds issued by Chinese institutions. The investment manager will seek to diversify the investment portfolios when opportunities arise.

Fund growth

As at 31 December 2020, the assets under management have reached approximately US$714.1 million (31 December 2019: US$310.2 million). The management and advisory fee income is approximately HK$32.1 million during FY2020.

Property Investments

The Group principally focuses on the luxury property investment in Hong Kong market and did not hold any property as at 31 December 2020. The Group completed the disposal of one luxury property located at No. 2 Lincoln Road, Kowloon Tong, Hong Kong in July 2020. For details, please refer to the announcements published by the Company respectively dated 4 February 2020, 28 February 2020, 19 March 2020, 23 March 2020, 3 June 2020, 2 July 2020 and the circular of the Company dated 24 April 2020.

Financial Investments and Services

Financial investments and trading

During FY2020, the Hang Seng Index started at 28,249 points and closed at 27,231 points. Despite the local stock market rebounded, the Group recorded unrealized gain on equity and fund investments at fair value through profit or loss of approximately HK$42.5 million and realized losses on disposal of equity investments at fair value through profit or loss of approximately HK$19.3 million.

During FY2020, the Group had a unrealized fair value loss of debts investment at fair value through profit or loss of approximately HK$7.8 million and gain on disposal of debt investments at fair value through profit or loss of approximately HK$29.6 million, the interest income from debt investments amounted to approximately HK$17.0 million.

Money lending business

During FY2020, the interest income from the money lending business was approximately HK$36.7 million. The net balance of loan book recorded an increase of approximately HK$70.6 million to approximately HK$517.1 million as compared to approximately HK$446.5 million as at 31 December 2019. The money lending business charged annual interest rates at a range from 5% to 12% (31 December 2019: range from 5% to 12%). The Group will continue to maintain its prudent credit policy and risk management approach with a view to achieve a sound financial management and sustainable business environment.

Prospects

The outbreak of COVID-19 pandemic recently has seriously damaged the global economy. The number of confirmed cases of the COVID-19 has overtaken the 2003 SARS outbreak in global, as the virus was confirmed to have spread across the world.

COVID-19 vaccination campaigns are now under way across the world, it takes some time before a significant portion of the world's population gets vaccinated to at least slow down the transmission. Many developed and underdeveloped parts of the world simply lack the infrastructure to store and distribute the vaccine across millions of people. The economic impact will be significant if the spreading of virus cannot be controlled.

The United States Federal Reserve announced a list of measures to boost the global economy including setting near-Zero interest rates, Quantitative Easing measure, launching the Money Market Mutual Fund Liquidity Facility and supporting loans to corporation. It is expected that these kinds of measures can support global economy and limit economic damages from pandemic.

China has continuously improved various policies and system and actively promoted the integration of the bond market environment with international standards. At present, many overseas institutions have begun to set up research teams specializing in tracking China's bonds, and actively explore investment opportunities in China bond market. We believe that in the future, with gradual improvement of investment environment in the Mainland China bond market, foreign capital will further accelerate into it.

Besides, we shall not overlook the downside risks due to the expectation of U.S. interest hike and the threat of geopolitical tension which continue to cloud the global economic recovery. Also the Group will evaluate the economic impact of a weaker yuan as China may use it as the countermeasure to U.S. tariffs.

In light of these macroeconomic challenges, the Group will continue to stay alert, but positive, to pursue its prudent investment strategy in developing its existing and new businesses.

Financial Review

The Group for FY2020 recorded a revenue of approximately HK$669.9 million as compared to the revenue of approximately HK$947.7 million last year. The Group's revenue principally comprised the interest income from money lending business of approximately HK$36.7 million, commission income from provision of DCM services of approximately HK$469.2 million, commission income from securities and futures dealing of approximately HK$9.2 million, interest income from securities margin financing of approximately HK$44.3 million and management fee income from asset management business of approximately HK$72.1 million.

The Group recorded other comprehensive loss of approximately HK$46.3 million for FY2020 (31 December 2019: HK$907.8 million). It was mainly attributable to a fair value loss of approximately HK$46.3 million on equity investments at fair value through other comprehensive income (31 December 2019: HK$901.1 million). As at 31 December 2020, the Group's net asset value was approximately HK$1,277.3 million (31 December 2019: HK$1,215.3 million).

Major Customers

During FY2020, the Group's largest customer and five largest customers accounted for approximately 14.0% and 49% respectively of the Group's total revenue. As far as the Directors are aware, none of Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the five largest customers of the Group.

Liquidity and Financial Resources

During FY2020, the Group generally financed its operation with internally generated cash flow, overdrafts, bank and other borrowings and other fund raising activities. The Group's cash and bank balances as at 31 December 2020 were approximately HK$140.4 million (31 December 2019: HK$99.2 million).

As at 31 December 2020, the Group had bank overdrafts of approximately HK$86.4 million (31 December 2019: HK$117.1 million), interest-bearing bank borrowings of approximately HK$102.7 million (31 December 2019: HK$261.3 million), interest-bearing other borrowings of approximately HK$365.0 million (31 December 2019: HK$429.9 million) and non-current notes payable of approximately HK$86.6 million (31 December 2019: HK$86.6 million).

As at 31 December 2020, the Group's current ratio was approximately 1.51 times (31 December 2019: 1.41 times) based on current assets of approximately HK$1,788.7 million (31 December 2019: HK$1,367.9 million) and current liabilities of approximately HK$1,187.2 million (31 December 2019: HK$966.9 million). Capital commitments outstanding at 31 December 2020 not provided for in the Group's financial statements contracted for HK$3,590,000 which was solely related to office system development (31 December 2019: Nil). The Group also had no other contingent liabilities (31 December 2019: Nil).

Capital Structure

As at 31 December 2020, the Group's gearing ratio was approximately 50.2% (31 December 2019: 73.6%). Gearing ratio equals total borrowings divided by net asset value as at the end of the reporting period. The total borrowings of approximately HK$640.7 million includes bank and other borrowings, bank overdraft and notes payable.

The Group's bank balance, borrowings and interest payment are mainly denominated in Hong Kong and U.S. dollars. Most of the Group's revenue are made in Hong Kong dollars and U.S. dollars. Therefore, the exchange risks that the Group is exposed to are insignificant.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2020. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Significant Investments

As at 31 December 2020, the Group maintained a portfolio of investments including equity investments at fair value through other comprehensive income, equity and fund investments at fair value through profit or loss and debt investments at fair value through profit or loss with a total carrying amount of approximately HK$960.1 million. The Directors consider that equity investments, debt investments and fund investments with a market value that account for more than 5% of the Group's net assets at the reporting date as significant investments. The details of the equity investments, debt investments and fund investments which accounted for more than 5% of the Group's net assets as at 31 December 2020 are set out below:

Significant Investments

Stock Code	Name of the investees	Percentage of shareholding in investments held by the Group as at 31 December 2020	Percentage of the investments to total assets of the Group as at 31 December 2020	Fair value of investments as at 31 December 2020	Carrying value of investments as at 31 December 2020	Fair value gains/ (losses) of investments as at 31 December 2020	Realised gain/ (losses) for the year ended 31 December 2020
				HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments at fair value through other comprehensive income							
412	China Shandong Hi-Speed Financial Group Limited	2.34%	8.62%	220,054	208,889	11,165	–
1141	CMBC Capital Holdings Limited	1.91%	4.79%	122,155	270,333	(148,178)	(611,358)
	Others	N/A	0.09%	2,350	4,926	(2,576)	(100,336)
	Total			344,559	484,148	(139,589)	(711,694)
Equity and fund investments at fair value through profit or loss							
708	China Evergrande New Energy Vehicle Group Limited	0.04%	3.68%	93,817	75,564	18,253	1,871
1141	CMBC Capital Holdings Limited	1.19%	2.98%	76,128	74,242	1,886	542
	Others#	N/A	7.98%	203,704	181,360	22,344	2,352
	Total			373,649	331,166	42,483	4,765
Debt investments at fair value through profit or loss*							
	Total	N/A	9.48%	241,919	249,675	(7,756)	–

\# *None of the equity and fund investments account for more than 5% of the Group's net assets at the reporting date.*

* *None of the debt investments account for more than 5% of the Group's net assets at the reporting date.*

Performance and prospects of the investees

1. China Shandong

The China Shandong Group is principally engaged in the trading business of financial leasing, leasing assets as well as other related leasing properties, and provision of spot trading platform and marketing and consulting services related to the above businesses.

As mentioned in its interim report for the six months ended 30 June 2020, the China Shandong Group recorded a total revenue and other income of approximately HK$647.3 million for the six months ended 30 June 2020. The China Shandong Group has reported a net loss of approximately HK$65.6 million attributable to owners of China Shandong. The basic and diluted loss per share were both HK$0.27 cents. As at 30 June 2020, the unaudited consolidated net asset of the China Shandong Group was approximately HK$9,717.3 million. The China Shandong Group has not declared an interim dividend for the six months ended 30 June 2020.

The China Shandong Group actively developed in line with the China's industrial policies, explored different high-quality investment opportunities in the countries along the "Belt and Road" Initiative and the Greater Bay Area. As disclosed in its interim report, it has reached a strategic cooperation agreement with Shandong Hi-Speed Hubei Development Co., Ltd. The two parties also made use of their respective advantages and resources to achieve mutual benefit and common development, carried out cooperation based on market-oriented operation methods.

The Company has confidence that the China Shandong Group can further improve its asset-liability structure and the stability of profitability. The management of the Group considers that the investment in China Shandong is for long term purpose. However, the Group would not rule out the possibility of realizing the investments from time to time where to do so is to be in the best interests of the Group or where the terms on which such realization takes place would be particularly favorable to the Group.

As at 31 December 2020, the Group held 564,242,000 shares of China Shandong. China Shandong closed at HK$0.39 as at 31 December 2020.

2. CMBC

The CMBC Group is principally engaged in (i) securities business, (ii) investment and financing and (iii) asset management and advisory business. As mentioned in its interim report for the six months ended 30 June 2020, the CMBC Group recorded a total revenue and other income of approximately HK$509.1 million for the six months ended 30 June 2020. The CMBC Group has reported a net profit of approximately HK$165.5 million attributable to owners of CMBC. The basic and diluted earnings per share were both HK0.35 cent. As at 30 June 2020, the unaudited consolidated net asset value of the CMBC Group was approximately HK$2,109.9 million. CMBC Group has not declared an interim dividend for the six months ended 30 June 2020.

In May 2017, China Minsheng Bank became the ultimate controlling shareholder of CMBC and since then the CMBC Group started its rapid development. Subsequently in August 2017 and October 2017, the CMBC Group acquired the entire issued share capital of CMBC Capital Finance Limited and CMBC International Capital Limited, respectively and as a result, the CMBC Group is licensed to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, as well as the licensed money lending business and has all material licenses required for services expected to be required by most of its potential clients at current stage.

Leveraging on the strong reputation, expertise and capability of China Minsheng Bank, and the licenses it possesses, the CMBC Group has achieved rapid growth in its financial performance. The Company has strong confidence in the experienced and competent management team of CMBC that they can lead CMBC to perform much better in the future and improve the earnings. The management of the Group considers that the investment in CMBC is for long term purpose. However, the Group would not rule out the possibility of realizing the investments from time to time where to do so is to be in the best interests of the Group or where the terms on which such realization takes place would be particularly favorable to the Group.

As at 31 December 2020, the Group held 1,479,725,829 shares of CMBC. CMBC closed at HK$0.134 as at 31 December 2020 as compared to HK$0.143 as at 31 December 2019.

3. China Evergrande New Energy Vehicle Group Limited ("**CENEV**")

CENEV together with its subsidiaries (the "**CENEV Group**") are principally engaged in technology research and development and production of, and sales services of new energy vehicles in China and in other countries, as well as health management businesses including "**Internet+**" community health management, international hospitals, elderly care and rehabilitation in China. As mentioned in its interim report for the six months ended 30 June 2020, the CENEV Group recorded a total revenue and other income of approximately RMB4,499 million for the six months ended 30 June 2020. The CENEV Group has reported a net loss of approximately RMB2,273.9 million attributable to owners of the CENEV Group. The basic and diluted loss per share were both RMB26.319 cents. As at 30 June 2020, the unaudited consolidated net liabilities of the CENEV Group was approximately RMB5,697.5 million. CENEV Group has not declared an interim dividend for the six months ended 30 June 2020.

The CENEV Group's entry into the new energy vehicle industry marks an important milestone to actively implement the strategy of building up a strong technological nation, as well as to protect the environment and benefit the mass public. CENEV adheres to its development direction of "achieving world-leading core technology and world-class product quality while sustaining significant cost reduction", and possesses top-tier technology research & development teams and innovation capabilities.

The CENEV Group also proactively implements the national strategy of "Healthy China". Adhering to its corporate vision of "enhancing the healthy living standards for the general public", and centering on the healthcare needs of the general public, the CENEV Group has created a membership mechanism for all-round healthy life for all-age population, and established a multi-level hierarchical medical, high-precision health management, all-age health care and diversified elderly care system, thereby enhancing the healthy living standards for the general public.

The Company has confidence in the experienced and competent management team of the CENEV Group that they can lead CENEV to perform much better in the future and improve the earnings. The Group would not rule out the possibility of realizing the investments from time to time where to do so is to be in the best interests of the Group or where the terms on which such realization takes place would be particularly favorable to the Group.

As at 31 December 2020, the Group held 3,106,500 shares of CENEV. CENEV closed at HK$30.2 as at 31 December 2020.

4. Fortune China Bond SP II

Fortune China Bond SP II now mainly invests in the U.S. dollar denominated bonds including the Chengtou Bonds issued by Chinese institutions. The coupon rates of the bonds range from 4.875% to 8.75% per annum with maturity period ranging from three years to perpetual.

The investment objectives of Fortune China Bond SP II are to achieve a high rate of return through capital appreciation and seek fixed income returns with a high degree of security. The investment manager seeks to achieve the investment objectives by investing in fixed income financial tools, fixed income instruments traded in the bond market, bond funds, money market funds, bond initial offerings, structured products and derivatives.

In recent years, the Chinese government has done a series of fruitful work in simplifying the overseas debt issuance approval process and procedures. It has further implemented measures in the area of bond connection, capital use, and financing leverage. The Chinese government maintains a relatively loose regulatory policy for China's bond market and encourages Chinese companies to raise funds overseas. This helps accelerate the internationalization of Reminbi and Chinese enterprises.

Since China's bond yield is lower than that of last year, the return for investors is not attractive. Although the Chengtou Bonds is limited by its lower credit rating, it has local government's credit and pays a higher yield. It is expected that the demand and issuance of the Chengtou Bonds will rise in the future.

As at 31 December 2020, the Group held 6,999.265 shares of Fortune China Bond SP II, representing approximately 40.64% of shares of Fortune China Bond SP II.

Details of Charges on Assets

As at 31 December 2020, the Group had pledged certain listed equity and debt investments of approximately HK$174.2 million (31 December 2019: HK$505.6 million) to secure the other borrowings. As at 31 December 2020, the Group did not pledged its investment property to secure the bank borrowings (31 December 2019: HK$390.0 million).

Employment, Training and Development

As at 31 December 2020, the Group had a total of 106 employees. The Group is committed to staff training and development and structured training programs for all employees. Remuneration packages are maintained at a competitive level and reviewed on a periodic basis. Bonuses and share options are awarded to certain employees according to individual performance and industry practice.

For the six months ended 30 June 2021

Review of Results

The Group recorded a revenue of approximately HK$127.3 million for the six months ended 30 June 2021 (the "**Period**"), compared to a revenue of approximately HK$374.6 million for the six months ended 30 June 2020. It was mainly attributable to the commission income generated from the provision of DCM services of approximately HK$43.6 million. The net loss before tax for the Period was approximately HK$136.2 million as compared to the profit before tax of approximately HK$26.2 million for the six months ended 30 June 2020. The turnaround from profit to loss was mainly attributable to (i) the significant decrease in revenue from the provision of DCM services by approximately HK$256.8 million, (ii) recognition of unrealized fair value loss on equity and fund investments at fair value through profit or loss of approximately HK$50.6 million, and (iii) recognition of equity-settled share option arrangement of approximately HK$11.9 million.

The net loss after tax for the Period was approximately HK$138.5 million as compared to the net profit after tax of approximately HK$6.0 million for the six months ended 30 June 2020. Basic loss per Share attributable to owners of the Company for the Period was approximately HK0.87 cent (30 June 2020: basic earnings per Share of approximately HK0.04 cent).

Economy Review

In the first half of 2021, COVID-19 cases fell across much of the world which signalled a new dawn in the fight of the disease. Vaccines are proving effective and most of the world have taken the stringent anti-epidemic measures including travel bans, social distancing, city and regional lockdowns in order to keep people apart and suppress the virus. The global economy gradually recovered.

In Hong Kong, the economy recovered visibly in the first half of 2021. The seasonally adjusted unemployment rate decreased to 6.0% from March to May 2021. However, the economic recovery was uneven and overall economic activity remained below the pre-recession level, as the pandemic, social distancing measures and travel restrictions continued to weigh on certain economic segments.

In line with real economy, the local stock market rebounded as investor sentiment getting better. Global equity had a very strong quarterly performance, amid the economic recoveries and rising inflationary expectations, which had resulted in continuous rotation from bonds to stocks.

In the China's U.S. dollar bonds market, the issuance volume in the first half of year 2021 reached its peak in January, hit the bottom in the next two months, and resumed steadily from April. The issuance of China U.S. dollars bonds mainly concentrated in real estate financial institutions and urban construction investments. According to Bloomberg, the total issuance volume of the China's U.S. dollar bonds, in the primary market for the Period was approximately US$104.6 billion, representing an increase of approximately 4.09% compared to corresponding period last year.

Business Review

Brokerage & margin financing

The business is carried on through IAL, a wholly owned subsidiary of the Group, which in turn owns 100% equity interest in CWSI and CWF. CWSI and CWF are incorporated in Hong Kong with limited liability and are carrying on business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities, as the case may be, under the SFO.

During the Period, the commission income from securities and futures dealing was approximately HK$5.7 million (30 June 2020: HK$3.3 million) and the interest income from the securities margin was approximately HK$17.0 million (30 June 2020: HK$22.2 million). The Group will maintain its prudent credit policy and risk management approach with a view to achieve a sustainable business environment.

DCM business

The business is carried on through IAL, which in turn owns 100% equity interest in CWSI. CWSI is incorporated in Hong Kong with limited liability and is carrying on business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO.

In recognition of the robust potential of the China U.S. dollar bonds market, the Group has established a foothold and teamed up to participate as a major player in this growing market in 2017. The market is principally classified into, by industry four business segments, namely industrial, property development, financial and urban construction investment.

During the Period, the Company has so far participated in 21 debt issues with roles of joint global coordinator, joint book-runner, joint lead manager or placing agent with an aggregate issue size of approximately US$4,173 million as at 30 June 2021. The debts were issued through either private or public offerings with coupon rates ranging from 2.5% to 14% per annum. According to the information published on Bloomberg in 2021, CWSI ranked as the 50th manager in the issuance of offshore China bonds in the first half of 2021 based on the issuance volume credited to each involved party. During the Period, the provision of DCM services has recorded a commission income of approximately HK$43.6 million. The Group will continue to strengthen our services in the coming period and broaden our service range with an aim to provide one stop service to our customers.

Asset management

The business is carried on through IAL, which in turn owns 100% equity interest in CWAM. CWAM is incorporated in Hong Kong with limited liability and is carrying on business in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

During the Period, the Group engages in the provision of investment management services on diversified and comprehensive investment products including private funds and discretionary accounts to individual, corporate and institutional clients. Currently, our investment fund, namely CWIF, mainly focuses on the China's bond market as it is the second largest bond market in the world and offers attractive yield opportunities. It is expected that the market will continue to grow and transform with the global economy. The Group believes that it will become more capital market oriented and open to foreign investors. Besides, CWAM also served as an investment advisor for clients providing advice for equity fund, fixed income funds and other investment products.

About CWIF

CWIF is a segregated portfolio company incorporated in Cayman Islands with limited liabilities in June 2018. CWIF has twelve segregated portfolios as at 30 June 2021. The investment objectives of CWIF are to achieve a high rate of return through capital appreciation and seek fixed income returns with a high degree of security.

Investment strategies

The investment manager seeks to achieve the investment objectives by investing in fixed income financial tools, fixed income instruments traded in the bond market, bond funds, money market funds, bond initial offerings, structured products and derivatives. The portfolios now mainly invest in offshore U.S. dollar denominated bonds issued by Chinese institutions. The investment manager will seek to diversify the investment portfolios when opportunities arise.

Fund growth

As at 30 June 2021, the assets under management have reached approximately US$617.6 million (31 December 2020: US$714.1 million). The management and advisory fee income was approximately HK$16.2 million during the Period.

Financial Investments and Services

Financial investments and trading

During the Period, the Hang Seng Index started at 27,087 points and closed at 28,828 points. Despite the local stock market rebounded, the Group recorded unrealized loss on equity and fund investments at fair value through profit or loss of approximately HK$50.6 million and an realized gain on disposal of equity and fund investments at fair value through profit and loss of approximately HK$24.3 million.

During the Period, the Group had an unrealized fair value gain of debt investments at fair value through profit or loss of approximately HK$7.2 million and realised losses on disposal of debt investments at fair value through profit or loss of approximately HK$7.9 million. During the Period, the interest income from debt investments amounted to approximately HK$6.8 million.

Money lending business

During the Period, the interest income from the money lending business was approximately HK$20.3 million. The net balance of loan book recorded an increase of approximately HK$59.1 million to approximately HK$576.2 million as compared to approximately HK$517.1 million as at 31 December 2020. The money lending business charged annual interest rates at a range from 5% to 9% (30 June 2020: range from 5% to 12%). The Group will continue to maintain its prudent credit policy and risk management approach with a view to achieve a sound financial management and sustainable business environment.

Prospects

The global economy was in a better shape at the start of the second half of 2021, thanks to a combination of mass vaccination campaigns and the flexible fiscal policies from major economies. The government and business units have made continuous adaptation of economic activity to subdued mobility. Economic are more likely to pick up in the second half of 2021. China and Hong Kong are expected to be benefited further from reopening, strong corporate earnings and performance.

However, we shall not overlook the downside risks due to the expectation of U.S. interest hike and the threat of geopolitical tension which continue to cloud the global economic recovery. Also, the Group will evaluate the economic impact of a weaker yuan as China may use it as the countermeasure to U.S. tariffs.

In light of these macroeconomic challenges, the Group will continue to stay alert, but positive, to pursue its prudent investment strategy in developing its existing and new businesses.

Financial Review

The Group for the Period recorded a revenue of approximately HK$127.3 million as compared to the revenue of approximately HK$374.6 million last period. The Group's revenue principally comprised the interest income from money lending business of approximately HK$20.3 million, commission income from provision of DCM services of approximately HK$43.6 million, commission income from securities and futures dealing of approximately HK$5.7 million and interest income from securities margin of approximately HK$17.0 million and interest income from debt investments of approximately HK$6.8 million.

The Group recorded net other comprehensive loss of approximately HK$1.4 million for the Period (net other comprehensive gain for the six months ended 30 June 2020: approximately HK$24.4 million). It was mainly attributable to a fair value loss of approximately HK$1.4 million on equity investments at fair value through other comprehensive income (for the six months ended 30 June 2020: fair value gain of approximately HK$24.4 million). As at 30 June 2021, the Group's net asset value was approximately HK$1,149.9 million (31 December 2020: HK$1,277.3 million).

Liquidity and Financial Resources

During the Period, the Group generally financed its operation with internally generated cash flow, overdrafts, bank and other borrowings and other fund-raising activities. The Group's cash and bank balances as at 30 June 2021 were approximately HK$83.2 million (31 December 2020: HK$140.4 million).

As at 30 June 2021, the Group had bank overdrafts of approximately HK$63.3 million (31 December 2020: HK$86.4 million), interest-bearing bank borrowings of approximately HK$95.5 million (31 December 2020: HK$102.7 million), interest-bearing other borrowings of approximately HK$332.9 million (31 December 2020: HK$365.0 million) and non-current notes payable of approximately HK$86.6 million (31 December 2020: HK$86.6 million).

As at 30 June 2021, the Group's current ratio was approximately 1.63 times (31 December 2020: 1.51 times) based on current assets of approximately HK$1,322.5 million (31 December 2020: HK$1,788.7 million) and current liabilities of approximately HK$809.1 million (31 December 2020: HK$1,187.2 million). As at 30 June 2021, the Group had no capital commitment (31 December 2020: Nil). The Group also had no other contingent liabilities (31 December 2020: Nil).

Capital Structure

As at 30 June 2021, the Group's gearing ratio was approximately 50.3% (31 December 2020: 50.2%). Gearing ratio equals total borrowings divided by net asset value as at the end of the reporting period. The total borrowings of approximately HK$578.3 million includes bank and other borrowings, bank overdraft and notes payable.

The Group's bank balance, borrowings and interest payment are mainly denominated in Hong Kong and U.S. dollars. Most of the Group's revenue are made in Hong Kong dollars and U.S. dollars. Therefore, the exchange risks that the Group is exposed to are insignificant.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Significant Investments

As at 30 June 2021, the Group maintained a portfolio of investments including equity investments at fair value through other comprehensive income, equity and fund investments at fair value through profit or loss and debt investments at fair value through profit or loss with total carrying amount of approximately HK$639.8 million. The Directors consider that equity investments, debt investments and fund investments with a market value that account for more than 5% of the Group's net assets at the reporting date as significant investments. The details of the portfolio of equity investments, fund investments and debt investments as at 30 June 2021 are set out as follows:

Stock Code	Name of the investees	Percentage of shareholding in investments held by the Group as at 30 June 2021	Percentage of the investments to total assets of the Group as at 30 June 2021	Fair value of investments as at 30 June 2021	Carrying value of investments as at 30 June 2021	Fair value gains/ (losses) of investments as at 30 June 2021	Realised gain/ (losses) for the period ended 30 June 2021
				HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments at fair value through other comprehensive income							
412	China Shandong Hi-Speed Financial Group Limited	2.34%	12.27%	251,088	208,889	42,199	–
	Others	N/A	1.71%	34,953	94,181	(59,228)	(123,935)
	Total			286,041	303,070	(17,029)	(123,935)
Equity and fund investments at fair value through profit or loss							
708	China Evergrande New Energy Vehicle Group Limited	0.02%	2.90%	59,231	83,777	(24,546)	31,555
	Others#	N/A	5.90%	120,802	146,856	(26,054)	7,507
	Total			180,033	230,633	(50,600)	39,062
Debt investments at fair value through profit or loss*							
	Total	N/A	8.49%	173,741	166,545	7,196	–
	Grand total			639,815	700,248	(60,433)	(84,873)

\# *None of the equity and fund investments account for more than 5% of the Group's net assets at the reporting date.*

* *None of the debt investments account for more than 5% of the Group's net assets at the reporting date.*

Performance and prospects of the investees

1. China Shandong

The China Shandong Group is principally engaged in the financial leasing, money lending, asset management, operation of an asset trading platform, financial investments, financial technology and related financial services.

As mentioned in its annual report for the year ended 31 December 2020, the China Shandong Group recorded a total revenue and other income of approximately HK$1,318.5 million for the year ended 31 December 2020. The China Shandong Group has reported a net loss for the year of approximately HK$18.3 million. The basic and diluted loss per share were both HK1.17 cents. As at 31 December 2020, the audited consolidated net asset of the China Shandong Group was approximately HK$9,656.7 million. The China Shandong Group has not declared any dividend for the year ended 31 December 2020.

The China Shandong Group developed in line with the China's industrial policies, explored different high-quality investment opportunities in the countries along the "Belt and Road" Initiative and the Greater Bay area. Moreover, with the strong support of its controlling shareholder, Shandong Hi-Speed Group Co., Ltd, with value of assets exceeding RMB one trillion, its market credibility and reputation have been significantly enhanced, and its competitive advantage is strengthened.

The Company has confidence that the China Shandong Group can further improve its asset-liability structure and the stability of probability. The management of the Group considers that the investment in China Shandong is for long term purpose. However, the Group would not rule out the possibility of realizing the investments from time to time where to do so is to be in the best interest of the Group or where the term on which such realization takes place would be particularly favorable to the Group.

As at 30 June 2021, the Group held 564,242,000 shares of China Shandong. China Shandong closed at HK$0.445 as at 30 June 2021.

2. CENEV

The CENEV Group is principally engaged in technology research and development and production of, and sales services of new energy vehicles in China and in other countries, as well as health management businesses including "Internet+" community health management, international hospitals, elderly care and rehabilitation in China. As mentioned in its annual report for the year ended 31 December 2020, the CENEV Group recorded a total revenue of approximately RMB15,486.6 million for the year ended 31 December 2020. The CENEV Group has reported a net loss of approximately RMB7,664.9 million attributable to owners of the CENEV Group. The basic and diluted loss per share were both RMB85.1 cents. As at 31 December 2020, the audited consolidated net liabilities of the CENEV Group was approximately RMB5,838.5 million. The CENEV Group has not declared an final dividend for the year ended 31 December 2020.

The CENEV Group's entry into the new energy vehicle industry marks an important milestone to actively implement the strategy of building up a strong technological nation, as well as to protect the environment and benefit the mass public. CENEV adheres to its development direction of "achieving world-leading core technology and world-class product quality while sustaining significant cost reduction", and possesses top-tier technology research & development teams and innovation capabilities.

The CENEV Group also proactively implements the national strategy of "Healthy China". Adhering to its corporate vision of "enhancing the healthy living standards for the general public", and centering on the healthcare needs of the general public, the CENEV Group has created a membership mechanism for all-round healthy life for all-age population, and established a multi-level hierarchical medical, high-precision health management, all-age health care and diversified elderly care system, thereby enhancing the healthy living standards for the general public.

The Company has confidence in the experienced and competent management team of the CENEV Group that they can lead CENEV to perform much better in the future and improve the earnings. The Group would not rule out the possibility of realizing the investments from time to time where to do so is to be in the best interests of the Group or where the terms on which such realization takes place would be particularly favorable to the Group.

As at 30 June 2021, the Group held 2,049,500 shares of CENEV. CENEV closed at HK$28.9 as at 30 June 2021.

3. Fortune China Bond SP II

Fortune China Bond SP II now mainly invests in the U.S. dollar denominated bonds including the Chengtou Bonds issued by Chinese institutions. The coupon rates of the bonds as at 30 June 2021 are 7.8% per annum with maturity periods of three years.

The investment objectives of Fortune China Bond SP II are to achieve a high rate of return through capital appreciation and seek fixed income returns with a high degree of security. The investment manager seeks to achieve the investment objectives by investing in fixed income financial tools, fixed income instruments traded in the bond market, bond funds, money market funds, bond initial offerings, structured products and derivatives.

In recent years, the Chinese government has done a series of fruitful work in simplifying the overseas debt issuance approval process and procedures. It has further implemented measures in the area of bond connection, capital use, and financing leverage. The Chinese government maintains a relatively loose regulatory policy for China's bond market and encourages Chinese companies to raise funds overseas. This helps accelerate the internationalization of Reminbi and Chinese enterprises.

Since China's bond yield is lower than that of last year, the return for investors is not attractive. Although the Chengtou Bonds is limited by its lower credit rating, it has local government's credit and pays a higher yield. It is expected that the demand and issuance of the Chengtou Bonds will rise in the future.

As at 30 June 2021, the Group held 7,363 shares of Fortune China Bond SP II, representing approximately 54.01% of shares of Fortune China Bond SP II.

Details of Charges on Assets

As at 30 June 2021, the Group had pledged certain listed equity investments of approximately HK$55.6 million (31 December 2020: HK$174.2 million) to secure the other borrowings. The Group had pledged listed equity investments and debt investments held by certain margin clients of approximately HK$256.7 million to secure the bank overdraft and bank borrowings (31 December 2020: HK$343.7 million).

Employment, Training and Development

As at 30 June 2021, the Group had a total of 114 employees. The Group is committed to staff training and development and structured training programs for all employees. Remuneration packages are maintained at a competitive level and reviewed on a periodic basis. Bonuses and share options are awarded to certain employees according to individual performance and industry practice.

Set out below are the published financial information of the CMBC Group comprising (i) the consolidated statements of profit or loss and other comprehensive income for the three years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021, (ii) the consolidated statements of financial position of the CMBC Group as at 31 December 2018, 31 December 2019, 31 December 2020 and 30 June 2021, (iii) the consolidated statements of changes in equity and (iv) consolidated statements of cash flows of the CMBC Group for each of the corresponding periods then ended, which were all extracted from the annual reports and interim report (as the case may be) of the CMBC Group for the respective periods. In the opinions of the independent auditor of the CMBC Group as stated in the respective annual reports of the CMBC Group, the consolidated financial statements of the CMBC Group for each of the years ended 31 December 2018, 2019 and 2020 give a true and fair view of the consolidated financial position of the CMBC Group and of the consolidated financial performance and cash flows of the CMBC Group for each of the years then ended.

The Directors noted that the consolidated financial statements of CMBC and the Company for the three years ended 31 December 2020 have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA, the condensed consolidated interim financial information of CMBC and the Company for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard 34 ''Interim Financial Reporting'' issued by the HKICPA and that the principal accounting policies and accounting standards adopted by CMBC in the preparation of its consolidated financial statements are materially consistent with those adopted by the Company in the preparation of its consolidated financial statements.

The financial information of the CMBC Group contained in this Appendix appears for information purposes only. The Directors take no responsibility for the financial information of the CMBC Group, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the financial information of the CMBC Group contained in this Appendix.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June 2021	2020	2019	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)			
Revenue	461,012	1,019,185	978,683	791,190
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss ("**FVTPL**")	77,208	150,975	123,760	(57,365)
Net losses on financial assets at fair value through other comprehensive income ("**FVOCI**")	(106,221)	(84,204)	(32,632)	(15,799)
Net losses on financial assets at amortised cost	76	(18,972)	–	–
Other income	6,648	16,515	10,608	7,947
Other gains and losses	11	2,615	(6,315)	(389)
Impairment losses	(34,768)	(113,614)	(116,011)	(33,965)
Staff costs	(38,552)	(89,126)	(119,644)	(71,775)
Depreciation and amortisation	(13,875)	(27,718)	(29,704)	(6,280)
Other operating expenses	(25,852)	(51,998)	(60,494)	(66,800)
Finance costs	(91,879)	(318,478)	(323,011)	(262,029)
Profit before taxation	233,808	485,180	425,240	284,737
Taxation	(32,619)	(91,960)	(68,377)	(39,541)
Profit for the year attributable to owners of the Company	201,189	393,220	356,863	245,196
Profit for the year attributable to owners of the Company	201,189	393,220	356,863	245,196
Other comprehensive income				
Item that will not be reclassified to profit or loss:				
– Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	9,202	34,517	56,387	(57,555)
Item that may be reclassified subsequently to profit or loss:				
– Financial assets at fair value through other comprehensive income – net movement in fair value reserve (recycling)	93,346	114,270	32,314	(275,804)
Other comprehensive income for the year, net of tax	102,548	148,787	88,701	(333,359)
Total comprehensive income for the year attributable to owners of the Company	303,737	542,007	445,564	(88,163)
Earnings per share attributable to owners of the Company *(HK cents)*				
– Basic	0.42	0.83	0.75	0.53
– Diluted	0.42	0.83	0.75	0.53

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2021 *HK$'000*	As at 31 December 2020 *HK$'000*	As at 31 December 2019 *HK$'000*	As at 31 December 2018 *HK$'000*
Non-current assets				
Property, plant and equipment	8,305	9,418	11,926	3,130
Right-of-use asset	81,749	93,428	116,785	–
Goodwill	16,391	16,391	16,391	16,391
Intangible assets	1,417	2,103	3,474	4,845
Loans and advances	77,821	–	357,822	880,260
Financial assets at amortised cost	61,906	77,272	77,574	–
Deferred tax assets	2,052	1,383	13,520	922
Other assets	10,505	10,138	10,184	10,183
	260,146	210,133	607,676	915,731
Current assets				
Accounts receivable	1,496,266	502,816	601,243	1,228,278
Prepayments, deposits and other receivables	244,219	35,339	55,773	30,383
Interests receivable	165,478	119,836	147,676	67,648
Amount due from an intermediate holding company	12,269	–	4,109	243
Loans and advances	696,413	1,485,217	1,852,889	3,114,777
Financial assets at fair value through other comprehensive income	8,137,320	6,835,510	6,888,906	3,006,050
Financial assets at amortised cost	–	–	93,504	–
Financial assets at fair value through profit or loss	2,318,683	1,240,808	952,053	1,056,979
Cash held on behalf of customers	230,454	357,370	35,279	134,047
Cash and cash equivalents	941,100	378,170	400,708	887,579
	14,242,202	10,955,066	11,032,140	9,525,984

	As at 30 June 2021 HK$'000	As at 31 December 2020 HK$'000	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Current liabilities				
Accounts payable	268,089	359,441	38,958	369,693
Other payables and accruals	276,659	83,147	145,329	58,683
Amount due to an intermediate holding company	–	5,927	–	–
Loans from an intermediate holding company	4,270,438	–	–	–
Bank and other borrowings	–	4,446,443	5,748,468	6,653,340
Notes payable	1,403,126	–	50,000	99,216
Tax payable	48,563	20,831	82,510	25,925
Financial assets sold under repurchase agreements	5,190,368	3,390,747	3,180,420	1,170,680
Financial liabilities at fair value through profit or loss	345	93,922	27,977	130,149
Dividend payable	157,001	–	–	–
Lease liabilities	27,388	27,388	27,388	–
	11,641,977	8,427,846	9,301,050	8,507,686
Net current assets	2,600,225	2,527,220	1,731,090	1,018,298
Total assets less current liabilities	2,860,371	2,737,353	2,338,766	1,934,029
Non-current liabilities				
Notes payable	–	–	–	50,000
Lease liabilities	57,426	66,670	91,012	–
Deferred tax liabilities	64,583	70,715	25,511	7,953
	122,009	137,385	116,523	57,953
NET ASSETS	2,738,362	2,599,968	2,222,243	1,876,076
CAPITAL AND RESERVES				
Share capital	475,537	476,279	476,792	477,059
Reserves	2,262,825	2,123,689	1,745,451	1,399,017
TOTAL EQUITY	2,738,362	2,599,968	2,222,243	1,876,076

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital *HK$'000*	Share premium *HK$'000* *(Note a)*	Contributed surplus *HK$'000* *(Note b)*	Fair value reserve (recycling) *HK$'000*	Fair value reserve (non-recycling) *HK$'000*	Other reserve *HK$'000* *(Note c)*	Accumulated profit/(losses) *HK$'000*	Total *HK$'000*
At 1 January 2018	457,787	1,089,404	2,318,758	(60)	–	761	(2,586,464)	1,280,186
Impact on initial application of HKFRS	–	–	–	14,002	–	–	(20,262)	(6,260)
Impact on initial application of HKFRS 15	–	–	–	–	–	–	(9,214)	(9,214)
Adjusted balance at 1 January 2018	457,787	1,089,404	2,318,758	13,942	–	761	(2,615,940)	1,264,712
Changes in equity for 2018:								
Profit for the year	–	–	–	–	–	–	245,196	245,196
Other comprehensive income	–	–	–	(275,804)	(57,555)	–	–	(333,359)
Total comprehensive income	–	–	–	(275,804)	(57,555)	–	245,196	(88,163)
Issue of shares	13,500	476,550	–	–	–	–	–	490,050
Placing of shares	5,772	203,705	–	–	–	–	–	209,477
Balance at 31 December 2018	477,059	1,769,659	2,318,758	(261,862)	(57,555)	761	(2,370,744)	1,876,076

Notes:

a. Share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

b. Amounts represent credits arisen from the capital reduction and share premium cancellation transferred to the contributed surplus account, which had been partially utilised to eliminate the accumulated losses of the CMBC Group.

c. The other reserve of the CMBC Group represents the difference between the proportionate share of net assets attributable to additional interest in a subsidiary and the consideration paid.

	Attributable to owners of the Company							
	Share capital *HK$'000*	Share premium *HK$'000* *(Note a)*	Contributed surplus *HK$'000* *(Note b)*	Fair value reserve (recycling) *HK$'000*	Fair value reserve (non-recycling) *HK$'000*	Other reserve *HK$'000* *(Note c)*	Accumulated profit/(losses) *HK$'000*	Total *HK$'000*
At 1 January 2019	477,059	1,769,659	2,318,758	(261,862)	(57,555)	761	(2,370,744)	1,876,076
Changes in equity for 2019:								
Profit for the year	–	–	–	–	–	–	356,863	356,863
Other comprehensive income	–	–	–	32,314	56,387	–	–	88,701
Total comprehensive income	–	–	–	32,314	56,387	–	356,863	445,564
Disposal of equity investments at fair value through other comprehensive income	–	–	–	–	4,382*	–	(4,382)*	–
Shares repurchased and cancelled	(267)	(3,441)	–	–	–	–	–	(3,708)
Shares repurchased but not yet cancelled	–	–	–	–	–	(282)	–	(282)
Dividend approved in respect of the previous year	–	–	(95,407)	–	–	–	–	(95,407)
Balance at 31 December 2019	476,792	1,766,218	2,223,351	(229,548)	3,214	479	(2,018,263)	2,222,243

* *Amounts reclassified to accumulated profit/(losses) upon disposal of equity investments at fair value through other comprehensive income.*

Notes:

a. Share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

b. Amounts represent credits arisen from the capital reduction and share premium cancellation transferred to the contributed surplus account, which had been partially utilised to eliminate the accumulated losses of the CMBC Group.

c. The other reserve of the CMBC Group represents the difference between the proportionate share of net assets attributable to additional interest in a subsidiary and the consideration paid, and treasury shares of CMBC held as at 31 December 2019.

	Attributable to owners of the Company							
	Share capital	**Share premium**	**Contributed surplus**	**Fair value reserve (recycling)**	**Fair value reserve (non-recycling)**	**Other reserve**	**Accumulated profit/(losses)**	**Total**
	HK$'000	*HK$'000* *(Note a)*	*HK$'000* *(Note b)*	*HK$'000*	*HK$'000*	*HK$'000* *(Note c)*	*HK$'000*	*HK$'000*
At 1 January 2020	476,792	1,766,218	2,223,351	(229,548)	3,214	479	(2,018,263)	2,222,243
Changes in equity for 2020:								
Profit for the year	–	–	–	–	–	–	393,220	393,220
Other comprehensive income	–	–	–	114,270	34,517	–	–	148,787
Total comprehensive income	–	–	–	114,270	34,517	–	393,220	542,007
Disposal of equity investments at fair value through other comprehensive income	–	–	–	–	(17,905)*	–	17,905*	–
Shares repurchased and cancelled	(513)	(6,393)	–	–	–	281	–	(6,625)
Shares repurchased but not yet cancelled	–	–	–	–	–	(387)	–	(387)
Dividend approved in respect of the previous year	–	–	(157,270)	–	–	–	–	(157,270)
Balance at 31 December 2020	476,279	1,759,825	2,066,081	(115,278)	19,826	373	(1,607,138)	2,599,968

* *Amounts reclassified to accumulated profit/(losses) upon disposal of equity investments at fair value through other comprehensive income.*

Notes:

a. Share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

b. Amounts represent credits arisen from the capital reduction and share premium cancellation transferred to the contributed surplus account, which had been partially utilised to eliminate the accumulated losses of the CMBC Group.

c. The other reserve of the CMBC Group represents the difference between the proportionate share of net assets attributable to additional interest in a subsidiary and the consideration paid, and treasury shares of CMBC held as at 31 December 2020.

	Attributable to owners of the Company							
	Share capital	**Share premium**	**Contributed surplus***	**Fair value reserve (recycling)**	**Fair value reserve (non-recycling)**	**Other reserve**	**Accumulated profit/(losses)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2021 (audited)	476,279	1,759,825	2,066,081	(115,278)	19,826	373	(1,607,138)	2,599,968
Profit for the period	–	–	–	–	–	–	201,189	201,189
Other comprehensive income	–	–	–	93,346	9,202	–	–	102,548
Total comprehensive income	–	–	–	93,346	9,202	–	201,189	303,737
Disposal of equity investments at fair value through other comprehensive income	–	–	–	–	(3,615)	–	3,615#	–
Shares repurchased but not yet cancelled	–	–	–	–	–	(847)	–	(847)
Shares repurchased and cancelled	(742)	(7,140)	–	–	–	387	–	(7,495)
Dividend approved in respect of the previous year	–	–	(157,001)	–	–	–	–	(157,001)
At 30 June 2021 (unaudited)	475,537	1,752,685	1,909,080	(21,932)	25,413	(87)	(1,402,334)	2,738,362

* *Contributed surplus is a distributable reserve and will be used for payment of dividends.*

\# *Amounts reclassified to accumulated profit/(losses) upon disposal of equity investments at fair value through other comprehensive income.*

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June 2021	For the year ended 2020	2019	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash (used in)/generated from operating activities	(567,661)	1,518,601	631,252	(3,148,507)
Investing activity				
Purchases of property, plant and equipment	(397)	(482)	(13,906)	(443)
Net cash used in investing activity	(397)	(482)	(13,906)	(443)
Financing activities				
Proceeds from issue of new shares in share subscription and placing	–	–	–	699,527
Repurchase of shares	(8,342)	(7,012)	(3,990)	–
New bank and other borrowings raised	12,093,196	5,039,553	2,550,462	6,125,108
Repayment of notes	–	(50,000)	(100,000)	–
Repayment of bank and other borrowings	(12,337,273)	(6,328,580)	(3,422,608)	(2,912,038)
Dividend paid	–	(157,270)	(95,407)	–
Principal and interest elements of lease payments	(11,412)	(29,670)	(22,824)	–
Issurance of notes	(1,395,867)	–	–	–
Net cash generated from/(used in) financing activities	1,132,036	(1,532,979)	(1,094,367)	3,912,597
Net increase/(decrease) in cash and cash equivalents	563,978	(14,860)	(477,021)	763,647
Cash and cash equivalents at the beginning of year	378,170	400,708	887,579	126,761
Effect of foreign exchange rate changes, net	(1,048)	(7,678)	(9,850)	(2,829)
Cash and cash equivalents at the end of year	941,100	378,170	400,708	887,579
Analyses of cash and cash equivalents at end of year:				
Bank balances – house accounts	941,100	378,170	400,708	887,579

(A) THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. Introduction

The following is the unaudited pro forma financial information of Central Wealth Group Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), comprising the unaudited pro forma consolidated statement of financial position as at 30 June 2021 and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2020 and related notes (collectively, the "**Unaudited Pro Forma Financial Information**").

The Unaudited Pro Forma Financial Information is prepared by the directors of the Company in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), for the purpose of illustrating the effect of the possible very substantial disposal in relation to the possible disposal of up to 8,460,250 consolidated shares of CMBC Capital Holdings Limited ("**CMBC**") (representing 338,410,000 then shares of CMBC prior to share consolidation of CMBC) of HK$0.4 each of CMBC ("**CMBC Share(s)**") (the "**Possible Disposal(s)**") and the previous disposals of certain number of the CMBC Shares conducted during the six months ended 30 June 2021 as described in the section headed "Letter from the Board" in this circular.

The Unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the consolidated statement of financial position of the Group as at 30 June 2021 as if the Possible Disposal had been completed on 30 June 2021; and (ii) the consolidated statement of profit or loss and other comprehensive income of the Group and the consolidated statement of cash flows of the Group for the year ended 31 December 2020 as if the Possible Disposal had been completed on 1 January 2020.

The Unaudited Pro Forma Financial Information of the Group is based on the consolidated financial information of the Group for the year ended 31 December 2020 and for the six months ended 30 June 2021, which have been derived from the Company's published annual report for the year ended 31 December 2020 and interim report for the six months ended 30 June 2021, respectively, after taking pro forma adjustments as summarised in the accompanying notes that are clearly shown explained, factually supportable and directly attributable to the Possible Disposal.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and is based on certain assumptions, estimates and current available information. Accordingly, because of its hypothetical nature, it may not give a true picture of the financial results, cash flows and financial position of the Group had the Possible Disposal been completed as at the specified dates or any other dates.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the historical financial information of the Group as set out in the Company's published annual report for the year ended 31 December 2020 and interim report for the six months ended 30 June 2021 and other financial information included elsewhere in this circular.

2. Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2021

	Unaudited consolidated statement of financial position of the Group as at 30 June 2021	Pro forma adjustment	Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2021 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*
	Note (a)	*Note (b)*	
Non-current assets			
Property, plant and equipment	1,254		1,254
Right-of-use assets	24,164		24,164
Intangible assets	500		500
Equity investments at fair value through other comprehensive income	286,041	(33,503)	252,538
Deferred tax assets	283		283
Loan receivables from money lending business	399,888		399,888
Deposits and prepayment	11,330		11,330
	723,460	(33,503)	689,957
Current assets			
Loan receivables from money lending business	176,310		176,310
Trade receivables from securities and futures dealing business	258,655		258,655
Trade receivables from placing and asset management business	44,355		44,355
Prepayments, deposits and other receivables	225,035		225,035
Equity and fund investments at fair value through profit or loss	180,033		180,033
Debt investments at fair value through profit or loss	173,741		173,741
Cash and bank balances	83,233	1,858	85,091
Bank balances held on behalf of clients	181,146		181,146
	1,322,508	1,858	1,324,366

	Unaudited consolidated statement of financial position of the Group as at 30 June 2021	Pro forma adjustment	Unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2021 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*
	Note (a)	*Note (b)*	
Current liabilities			
Trade payables	181,583		181,583
Lease liabilities	24,763		24,763
Third party interests in consolidated investment fund	53,245		53,245
Other payables and accruals	45,638		45,638
Other borrowings	332,894	(31,575)	301,319
Bank borrowings	95,536		95,536
Bank overdrafts	63,285		63,285
Tax payable	12,110		12,110
	809,054	(31,575)	777,479
Net current assets	513,454	33,433	546,887
Total assets less current liabilities	1,236,914	(70)	1,236,844
Non-current liabilities			
Notes payable	86,574		86,574
Lease liabilities	331		331
Deferred tax liabilities	86		86
	86,991		86,991
Net assets	1,149,923	(70)	1,149,853
Capital and reserves			
Share capital	159,697		159,697
Reserves	990,226	(70)	990,156
Total equity	1,149,923	(70)	1,149,853

3. Unaudited pro forma consolidated profit or loss and other comprehensive income of the Group for the year ended 31 December 2020

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2020	Pro forma adjustment	Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2020 after Previous Disposal	Pro forma adjustment	Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2020 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (c)*		*Note (d)*	
Revenue					
Financial investments and services	74,697		74,697		74,697
Brokerage and commission income	522,691		522,691		522,691
Advisory fee income	72,462		72,462		72,462
	669,850		669,850		669,850
Brokerage and commission expenses	(311,013)	(104)	(311,117)	(102)	(311,219)
Gross profit	358,837	(104)	358,733	(102)	358,631
Other income and gains, net	17,018		17,018		17,018
Administrative expenses	(208,293)		(208,293)		(208,293)
Other operating expenses	(6,196)		(6,196)		(6,196)
Finance costs	(48,215)	3,584	(44,631)	3,436	(41,195)
Unrealised fair value gains on equity and fund investments at fair value through profit or loss, net	42,483		42,483		42,483
Unrealised fair value losses on debt investments at fair value through profit or loss, net	(7,756)		(7,756)		(7,756)
Provision for credit loss allowances on other financial assets	(103,838)		(103,838)		(103,838)
Loss on revaluation of investment property	(10,000)		(10,000)		(10,000)
Gain on disposal of subsidiaries	1,345		1,345		1,345
Profit before income tax	35,385	3,480	38,865	3,334	42,199
Income tax expense	(7,627)		(7,627)		(7,627)
Profit for the year attributable to owners of the Company	27,758	3,480	31,238	3,334	34,572

	Audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2020	Pro forma adjustment	Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2020 after Previous Disposal	Pro forma adjustment	Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2020 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (c)*		*Note (d)*	
Other comprehensive income					
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	6,108		6,108		6,108
Other comprehensive (loss)/income that will not be reclassified in subsequent period:					
Equity investments at fair value through other comprehensive income:					
Changes in fair value, net of tax	(46,342)	7,342	(39,000)	3,046	(35,954)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(46,342)	7,342	(39,000)	3,046	(35,954)
Total comprehensive loss for the year attributable to owners of the Company	(12,476)	10,822	(1,654)	6,380	(4,726)

4. Unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 December 2020

	Audited consolidated statement of cash flow of the Group for the year ended 31 December 2020	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Previous Disposal	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (c)*		*Note (d)*	
Cash flows from operating activities					
Profit before income tax	35,385	3,480	38,865	3,334	42,199
Adjustments for:					
Bank interest income	(444)		(444)		(444)
Finance costs	48,215	(3,584)	44,631	(3,436)	41,195
Depreciation of property, plant and equipment	11,669		11,669		11,669
Depreciation of right-of-use assets	30,071		30,071		30,071
Provision for credit loss allowances on other financial assets	103,838		103,838		103,838
Gain on disposal of subsidiaries	1,345		1,345		1,345
Loss on revaluation of investment property	10,000		10,000		10,000
Dividend income from investment in listed equity securities	(10,693)		(10,693)		(10,693)
Interest income from debt investments	(17,002)		(17,002)		(17,002)
Unrealised fair value gains on equity and fund investments at fair value through profit or loss, net	(42,483)		(42,483)		(42,483)
Unrealised fair value losses on debt investments at fair value through profit or loss, net	7,756		7,756		7,756

	Audited consolidated statement of cash flow of the Group for the year ended 31 December 2020	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Previous Disposal	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (c)*		*Note (d)*	
Operating cash flows before working capital changes	177,657	(104)	177,553	(102)	177,451
Increase in loan receivables from money lending business	(75,129)		(75,129)		(75,129)
Increase in equity and fund investments at fair value through profit or loss	(213,739)		(213,739)		(213,739)
Increase in debt investments at fair value through profit or loss	(81,145)		(81,145)		(81,145)
Decrease in trade receivables from securities and futures dealing business	8,589		8,589		8,589
Decrease in trade receivables from placing and asset management business	9,354		9,354		9,354
Increase in prepayments, deposits and other receivables	(5,461)		(5,461)		(5,461)
Increase in bank balances held on behalf of clients	(365,119)		(365,119)		(365,119)
Increase in trade payables	365,908		365,908		365,908
Decrease in other payables and accruals	(2,369)		(2,369)		(2,369)
Decrease in third party interests in consolidated investment fund	(23,241)		(23,241)		(23,241)
Cash used in operations	(204,695)	(104)	(204,799)	(102)	(204,901)
Dividend received	2,043		2,043		2,043
Interest received	17,002		17,002		17,002
Interest paid	(19,023)		(19,023)		(19,023)
Tax paid	(39,058)		(39,058)		(39,058)
Net cash used in operating activities	(243,731)	(104)	(243,835)	(102)	(243,937)

	Audited consolidated statement of cash flow of the Group for the year ended 31 December 2020	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Previous Disposal	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (c)*		*Note (d)*	
Cash flows from investing activities					
Purchase of property, plant and equipment	(1,973)		(1,973)		(1,973)
Acquisition of equity investments at fair value through other comprehensive income	(243,001)		(243,001)		(243,001)
Proceeds from disposals of equity investments through other comprehensive income	358,750	89,284	448,034	48,393	496,427
Proceed from disposal of a subsidiary	380,000		380,000		380,000
Dividend received	8,650		8,650		8,650
Interest received	444		444		444
Net cash generated from investing activities	502,870	89,284	592,154	48,393	640,547
Cash flows from financing activities					
Net proceeds from issuance of new shares	74,403		74,403		74,403
Proceeds from other borrowings	164,073		164,073		164,073
Proceeds from bank borrowings	214,241		214,241		214,241
Repayments of other borrowings	(228,955)	(37,630)	(266,585)	(32,980)	(299,565)
Repayments of bank borrowings	(372,865)		(375,865)		(375,865)
Repayment of the principal portion of lease liabilities	(16,082)		(16,082)		(16,082)
Payment for interest portion of other borrowings	(17,030)	3,584	(13,446)	3,436	(10,010)
Payment for interest portion of bank borrowings	(5,879)		(5,879)		(5,879)
Payment for interest portion of lease liabilities	(1,383)		(1,383)		(1,383)
Net cash used in financing activities	(189,477)	(34,046)	(223,523)	(29,544)	(253,067)

	Audited consolidated statement of cash flow of the Group for the year ended 31 December 2020	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Previous Disposal	Pro forma adjustment	Unaudited pro forma consolidated statement of cash flow of the Group for the year ended 31 December 2020 after Possible Disposal
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (c)*		*Note (d)*	
Net increase in cash and cash equivalents	69,662	55,134	124,796	18,747	143,543
Cash and cash equivalents at the beginning of the year	(17,884)		(17,884)		(17,884)
Effect of foreign exchange rates changes, net	2,254		2,254		2,254
Cash and cash equivalents at the end of the year	54,032	55,134	109,166	18,747	127,913
Analysis of balances of cash and cash equivalents					
Cash and bank balances	140,440	55,134	195,574	18,747	214,321
Bank overdrafts	(86,408)		(86,408)		(86,408)
	54,032	55,134	109,166	18,747	127,913

Notes:

(a) The Group's financial information is based upon the consolidated financial information of the Group for the year ended 31 December 2020 and the six months ended 30 June 2021, which have been derived from the Group published annual report for the year ended 31 December 2020 and interim report for six months ended 30 June 2021, respectively.

(b) The adjustment represents the impact of the Possible Disposal of an aggregate of up to 8,460,250 CMBC Shares ("**Disposal Shares**") on the Group's consolidated statement of financial position. Assuming all Disposal Shares were disposed of on 30 June 2021, at the market price of HK$3.96 after share consolidation on 30 June 2021, the Group would recognise an increase in cash and bank balances amounted to approximately HK$1,858,000, after repayment of margin loans amounted to approximately HK$31,575,000 which the Disposal Shares pledged, in the unaudited pro forma consolidated statement of financial position, which is calculated as follows:

Disposal price per Disposal Share	HK$3.96
Number of Disposal Shares	8,460,250

	HK$'000
Cash proceeds from the Possible Disposal	33,503
Less: Estimated transaction cost *(Note)*	(70)
Less: Repayment of margin loans of the Group to which the Disposal Shares pledged as at 30 June 2020	(31,575)
Net cash proceeds from the Possible Disposal	1,858
Cash proceeds from the Possible Disposal	33,503
Less: Carrying amount of the Disposal Shares as at 30 June 2021	(33,503)
	–
Less: Estimated transaction cost *(Note)*	(70)
Changes to reserves	(70)

Note: Estimated transaction cost represents the estimated brokers' handling fee directly attributable to the Possible Disposal.

It should be noted that the minimum selling price of the Possible Disposal is HK$2.33 per Disposal Share, which is over 30% discount to the average of the closing price for five consecutive trading days immediately before 30 June 2021. As such, based on the terms of the disposal mandate, the transaction would not have occurred at HK$2.33 per Disposal Share on 30 June 2021.

(c) As disclosed in the announcement of the Company dated 30 December 2021 (the "**Announcement**"), the Group had disposed of a number of CMBC Shares through a series of transactions during January 2021 to May 2021, for the purpose of preparing the Unaudited Pro Forma Financial Information, the adjustment for the impact of the disposal of an aggregate of 20,395,146 consolidated CMBC Shares (representing 815,805,829 then CMBC Shares prior to share consolidation of CMBC of HK$0.4 each of CMBC Shares) on the open market at an average price of approximately HK$4.38 per consolidated CMBC Share (the "**Previous Disposal**") during the six months ended 30 June 2021 has formed part of the Unaudited Pro Forma Financial Information for ratification by the Shareholders. The aggregate consideration of these disposed CMBC Shares was approximately HK$89,284,000.

It was assumed these CMBC Shares were disposed of on 1 January 2020, at the average selling price of HK$4.38 after share consolidation on 1 January 2020, the Group would recognise an increase in profit for the year and a decrease in total comprehensive loss for the year of approximately HK$3,480,000 and HK$10,822,000 respectively in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and an increase in cash and cash equivalents of approximately HK$55,134,000 in the unaudited pro forma consolidated statement of cash flows, which are calculated as follows:

Disposal price per share of Previous Disposal	HK$4.38
Number of share of Previous Disposal	20,395,146

	HK$'000
Cash proceeds from the Previous Disposal	89,284
Less: Actual transaction costs *(Note)*	(104)
Less: Repayment of margin loans of the Group to which these shares pledged as at 1 January 2020	(37,630)
Net cash proceeds from the Previous Disposal	51,550
Add: Reversal of interest paid for the margin loans of the Group to which these shares pledged for the year ended 31 December 2020	3,584
Increase in cash and cash equivalents	55,134

	HK$'000
Reversal of interest paid for the margin loans of the Group to which these shares pledged for the year ended 31 December 2020	3,584
Actual transaction costs *(Note)*	(104)
Increase in profit for the year ended 31 December 2020	3,480
Reversal of changes in fair value of these shares that have been recognised in other comprehensive loss in the consolidated financial statements of the Group for the year ended 31 December 2020	7,342
Decrease in other comprehensive loss for the year ended 31 December 2020	7,342
Decrease in total comprehensive loss for the year ended 31 December 2020	10,822

Note: Actual transaction costs represent the brokers' handling fee, stamp duty and other costs directly attributable to the Previous Disposal.

(d) The adjustment represents the impact of the Disposal Shares on the Group's consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows.

Assuming all Disposal Shares were disposed of on 1 January 2020, at the market price of HK$5.72 after share consolidation on 1 January 2020, the Group would recognise an increase in profit for the year and a decrease in total comprehensive loss for the year of approximately HK$3,334,000 and HK$6,380,000 respectively in the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and an increase in cash and cash equivalents of approximately HK$18,747,000 in the unaudited pro forma consolidated statement of cash flows, which are calculated as follows:

Disposal price per each Disposal Share	HK$5.72
Number of Disposal Shares	8,460,250

	HK$'000
Cash proceeds from the Possible Disposal	48,393
Less: Estimated transaction cost *(Note)*	(102)
Less: Repayment of margin loans of the Group to which the Disposal Shares pledged as at 1 January 2020	(32,980)
Net cash proceeds from the Possible Disposal	15,311
Add: Reversal of interest paid for the margin loans of the Group to which the Disposal Shares pledged for the year ended 31 December 2020	3,436
Increase in cash and cash equivalents	18,747

	HK$'000
Reversal of interest paid for the margin loans of the Group to which the Disposal Shares pledged for the year ended 31 December 2020	3,436
Estimated transaction cost *(Note)*	(102)
Increase in profit for the year ended 31 December 2020	3,334
Reversal of changes in fair value of the Disposal Shares that have been recognised in other comprehensive loss in the consolidated financial statements of the Group for the year ended 31 December 2020	3,046
Decrease in other comprehensive loss for the year ended 31 December 2020	3,046
Decrease in total comprehensive loss for the year ended 31 December 2020	6,380

Note: Estimated transaction cost represents the estimated brokers' handling fee directly attributable to the Possible Disposal.

It should be noted that the minimum selling price of the Possible Disposal is HK$2.33 per Disposal Share, which is over 50% discount to the average of the closing price for five consecutive trading days immediately before 1 January 2020. As such, based on the terms of the disposal mandate, the transaction would not have occurred at HK$2.33 per Disposal Share on 1 January 2020.

(e) The adjustments in respect of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows above are not expected to have a continuing effect on the Group's consolidated financial statements.

(f) The actual share price of CMBC Shares will likely be different from those stated in the unaudited pro forma financial information. Therefore, the estimated proceeds from the Possible Disposal, net cash inflows from the Possible Disposal and the cash and cash equivalents received by the Group as illustrated above are subject to change.

(g) No adjustment has been made to reflect any trading results or other transaction of the Group entered into for the unaudited pro forma consolidated statement of financial position as at 30 June 2021, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2020.

(h) As set out in the Announcement, the Board announces that the Group had acquired and disposed of certain securities through a series of transactions conducted during the year ended 31 December 2020 which constitute major transactions and very substantial disposal transactions. The following details of major transactions and very substantial disposal transactions, for which the Group has not complied with the Listing Rules requirements to make timely disclosure, has been put forward to the Shareholders General Meeting for approval and ratification by the shareholders of the Company.

CMBC Shares

During the year ended 31 December 2020, the Group disposed of an aggregate of 66,099,250 consolidated CMBC Shares (representing 2,643,970,000 then CMBC Shares prior to share consolidation of CMBC of HK$0.4 each of CMBC Share) on the open market at an average selling price of approximately HK$5.10 per CMBC Share. The aggregate consideration of these disposed CMBC Shares was approximately HK$337,350,000.

These disposed CMBC Shares were previously recognised as equity investments at fair value through other comprehensive income. The Group had recognised decrease in profit for the year and increase in total comprehensive loss for the year of approximately HK$471,000 and HK$471,000 respectively in the audited consolidated statement of profit or loss and other comprehensive income, and an increase in cash and cash equivalents of approximately HK$229,436,000 in the consolidated statement of cash flows for the year ended 31 December 2020, which are calculated as follows:

Disposal price per each CMBC Share disposed	HK$5.10
Number of CMBC Share disposed	66,099,250

	HK$'000
Cash proceeds from this disposal	337,350
Less: Actual transaction costs *(Note)*	(507)
Less: Repayment of margin loans of the Group to which these shares pledged	(107,407)
Net cash proceeds from this disposal and increase in cash and cash equivalents	229,436

	HK$'000
Actual transaction costs *(Note)* and decrease in profit for the year ended 31 December 2020	507
Increase in other comprehensive loss for the year ended 31 December 2020	507
Increase in total comprehensive loss for the year ended 31 December 2020	507

Note: Actual transaction costs represented the brokers' handling fee, stamp duty and other costs directly attributable to this disposal.

Shares of Hong Kong Exchanges and Clearing Limited ("HKEX")

During the year ended 31 December 2020, the Group acquired an aggregate of 899,200 shares of HKEX ("**HKEX Share(s)**") on the open market at an average acquisition price of approximately HK$361.89 per HKEX Share. The aggregate consideration of these acquired HKEX Shares was HK$325,410,000. These acquisitions, when aggregated or on a standalone basis, constituted major transactions of the Group.

These acquired HKEX Shares were recognised as equity investments at fair value through profit or loss at the date of acquisitions. The Group recognised a decrease in cash and cash equivalents of approximately HK$325,410,000 in the audited consolidated statement of cash flows for the year ended 31 December 2020.

On 20 January 2021, the Group acquired 110,000 HKEX Shares on the open market at a price of approximately HK$516.15 per HKEX Share. The consideration of these acquired HKEX Shares was approximately HK$56,776,000. This acquisition constituted a major transaction of the Group.

These acquired HKEX Shares were recognised as equity investments at fair value through profit or loss at the date of acquisitions.

Shares of China Shandong Hi-Speed Financial Group Limited ("China Shandong Group")

During the year ended 31 December 2020, the Group acquired an aggregate of 565,242,000 shares of China Shandong Group ("**China Shandong Group Share(s)**") on the open market at an acquisition price of approximately HK$0.37 per China Shandong Group Share. The consideration of these acquired China Shandong Group Shares was HK$208,889,000. These acquisitions, when aggregated, constituted major transactions of the Group.

These acquired China Shandong Group Shares were recognised as equity investments at fair value through profit or loss at the date of acquisitions. The Group recognised a decrease in cash and cash equivalents of approximately HK$208,889,000 in the audited consolidated statement of cash flows for the year ended 31 December 2020.

Details of the above transactions were disclosed in the Announcement.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, on the unaudited pro forma financial information of the Enlarged Group as set out in this appendix and prepared, for inclusion in this circular.

MOORE

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CENTRAL WEALTH GROUP HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Central Wealth Group Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2021, and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2020 and related notes as set out in Part A of Appendix III to the circular dated 28 February 2022 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed very substantial disposal in relation to the possible disposal of 8,460,250 consolidated shares of CMBC Capital Holdings Limited ("**CMBC**") (representing 338,410,000 then shares of CMBC prior to share consolidation of CMBC) (the "**Disposal**") and the previous disposal of certain number of shares of CMBC conducted during the six months ended 30 June 2021 on the Group's financial position as at 30 June 2021, and the Group's financial performance and cash flows for the year ended 31 December 2020 as if the Disposal had taken place at 30 June 2021 and 1 January 2020, respectively. As part of this process, information about the Group's financial position as at 30 June 2021, and the Group's financial performance and cash flows for the year ended 31 December 2020 has been extracted by the Directors from the Group's published interim report for six months ended 30 June 2021 and the Group's annual report for the year ended 31 December 2020, respectively.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "*Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2021 and 1 January 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Moore Stephens CPA Limited
Certified Public Accountants

Li Wing Yin
Practising Certificate Number: P05035
Hong Kong

28 February 2022

Set out below are the biographical details and other information of the Directors proposed to be re-elected at the SGM.

The biographical details of Mr. Wang are set out below:

Mr. Wang, aged 33, holds a bachelor's degree of financial statistics, double degrees of human resources management under business administration and a master degree of industrial economy (financial derivatives) from Shanghai University of Finance and Economics. He previously worked in several well-known financial institutions and has over 8 years of experience in investment banking, asset management and equity investment. Mr. Wang currently is a director of Central Wealth Securities Investment Limited.

Mr. Wang has not been appointed for any fixed term but is subject to retirement and re-election in accordance with the Company's Bye-laws. Pursuant to the service agreement entered into between the Company and him, he is entitled to receive remuneration package of HK$80,000 per month plus a discretionary bonus as may be determined by the Board with reference to his performance. The foregoing emolument of him is recommended by the Company's Remuneration Committee and approved by the Board with reference to his qualifications, experience and responsibilities with the Company.

As far as the Board is aware, as at the Latest Practicable Date, save as disclosed above, (i) Mr. Wang did not hold any other directorship in any other public companies, the securities of which are listed on any securities markets in Hong Kong or overseas in the last three years; (ii) he did not have any other major appointments and professional qualifications; (iii) he did not hold any other position in the Company or any other members of the Group and (iv) he did not have or was not deemed to have any interests or short positions in the Shares or underlying Shares pursuant to Part XV of the SFO. In addition, as at the Latest Practicable Date, he did not have any relationships with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

As confirmed by Mr. Wang and as far as the Board is aware, he has no information to be disclosed pursuant to any of the requirements under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and there are no other matters relating to his appointment that need to be brought to the attention of the Shareholders.

The biographical details of Ms. Chen are set out below:

Ms. Chen, aged 38, is the founder of Youbeiqin Group*（友倍親集團）and has been the deputy general manager of Youbeiqin (Shenzhen) Medical Investment Co., Ltd.*（深圳友倍親醫療投資有限公司）since June 2019. She has extensive experience in medical industry and medical investment management. As at the Latest Practicable Date, save as disclosed above, Ms. Chen did not hold other directorships in the last three years in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas nor any position in the Company or any other members of the Group, and she did not have any other major appointments and professional qualifications.

Ms. Chen has not been appointed for any fixed term but is subject to retirement and re-election in accordance with the Company's Bye-laws. Pursuant to the service agreement entered into between the Company and Ms. Chen, she is entitled to receive remuneration package of HK$100,000 per annum plus a discretionary bonus as may be determined by the Board with reference to her performance. The foregoing emolument of her is recommended by the Company's Remuneration Committee and approved by the Board with reference to her qualifications, experience and responsibilities with the Company.

As far as the Board is aware, as at the Latest Practicable Date, Ms. Chen did not have or was not deemed to have any interests or short positions in the Shares or underlying Shares pursuant to Part XV of the SFO. In addition, she did not have any relationships with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

As confirmed by Ms. Chen and as far as the Board is aware, she has no information to be disclosed pursuant to any of the requirements under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and there are no other matters relating to her appointment that need to be brought to the attention of the Shareholders.

The biographical details of Ms. Song are set out below:

Ms. Song, aged 47, is an investor of Youbeiqin Group*（友倍親集團）and has extensive experience in medical industry. As at the Latest Practicable Date, save as disclosed above, Ms. Song did not hold other directorships in the last three years in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas nor any position in the Company or any other members of the Group, and she did not have any other major appointments and professional qualifications.

Ms. Song has not been appointed for any fixed term but is subject to retirement and re-election in accordance with the Company's Bye-laws. Pursuant to the service agreement entered into between the Company and Ms. Song, she is entitled to receive remuneration package of HK$100,000 per annum plus a discretionary bonus as may be determined by the Board with reference to her performance. The foregoing emolument of her is recommended by the Company's Remuneration Committee and approved by the Board with reference to her qualifications, experience and responsibilities with the Company.

As far as the Board is aware, as at the Latest Practicable Date, Ms. Song did not have or was not deemed to have any interests or short positions in the Shares or underlying Shares pursuant to Part XV of the SFO. In addition, she did not have any relationships with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

As confirmed by Ms. Song and as far as the Board is aware, she has no information to be disclosed pursuant to any of the requirements under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and there are no other matters relating to her appointment that need to be brought to the attention of the Shareholders.

The biographical details of Mr. Chen are set out below:

Mr. Chen, aged 52, has been the chairman of Yancheng Qingshang Agricultural Technology Development Co., Ltd.*（鹽城青商農業科技發展有限公司）and Yancheng Qingshang Trading Co., Ltd.*（鹽城青商商貿有限公司）since November 2014. He was a standing committee member of the Political Consultative Conference of Tinghu District of Yancheng City, a member of Yancheng Municipal Committee of the Chinese People's Political Consultative Conference, the vice president of Yancheng Junior Chamber of Commerce*（鹽城市 青年商會）and vice chairman of Yancheng Lifengxiang Foundation for Education*（李鳳祥助學 扶困基金會）during 2009 to October 2021. Mr. Chen has been appointed as a standing committee member of the Political Consultative Conference of Tinghu District of Yancheng City since January 2022. As at the Latest Practicable Date, save as disclosed above, Mr. Chen did not hold other directorships in the last three years in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas nor any position in the Company or any other members of the Group, and he did not have any other major appointments and professional qualifications.

Mr. Chen has not been appointed for any fixed term but is subject to retirement and re-election in accordance with the Company's Bye-laws. Pursuant to the service agreement entered into between the Company and Mr. Chen, he is entitled to receive remuneration package of HK$100,000 per annum plus a discretionary bonus as may be determined by the Board with reference to his performance. The foregoing emolument of him is recommended by the Company's Remuneration Committee and approved by the Board with reference to his qualifications, experience and responsibilities with the Company.

As far as the Board is aware, as at the Latest Practicable Date, Mr. Chen did not have or was not deemed to have any interests or short positions in the Shares or underlying Shares pursuant to Part XV of the SFO. In addition, he did not have any relationships with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

As confirmed by Mr. Chen and as far as the Board is aware, he has no information to be disclosed pursuant to any of the requirements under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules and there are no other matters relating to his appointment that need to be brought to the attention of the Shareholders.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares and underlying Shares:

Name of Director	**Capacity**	**Number of Shares interested**	**Approximate percentage of the Company's issued share capital** *(Note 4)*
Chen Xiaodong	Beneficial owner *(Note 1)*	268,486,246	1.68%
Yu Qingrui	Beneficial owner *(Note 2)*	159,605,610	1.00%
Wu Ming	Beneficial owner *(Note 3)*	15,890,000	0.10%

Notes:

1. As at the Latest Practicable Date, among these 268,486,246 Shares interested, 108,886,246 Shares were beneficially held by Chen Xiaodong and Chen Xiaodong was also granted an option to subscribe for 159,600,000 Shares under the Share Option Scheme.

2. As at the Latest Practicable Date, among these 159,605,610 Shares interested, 5,610 Shares were beneficially held by Yu Qingrui and Yu Qingrui was also granted an option to subscribe for 159,600,000 Shares.

3. As at the Latest Practicable Date, Mr. Wu Ming was granted an option to subscribe for 15,890,000 Shares under the Share Option Scheme.

4. The percentage represents the number of Shares interested divided by the number of the Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, Mr. Yu Qingrui, being an executive Director, is also an executive director of Future World Financial Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 572), which, as at the Latest Practicable Date, is (through its subsidiary) interested in 796,305,316 Shares, representing approximately 4.99% of the existing issued share capital of the Company. Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than a Director or chief executive of the Company) had or were deemed or taken to have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in Shares:

Name of substantial shareholder	Capacity	Number of Shares interested	Approximate percentage of the Company's issued share capital *(Note 4)*
Dragon Regal Holdings Limited	Beneficial owner *(Note 1)*	2,000,000,000	12.52%
Xu Ke	Beneficial owner *(Note 2)*	1,125,701,571	7.05%
	Interests held by a controlled corporation *(Note 1)*	2,000,000,000	12.52%
		3,125,701,571	19.57%
Chen Xiangru	Beneficial owner *(Note 3)*	2,065,692,548	12.94%

Notes:

1. As at the Latest Practicable Date, all these 2,000,000,000 Shares were held by Dragon Regal Holdings Limited, which was wholly owned by Xu Ke ("**Mr. Xu**"), a former executive director and the former chief executive officer of the Company who resigned on 28 December 2021.

2. As at the Latest Practicable Date, all these 1,125,701,571 Shares interested were beneficially held by Mr. Xu.

3. As at the Latest Practicable Date, all these 2,065,692,548 Shares were beneficially held by Chen Xiangru.

4. The percentage represents the number of Shares interested divided by the number of the Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. INTEREST IN ASSETS, CONTRACTS OR ARRANGEMENTS

Save as disclosed in part (a) of the paragraph headed "8. MATERIAL CONTRACTS" below, the Directors confirm that there is no contract or arrangement subsisting at the date hereof in which a Director is materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which, since 31 December 2020, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

(a) the formal sale and purchase agreement dated 20 March 2020 entered into between Sky Eagle Global Limited ("**Sky Eagle**") as vendor, Million Fortune Well Limited ("**Million Fortune**") as purchaser and Mr. Chen Xiaodong, an executive Director and the chairman of the Board, as guarantor in relation to the proposed disposal of 10,000 ordinary shares of Metro Victor Limited ("**Metro Victor**"), together with all amounts, including principal and interests, owing by Metro Victor to Sky Eagle at a total consideration of HK$380,000,000, which has superseded the preliminary sale and purchase agreement dated 4 February 2020 entered into between Sky Eagle and Million Fortune;

(b) the supplemental agreement dated 4 December 2020 entered into between Top Billion Finance Limited ("**Top Billion**"), an indirect wholly-owned subsidiary of the Company, as lender and Mr. Shio Tian Ho ("**Mr. Shio**") for the extension of the secured revolving loan facility of up to HK$50,000,000 made available to Mr. Shio by Top Billion pursuant to the revolving loan agreement dated 7 December 2018 entered into between the parties thereto and the revision of interest rate thereof;

(c) the revolving loan agreement dated 17 December 2020 entered into between Top Billion as lender and Mr. Chen Yihao ("**Mr. Chen**") as borrower in relation to the grant of revolving loan facility of up to HK$75,000,000 made available to Mr. Chen by Top Billion for a period of three years pursuant to its terms thereof;

(d) the loan facility letter dated 21 December 2020 entered into between Top Billion as lender and Fang Weiqun ("**Mr. Fang**") as borrower in respect of the secured loan in the principal amount of HK$75,000,000 granted by Top Billion to Mr. Fang for a term of three years in accordance with the terms thereof;

(e) the revolving loan agreement dated 28 December 2020 entered into between Top Billion and Mr. Lin Zherui ("**Mr. Lin**") in relation to the grant of the revolving loan facility of up to HK$75,000,000 made available to Mr. Lin by Top Billion for a period of three years pursuant to its terms thereof;

(f) the loan facility letter dated 29 June 2021 entered into between Top Billion as lender and Lee Ming Pui ("**Mr. Lee**") as borrower in respect of the secured loan in the principal amount of HK$65,000,000 granted by Top Billion to Mr. Lee for a terms of three years in accordance with its terms thereof; and

(g) the equity transfer agreement dated 21 February 2022 entered into between Shenzhen Central Wealth Enterprise Consulting Co., Ltd.*(深圳中達企業咨詢有限公司), an indirect wholly-owned subsidiary of the Company, as purchaser and Youbeiqin (Shenzhen) Medical Investment Co., Ltd.*(深圳友倍親醫療投資有限公司)as vendor in relation to the acquisition of 51% equity interests in Youbeiqin (Guangdong) Medical Technology Co., Ltd.*(廣東省友倍親醫藥科技有限公司)at RMB1 with a total capital contribution of RMB 2.55 million.

9. EXPERT AND CONSENT

The following is the qualifications of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Moore Stephens CPA Limited	Certified Public Accountants

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or statements and references to its name and logo in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not, directly or indirectly, have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up.

10. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The principal place of business in Hong Kong is located at Unit 1801-2, 18/F, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong.

(c) The principal share registrar and transfer office of the Company in Bermuda is located at MUFG Fund Services (Bermuda) Limited, 26 Burnaby Street, Hamilton HM 11, Bermuda.

(d) The branch share registrar and transfer office of the Company in Hong Kong is located at Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Mr. Szeto Pui Tong Patrick. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

(f) In case of any discrepancy, the English text of this circular and the form of proxy shall prevail over the Chinese text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.cwghl.com) from the date of this circular up to 14 days thereafter:

(a) independent reporting accountant's assurance report from Moore Stephens CPA Limited in respect of the unaudited pro forma financial information of the Group as set out in Appendix III to this circular; and

(b) the written consent referred to in the paragraph headed ''Expert and Consent'' of this Appendix.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE CHINA SHANDONG GROUP

Set out below is the reproduction of the management discussion and analysis of the China Shandong Group's operations for the financial years ended 31 December 2018, 2019 and 2020, respectively. The information reproduced below is completely extracted from the "Management Discussion and Analysis" section of the annual report of China Shandong for each of the three financial years ended 31 December 2020 to provide further information relating to the financial conditions and results of business operations of the China Shandong Group during the respective years stated.

Capitalised terms used in this section shall have the same meanings as those defined in the respective annual reports of China Shandong. These extracted materials below were prepared prior to the date of this circular and speak as of the date they were originally published, and any opinion and beliefs stated were made by the then directors of China Shandong at such time when the related annual report(s) of China Shandong was or were issued.

The extracted material of the China Shangdong Group contained in this Appendix appears for information purposes only. The Directors take no responsibility for the extracted material of the China Shandong Group, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the extracted material of the China Shangdong Group contained in this Appendix.

For the year ended 31 December 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS AND BUSINESS REVIEW

As stated in the announcement of the Company dated 21 June 2018, the Board has resolved to change the financial year end date of the Company from 31 March to 31 December with effect from and including the financial year 2018, to align the financial year end date of the Company with the financial year end date of the operating subsidiaries of the Group in the PRC, thereby streamlining the process of preparation of the consolidated financial statements of the Group. Accordingly, the current financial period covers the period of nine months from 1 April 2018 to 31 December 2018, which may not be fully comparable to the results of previous years covering the period of twelve months.

The Board announces that the Group, for the Reporting Period, has recorded a net loss of approximately HK$691,176,000 (for the year ended 31 March 2018: net profit of approximately HK$670,725,000). The net loss is mainly attributable to the provision for significant impairment of financial assets, and a significant decrease of the fair value gains arising from financial assets at fair value through profit or loss due to fluctuations in the stock market.

As at 31 December 2018, the Group recorded total assets of approximately HK$13,377,465,000 (31 March 2018: HK$14,414,673,000), total liabilities of approximately HK$8,499,219,000 (31 March 2018: HK$8,569,849,000), and therefore net assets of approximately HK$4,878,246,000 (31 March 2018: HK$5,844,824,000).

The Company is an investment holding company with its subsidiaries, engaging in the following operating segments during the Reporting Period:

a) Financial leasing

During the Reporting Period, the financial leasing business recorded a loss of approximately HK$465,244,000 (for the year ended 31 March 2018: profit of approximately HK$257,334,000), which was mainly attributable to the impairment of approximately HK$293,016,000, of which goodwill impairment amounted to approximately HK$146,586,000. After years of rapid development and industry adjustment, the financial leasing industry in the PRC has stabilised in terms of the respective strength of the lenders and the intensity of competition in the market, which laid a solid foundation for the further development and growth of the Group in this sector by strengthening its capital base, expanding its operations and exposure in the market, attracting and selecting high quality borrowers, and improving its credit control. With the macro-policy measures to be promulgated by the Central Economic Work Conference to benefit the leasing industry, coupled with the steady advancement of national policies, including the supply-side reform, inclusive finance and the "Belt and Road Initiatives", there will be great development potential for the financial leasing industry in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

b) Investment in securities

During the Reporting Period, the Group's securities portfolio recorded an unrealised losses on financial assets measured at fair value through profit or loss of approximately HK$223,223,000 (for the year ended 31 March 2018: unrealised fair value gains on investments of approximately HK$459,713,000) and a realised fair value losses on financial assets of approximately HK$7,535,000 (for the year ended 31 March 2018: realised fair value gains on investments of approximately HK$101,863,000). The unrealised fair value changes had no impact on the Group's cash flow since they were a non-cash item.

c) Money lending

During the Reporting Period, the money lending segment recorded a turnover of approximately HK$83,064,000 (for the year ended 31 March 2018: HK$50,383,000). The increase in turnover was mainly due to the expansion of the business. The loan portfolio amounted to approximately HK$1,332,366,000 as at 31 December 2018 (31 March 2018: HK$1,358,805,000). The Group will maintain a cautious approach for risk management so as to maintain the soundness of its money lending business.

C.I.F. Financial Limited, a wholly-owned subsidiary of the Company, holds a money lenders license.

d) Financial technology

The Group currently owns 60% shares in Kun Peng International Limited ("Kun Peng"). Kun Peng controls the operation of Shenzhen Honesta New Finance Holding Company Ltd.*（深圳厚生新金融控股有限公司）("Honesta New Finance") and its subsidiaries by way of structured contracts. Honesta New Finance and its subsidiaries are mainly engaged in financial technology, asset management and new media services. The Group conducts the financial technology business through Honesta New Finance, which would facilitate the Company' development in this field and broaden the range of financial services offered to the Group's customers. In the future, Honesta New Finance will continue to create synergy with the existing businesses of the Group and facilitate the Company's development.

During the Reporting Period, the Group also carried out the businesses of operating an asset trading platform, securities brokerage and commercial factoring.

MANAGEMENT DISCUSSION AND ANALYSIS

Asset Trading Platform

The Group is engaged in the business of financial leasing, leasing real estates as well as other assets, and provision of spot trading platform and marketing and consulting services related to the aforesaid businesses.

Shenzhen Asia-Pacific Leasing Assets Exchange Center Co., Ltd.*（深圳亞太租賃資產交易中心有限公司）, a wholly-owned subsidiary of the Company based in Qianhai, Shenzhen, would continue to benefit from the favourable policies implemented in the Guangdong Free Trade Area and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. The Company intends to develop it into a leading domestic and international asset trading platform and integrated services provider.

FUTURE PROSPECTS

Following the reform by the State Council on the financial regulatory system in the PRC in 2018, coordination and implementation monetary policies and macro-prudential policies are expected to be improve and a regulatory framework which is more consistent with the modern financial system will be gradually established, which will in turn smoothen and stabilise the dynamics in the financial sector in the PRC. It is expected that in the near future, new operating models will be formed in the financial sector in the PRC. With the strong support of Shandong Hi-Speed Group Co., Ltd*（山東高速集團有限公司）("Shandong Hi-Speed Group") which is an indirect controlling shareholder of the Company and by taking full advantage of the access to market and funding provided by the Shandong Hi-Speed Group, the Group will continue to nurture its various financial segments to achieve diversified development.

Under the current macro-economic circumstance which is generally stable while still affected by lurking uncertainties, the PRC has accelerated its pace of economic structure transition to modern, high-end manufacturing industry. With the further implementation of the "Belt and Road Initiative" and the increasing demands for quality of life among consumers in the PRC and Asia generally, the demand for services of financial institutions including leasing will increase significantly as a result of the development of the real economy.

As an important part of the "Belt and Road Initiative", the Guangdong-Hong Kong-Macau Greater Bay Area, with its strengths in respect of economic scale, industry network and geographical location, has the potential to become a world class economic region, and is one of the regions in the PRC with the highest level of economic growth and vibrancy. In the past two years, the development of the Guangdong-Hong Kong-Macau Greater Bay Area has entered an advanced stage, and the central government and the local governments in Guangdong, Hong Kong and Macau have all implemented various relevant policies to facilitate the bay area's development as a crucial growth strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

Originated in Shandong, the Group has accumulated years of experience in the Hong Kong capital market. In the future, it will leverage on the unique strengths of Hong Kong and Macao to expand its scope of cooperation with enterprises in the countries in the "Belt and Road Initiative" regions and the Guangdong-Hong Kong-Macao Greater Bay Area in the financial sectors, and actively explore and seek for high-quality investment opportunities, so as to lay a solid foundation for the Group's development.

The Group will also look for potential acquisition targets that will create synergy with the Group and enhance its profitability. As at the date of this report, the Group does not have any specific acquisition targets.

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 15 January 2019, the Group issued US$550,000,000 5.95% guaranteed bonds due 2020. On 19 February 2019, the Group further issued US$50,000,000 5.95% guaranteed bonds due 2020. The issuances of the bonds are a significant step of the Company in gaining recognition in the international finance market and would provide the Company with an additional source of funding for its business development.

Further details about the abovementioned matters are set out in the announcement of the Company dated 9 January 2019 and the formal notices dated 15 January 2019 and 19 February 2019 respectively.

FUNDRAISING ACTIVITIES

The Group did not conduct any fundraising activity during the Reporting Period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the Group's total assets and borrowings were HK$13,377,465,000 and HK$8,085,956,000, respectively. The borrowings of the Group contained bank borrowings, bonds and other borrowings which were approximately HK$1,139,064,000, HK$4,759,422,000 and HK$1,876,433,000, respectively. Details of bank loans and other borrowings of the Group are disclosed in note 28 to the consolidated financial statements. As at 31 December 2018, the Group had an outstanding convertible bond of approximately HK$311,037,000 with a fixed interest rate of 6% per annum, a public bond in an amount of HK$4,739,322,000 with a fixed interest rate of 3.9% per annum and two unsecured bonds for a term of seven years of approximately HK$20,100,000 with a fixed interest rate of 5% per annum. Although the convertible bond, the public bond and other borrowings were denominated in US dollars, the exchange rate was relatively stable and the unsecured bonds were denominated in Hong Kong dollars, thus the Company was not subject to the risks in relation to exchange rate fluctuations. The gearing ratio (total borrowings divided by total assets) as at 31 December 2018 was approximately 60.44% (31 March 2018: approximately 55.70%).

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENCY RISK MANAGEMENT

The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Group is mainly exposed to foreign exchange risk with respect to Renminbi which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Renminbi and will closely monitor its impact on the performance of the Group and consider adopting appropriate hedging measures in the future when necessary. In addition, the Group also pays close attention to the impact of the U.S. interest rate hike cycle on the U.S. dollar-denominated assets, and will adopt appropriate response measures.

During the Reporting Period, the Group has not used any financial instruments for hedging purposes, nor any currency borrowings or other hedging instruments to hedge foreign currency net investments.

PLEDGE OF ASSETS

As at 31 March 2018, except that CB 1 is secured by the share charge of the entire share capital of Hong Kong Leasing (note 29), none of the other assets of the Group were pledged.

As at 31 December 2018, there is a finance lease receivable with a carrying amount of approximately HK$159,563,000 (equivalent to approximately RMB140,418,000) pledged for a loan for approximately HK$132,122,000 (equivalent to approximately RMB116,270,000). The loan period is from 28 November 2018 to 27 November 2021.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Save as disclosed in note 35 and 42 to the consolidated financial statements, the Group had no other significant capital commitment and contingent liabilities as at 31 December 2018.

SIGNIFICANT INVESTMENTS

Save as disclosed in note 20(vii)(a) to the consolidated financial statements, the Group did not have other significant investments during the Reporting Period.

As at 31 December 2018 and the date of this report, save as disclosed in the section "Future Prospects" on page 9 of this report, the Group did not have any plans for significant investment or acquisition of capital assets in future.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 16 August 2018, the Board exercised its authority under the repurchase mandate, pursuant to which, the Company repurchased 55,170,000 Shares in total on market, at an aggregate consideration of approximately HK$9,997,000 (before brokerage and expenses).

On 15 August 2018, the Board exercised its authority under the repurchase mandate, pursuant to which, the Company repurchased 44,094,000 Shares in total on market, at an aggregate consideration of approximately HK$7,127,000 (before brokerage and expenses).

Save as disclosed above, no purchase, sale or redemption of the Company's listed securities was made by the Company or any of its subsidiaries for the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions or disposals of subsidiaries during the Reporting Period.

EMPLOYEES, REMUNERATION POLICY AND RETIREMENT BENEFITS SCHEME

As at 31 December 2018, the Group had a workforce, including the Directors and the directors of the Company's subsidiaries, of 579 employees, of which 531 were based in the PRC. Staff costs incurred and charged to profit or loss for the Reporting Period, including Directors' remuneration, were approximately HK$97,400,000 (for the year ended 31 March 2018: approximately HK$60,646,000). The increase in staff costs was in line with the business expansion of the Group.

The Group selects and promotes staff based on their qualification, experience and suitability for the position offered. The Group's remuneration policy aims to retain and motivate staff. Performance of staff is appraised annually to provide a basis for the review of the remuneration package. The Group participates in a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all its employees in Hong Kong.

The employees of the Group's PRC subsidiaries are members of a State-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The Group has adopted a series of human resource management initiatives, including providing training programmes and development opportunities for its staff. The Group has established individual training and development record for each of our employees to improve their professional service standards and to keep them updated with the latest knowledge developments and help them develop sufficient professional capability to provide better services for investors and other stakeholders. The Group has also been implementing the "Internal Sharing Plan" in the Group, encouraging our staff to share their expertise and experience with others. In addition, the Group encouraged all employees to participate in financial knowledge training courses organised by various commercial institutions to enrich and improve their understanding of finance. The Group also provided other benefits to the staff in accordance with the prevailing market practice.

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to supporting environmental sustainability. The Group implements environmental policies and measures in our daily business operations to mitigate the Group's impact on the environment.

The Group pays a high level of attention to indicators of energy usage and emission. Although the Group is not involved in any manufacturing activities, it adheres to low-carbon travel without hindering the efficient operations of the Group. Employees shall strictly comply with the specifications of travel allowance claim under the daily expense standards. Based on the principles of efficiency and conservation, the Group encourages our employees to choose low-carbon and efficient means of transportation, such as MTR and other public transport. The Group also encourages employees to travel together and take the same flight to allow pick-up in one go and conserve energy.

The Group adheres to the policies of efficient use of energy, water and other resources as the Group endorses conservation of energy and resources in daily operations. The Group posts notes at lighting switches and other conspicuous areas as one of the measures for energy conservation. The Group advocates the Energy Saving Charter on Indoor Temperature and maintain an average indoor temperature of our office between 24 – 26° C during summer time to save energy; use LED lights included in the Voluntary Energy Efficiency Labelling Scheme of the Electrical and Mechanical Services Department of Hong Kong; select energy efficient appliances (e.g. refrigerators, air-conditioners); request employees to switch off the lights before leaving offices; encourage reuse of stationery, such as old envelopes and folders; promote double-sided printing and reuse of paper for facsimile.

A comprehensive Environmental, Social and Governance Report will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") no later than three months after the publication of the annual report for the Reporting Period.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Reporting Period, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws or regulations by the Group that has a material adverse impact on the business and operations of the Group.

For the year ended 31 December 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS AND BUSINESS REVIEW

As stated in the announcement of the Company dated 21 June 2018, the Board has resolved to change the financial year end date of the Company from 31 March to 31 December with effect from the financial year 2018, to align the financial year end date of the Company with the financial year end date of its operating subsidiaries in the PRC, thereby streamlining the preparation of the financial reporting process of the Company. Accordingly, the current financial period covers the whole year from 1 January 2019 to 31 December 2019 (the "Reporting Period"), while the comparative figures cover the period of nine months from 1 April 2018 to 31 December 2018, which may not be fully comparable to the results of this Reporting Period.

The Board hereby announces that the Group recorded a net loss of approximately HK$1,961,815,000 during the Reporting Period (for the nine months ended 31 December 2018: net loss of approximately HK$691,176,000). The net loss was mainly due to the significant loss in the fair value of one of the Group's financial assets and provision for significant impairment of relevant financial assets.

As at 31 December 2019, the Group recorded total assets of approximately HK$23,198,805,000 (31 December 2018: HK$13,377,465,000) and total liabilities of approximately HK$12,947,348,000 (31 December 2018: HK$8,499,219,000), and therefore net assets amounted to approximately HK$10,251,457,000 (31 December 2018: HK$4,878,246,000).

The Group is an investment holding company and its subsidiaries were engaged in the following major operating segments during the Reporting Period:

a) Financial leasing

During the Reporting Period, the financial leasing business recorded a loss of approximately HK$387,792,000 (for the nine months ended 31 December 2018: loss of approximately HK$465,244,000), which was mainly due to the Group's provision for impairment of relevant financial assets of approximately HK$343,199,000, of which finance lease receivables impairment amounted to approximately HK$342,076,000. In the recent years, affected by factors such as the slowdown of the macro economic growth and intensified competition in the industry, the growth rate of the number of enterprises and the balances of lease contracts in the financial leasing industry has slowed down significantly. Meanwhile, the increasingly stringent financial regulatory environment gave rise to limitations against the financing channels for companies in the financial leasing industry, bringing out more difficulties for the overall operation. As the current condition gets improvement to certain extent, the capital financing channels are gradually broadened, and we believe the overall industry will recover step by step. On the other hand, as the penetration of the financial leasing industry in the PRC market is still far lower than that in the developed countries, there are still great development space and market potentials at present.

MANAGEMENT DISCUSSION AND ANALYSIS

b) Investment in securities

During the Reporting Period, affected by the fluctuation of stock markets, the Group's securities portfolio recorded an unrealised fair value loss on financial assets at fair value through profit or loss of approximately HK$1,346,743,000 (for the nine months ended 31 December 2018: loss of approximately HK$223,223,000) and a realised loss on financial assets at fair value through profit or loss of approximately HK$16,313,000 (for the nine months ended 31 December 2018: loss of approximately HK$7,535,000). The unrealised fair value changes had no impact on the Group's cash flow as they were non-cash items.

c) Money lending

During the Reporting Period, the revenue from the money lending segment was approximately HK$76,420,000 (for the nine months ended 31 December 2018: approximately HK$83,064,000). The decrease in revenue was due to the loan repayments of some customers. The Group will continue to adopt a prudent and compliant management approach to maintain steady growth in business and profitability.

C.I.F. Financial Limited, a wholly-owned subsidiary of the Company, holds a money lender license.

d) Financial technology

During the Reporting Period, the financial technology business recorded a profit of approximately HK$171,864,000 (for the nine months ended 31 December 2018: profit of approximately HK$26,256,000). The increase in profit was mainly attributable to the expansion of business, driving an increase in the turnover of this business. In the future, the financial technology segment will continue to create synergy with other businesses of the Group, bringing favourable conditions for the Group's development.

During the Reporting Period, the Group also carried out the businesses of operating an asset trading platform, securities brokerage and commercial factoring.

Asset Trading Platform

The Company, through its subsidiary, Shenzhen Asia-Pacific Leasing Assets Exchange Center Co., Ltd.*（深圳亞太租賃資產交易中心有限公司）("LAECAP"), is engaged in the trading business of financial leasing, leasing assets as well as other related leasing properties, and provision of spot trading platform and marketing and consulting services related to the above businesses.

During the Reporting Period, under the directions of Shenzhen Municipal Financial Regulatory Bureau (Shenzhen Municipal Financial Service Office)（深圳市地方金融監督管理局（深圳市政府金融工作辦公室））to the Opinions on the Safe Handling of Remaining Issues and Risks of Local Trading Places*（《關於穩妥處置地方交易場所遺留問題和風險的意見》）issued by the China Securities Regulatory Commission, the Group entered into an agreement with Shenzhen Qianhai Financial Leasing Financial Trading Center Co., Ltd.*（深圳市前海融資租賃金融交易中心有限公司）(now known as "Shenzhen Guangjin United Investment Co., Ltd*"（深圳廣金聯合投資有限公司）), an independent third party, (the "Laecap Investor") that (i) to transfer the Group's 50% equity interest in LAECAP to the Laecap Investor on 30 December 2019; (ii) the Laecap Investor has guaranteed to refrain from engaging in similar business of LAECAP; and (iii) the Laecap Investor shall transfer its existing business which are the same and similar to LAECAP, related staff and customer relationship to LAECAP.

The Directors consider that the Group can exercise control over LAECAP through controlling its board of directors which can direct the relevant activities of LAECAP. Therefore, the financial results of LAECAP are consolidated into the consolidated financial results of the Group.

FUTURE PROSPECTS

In 2019, amid great changes in the domestic and international economic environment, the uncertainties of the global economy increased and the development of the overall economy witnessed a slowdown. In early January this year, the International Monetary Fund (IMF) downgraded its global growth forecast for 2019 to 2.9%, the lowest since the global economic crisis. The slowdown in economic growth was mainly due to the intensifying trade conflicts and geopolitical tensions, which caused more uncertainties in the future global trading system and international cooperation and had an adverse impact on the global business environment, investment decision and global trade. The central banks across the world had adopted more accommodative monetary policies to mitigate the impact of the said tensions on the financial market sentiment and activities. Nevertheless, global economic growth still tended to slow down with unstable outlook. The changes in the external environment further increased the downward pressure on China's economic growth. According to the data published by the National Bureau of Statistics, the gross domestic product (GDP) in 2019 increased by 6.1% year-on-year, lower than 6.6% in 2018. Meanwhile, as the current domestic economy is transforming from high-speed growth to high-quality growth and economic structure is also undergoing adjustment and optimisation, it is projected that the economic growth will remain under pressure in the short term.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward to 2020, in order to address the potential risks associated with economic downward and to further invigorate micro-entities in the market, the PRC government is expected to implement a prudent monetary policy and a proactive fiscal policy and thus the basic trend of future economy will continue to maintain steady development while making good for a long term. This year is the last year of the 13th Five-year Plan of the PRC (the "Plan"), and the Plan highlights the Guangdong-Hong Kong-Macao Greater Bay Area to be constructed and developed into a city cluster with global competitiveness. Currently, the Guangdong-Hong Kong-Macao Greater Bay Area is one of the regions in the PRC with the highest level of openness and economic vibrancy and has the fundamental conditions to become an international top bay area and a world-class city cluster. With a gradual introduction and implementation of development policies and complementary measures for the Greater Bay Area, local and cross-border demands for investment and financing will surge, providing enormous opportunities for the business development of the Group.

Moreover, since the outbreak of the COVID-19 at the beginning of the year, the Group has taken the employees' health as its top priority, and actively implemented various higher standards, more stringent requirements and more practicable measures to better carry out the pandemic control and prevention works. In order to improve the financial service security and crisis response during the pandemic period, the Group has promptly assessed the actual situation and made a flexible adjustment to business development, so as to protect the interests of customers as much as practicable and maintain the steady and healthy development of all businesses. Meanwhile, in response to the national government's guidance on further strengthening financial support for the pandemic control and prevention, the Group will actively cooperate with banks, insurance companies and other parties to reinforce the financial supports for the key areas in the society and livelihood.

In the future, the Group will fully capitalise the development opportunities brought by a series of national policies on, among others, the development of Guangdong-Hong Kong-Macao Greater Bay Area, the "Belt and Road" Initiative, the replacement of old growth drivers with new ones in Shandong Province, the transformation and upgrading of domestic traditional industries and the development of emerging industries. Meanwhile, by leveraging the abundant resource and market superiority of Shandong Hi-Speed Group, the controlling shareholder, as well as the Group's extensive experience in the capital markets of mainland China and Hong Kong, the Group will continue to enhance its business strength and thoroughly implement the dual strategy of direct investment and strategic M&A with an aim to develop into a fast-growing first-class investment, financing and financial holding platform in the Greater China Region.

The Group will continue to seek potential acquisition targets that will create synergy with the Group and enhance its profitability. As at the date of this report, the Group does not have any specific acquisition target.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE END OF THE REPORTING PERIOD

From 31 December 2019 to the date of this report, there were no significant reportable events or transaction incurred in the Group.

FUNDRAISING ACTIVITIES

On 15 January 2019, the Group issued US$550,000,000 5.95% guaranteed bonds due 2020. Given the abovementioned bonds were well received by the market, the Group further issued US$50,000,000 5.95% guaranteed bonds due 2020 on 19 February 2019.

On 25 July 2019, the Group issued US$100,000,000 4.30% guaranteed bonds due 2029.

On 1 August 2019, the Group issued US$500,000,000 3.95% guaranteed bonds due 2022 and US$900,000,000 4.30% guaranteed perpetual securities.

The above issuances of bonds and securities are a significant step of the Group in gaining recognition in the international financial market and would provide the Group with an additional source of funding for its business development. Further details about the abovementioned matters are set out in the announcements of the Company dated 9 January 2019, 15 January 2019, 19 February 2019 and 26 July 2019, respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts a prudent approach to cash and financial management to properly manage risks and reduce capital costs. As at 31 December 2019, the Group's total assets and borrowings were HK$23,198,805,000 and HK$12,564,641,000, respectively. The borrowings of the Group were comprised of bank borrowings, bonds and other borrowings of approximately HK$2,825,575,000, HK$9,584,184,000 and HK$154,882,000, respectively. Details of the bank loans and other borrowings of the Group are disclosed in note 30 to the consolidated financial statements.

As at 31 December 2019, the outstanding bonds of the Group included a 5.95% guaranteed bond in the amount of approximately HK$4,806,638,000, a 3.95% guaranteed bond in the amount of approximately HK$3,963,252,000, a 4.30% guaranteed bonds in the amount of approximately HK$793,841,000 and two unsecured seven-year ordinary bonds in the amount of approximately HK$20,453,000 bearing an interest rate of 5% per annum. Although the above-stated bonds and some borrowings were denominated in US dollars, the exchange rate was relatively stable and the unsecured bonds were denominated in Hong Kong dollars, thus the Company was not subject to the risks in relation to exchange rate fluctuations. The gearing ratio (total borrowings divided by total assets) as at 31 December 2019 was approximately 54.16% (31 December 2018: approximately 60.44%).

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENCY RISK MANAGEMENT

The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Group is mainly exposed to foreign exchange risk with respect to Renminbi, which may affect the Group's performance. The management will pay attention to the exchange rate exposure that may be arising from the continuing fluctuation of Renminbi, closely monitor its impact on the performance of the Group and will consider adopting appropriate hedging measures in the future when necessary. In addition, the Group also pays close attention to the impact of the U.S. interest rate fluctuations on its U.S. dollar-denominated assets, and takes appropriate response measures.

During the Reporting Period, the Group has neither held any financial instruments for hedging purposes, nor any currency borrowings or other hedging instruments to hedge its net foreign currency investments.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's finance lease receivables with carrying amount of approximately HK$282,102,000 have been pledged to secure for bank borrowings.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Save as disclosed in notes 37 and 44 to the consolidated financial statements, the Group did not have any other significant contingent liabilities and capital commitment during the Reporting Period.

SIGNIFICANT INVESTMENTS

Save as disclosed in notes 21 and 22 to the consolidated financial statements, the Group did not have any other significant investments during the Reporting Period.

Save as disclosed in the section headed "Future Prospects" on pages 9 to 10 in this report, the Group did not have any future plans for significant investment or capital assets acquisition during the Reporting Period and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the Reporting Period, the Group did not have any material acquisitions or disposals of subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES, REMUNERATION POLICY AND RETIREMENT BENEFITS SCHEME

As at 31 December 2019, the Group had a workforce, including the directors of the Company and its subsidiaries, of 562 employees, of which 486, 67 and 9 were based in the PRC, Hong Kong and Singapore, respectively. Staff costs incurred and charged to profit or loss for the Reporting Period, including Directors' remuneration, were approximately HK$161,912,000 (for the nine months ended 31 December 2018: approximately HK$97,400,000). The increase was mainly due to business expansion, organisational restructuring, manpower deployment and increase in salaries.

The Group selects and promotes staff based on their qualification, experience and suitability for the position offered. The Group's remuneration policy aims to retain and motivate staff. Performance of staff is appraised annually to provide a basis for the review of the remuneration package. Meanwhile, competitive remuneration packages are offered to employees by reference to the prevailing market rate and individual merits.

The Company participates in a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all its employees in Hong Kong. The employees of the Group's PRC subsidiaries are members of a State-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The Group has adopted a series of human resource management initiatives to attract and cultivate talents, including providing training programmes and development opportunities for its staff. The Group has established individual training and development record for each of our employees to improve their professional service standards and to keep them updated with the latest knowledge developments and help them develop sufficient professional capability to provide better services for investors and other stakeholders. The Group has also been implementing the "Internal Sharing Plan" in the Group, encouraging our staff to share their expertise and experience with others. In addition, the Group encouraged all employees to participate in financial knowledge training courses organised by various commercial institutions to enrich and improve their understanding of finance.

The Group provided benefits including Mandatory Provident Fund Scheme, staff quarters and medical insurance. Meanwhile, the Group provided other benefits to the staff in accordance with the prevailing market practice.

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to supporting environmental sustainability. The Group implements environmental policies and measures in our daily business operations to mitigate the Group's impact on the environment.

The Group also pays a high level of attention to indicators of energy usage and emission. Although the Group is not involved in any manufacturing activities, it adheres to low-carbon travel without hindering the efficient operations of the Group. Employees shall strictly comply with the specifications of travel allowance claim under the daily expense standards. Based on the principles of efficiency and conservation, the Group encourages our employees to choose low-carbon and efficient means of transportation, such as MTR and other public transport. The Group also encourages employees to travel together and take the same flight to allow pick-up in one go and conserve energy.

Adhering to the policies of efficient use of energy, water and other resources, the Group endorses conservation of energy and resources in daily operations. The Group posts energy-saving reminder notices at light switches and other conspicuous areas as one of the measures for energy conservation. The Group advocates the Energy Saving Charter on Indoor Temperature and maintains an average indoor temperature of our offices between 24˚C to 26˚C during summer time to save energy; uses LED lights included in the Voluntary Energy Efficiency Labelling Scheme launched by the Electrical and Mechanical Services Department of Hong Kong; selects energy-efficient appliances (e.g. refrigerators, air-conditioners); requests employees to switch off the office lights when they are off work; encourages reuse of stationery, such as old envelopes and folders; and promotes double-sided printing and reuse of paper for facsimile.

A comprehensive Environmental, Social and Governance Report (the "ESG Report") will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") no later than three months after the publication of this report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Reporting Period, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws or regulations by the Group that has a material adverse impact on the business and operations of the Group.

For the year ended 31 December 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

During the year ended 31 December 2020 (the "Reporting Period"), the Group recorded an increase in revenue and a decrease in loss as compared with the year ended 31 December 2019 (the "Previous Period"). During the Reporting Period, the Group recorded the revenue of approximately HK$1,272,354,000, representing an increase of approximately 42.30% year-over-year. The loss for the year was approximately HK$18,307,000, representing an improvement of approximately 99.07%, as compared with the loss of approximately HK$1,961,815,000 for the Previous Period. The improvement was mainly attributable to (i) a significant improvement in fair value change on financial assets at fair value through profit or loss; (ii) the significant increase in interest income from financial assets at fair value through other comprehensive income and fixed-income investment due to the significant enlargement in the investment scale in financial assets and the operation scale in fixed-income investment; and (iii) a non-recurring other income of approximately HK$189 million. The basic loss per share attributable to owners of the Company was approximately HK$1.17 cents, as compared with the basic loss per share of approximately HK$8.57 cents for the Previous Period.

As at 31 December 2020, the Group recorded total assets of approximately HK$24,966,194,000 (2019: HK$23,198,805,000) and total liabilities of approximately HK$15,309,446,000 (2019: HK$12,947,348,000), and therefore net assets of approximately HK$9,656,748,000 (2019: HK$10,251,457,000).

In view of the prudent financial and risk management measures taken by the Group, it believes that the COVID-19 pandemic has not given a material adverse effect on the Group's financial position and operating results during the Reporting Period. The Group will closely monitor the development of the pandemic and will evaluate and actively respond to the financial position and business operations of the Group.

MARKET REVIEW

In early March last year, under the impact of the COVID-19 pandemic, the world fell into a severe crisis of dollar liquidity drying up, triggering panic sell-off of major risk assets by investors. Stocks, bonds and commodity markets all experienced serious declines. Since then, in order to support economic development and avoid a full-blown financial crisis, countries have successively introduced ultra-loose monetary policies and large-scale fiscal stimulus plans. According to the data released by the International Monetary Fund (IMF), global fiscal support in response to the COVID-19 reached nearly US$14 trillion as at the end of December last year. Under the two-pronged approach of fiscal and monetary policies, the global economy began to gradually recover in the third quarter. In addition, the research and development for the COVID-19 vaccine has achieved positive test results, and subsequently received approval from relevant regulatory agencies to start vaccination, which made investors have optimistic expectations for economic recovery and led to a clear rebound trend in the market. Some markets and financial asset prices even hit historical records.

MANAGEMENT DISCUSSION AND ANALYSIS

Confronting the severe impact of the COVID-19 pandemic and the complex and severe domestic and foreign environments, the PRC government has adopted prompt and effective prevention and control measures to quickly control the spread of the pandemic. As such, employment and people's livelihoods were well protected. China took the lead in achieving an economic rebound, and key figures on economic and social development were better than expected. Date from the National Bureau of Statistics of China shows that China's economy has maintained a stable operation and achieved resilient growth in 2020. From the perspective of economic growth, the economy experienced negative growth in the first quarter of last year due to the pandemic, and gradually increased after the second quarter, achieving a medium-to-high growth rate of 6.5% in the fourth quarter and 2.3% for the year. China was the only major economy in the world to achieve positive growth, and its share of the world's economic scale has risen to more than 17%. China has become the main driving force to promote the recovery of the global economy.

BUSINESS REVIEW

The Group is an investment holding company and its operating segments during the Reporting Period are as follows:

a) Financial leasing

During the Reporting Period, the financial leasing business of the Group recorded a loss of approximately HK$990,345,000, an increase of 155.38% from the Previous Period. The loss was mainly due to the impairment loss of approximately HK$987,074,000 recognised in respect of finance lease receivables and the cautious approach was taken by the Group to the operation of its finance lease business in light of the market conditions, resulting in a decrease in related income compared to the Previous Period. As the comprehensive recovery of the domestic economy and economic growth turns from negative to positive, the overall reduction in the financial leasing business is expected to shrink gradually. With the steady recovery of the domestic economy and the normalisation of monetary policy, the financial leasing business is likely to record growth in the future. Meanwhile, benefiting from the huge investment demand for fixed assets generating from the deepening implementation of guiding policies as dual circulation strategy, the adjustment of industry structure, the upgrading of manufacturing industry, and technology innovation drive a large demand on fixed-asset investments. The financial leasing industry will see good development opportunities by playing an important role in the transformation of industry structure and the course of domestic enterprises "going to the world".

MANAGEMENT DISCUSSION AND ANALYSIS

b) Investment in securities

In the first half of 2020, global stock markets fell sharply and some markets experienced historical declines. After a round of market turmoil, the valuation of the Hong Kong stock market was lower than that of the world's major developed and emerging markets, creating huge investment opportunities for value investors. With the recovery of economic and market valuations, the Group has made decisive decisions to make arrangements, seized favourable investment opportunities, and increased investments in blue chips, industry leaders and significant undervalued underlying equity assets. During the Reporting Period, the Group increased investments in financial assets and enlarged its operated fixed-income investments, which resulted in a significant increase in the interest income from financial assets at fair value through other comprehensive income and the interest income from the fixed-income investments.

In the Previous Period, the Group recorded unrealised fair value losses on financial assets at fair value through profit or loss due to a significant loss of approximately HK$1,132,888,000 on the fair value of one of its financial assets. During the Reporting Period, the Group sold part of the shares of this financial asset and realised a gain on financial assets at fair value through profit or loss of approximately HK$33,509,000. In addition, the Group repurchased all 363,065,565 shares of the Company from Honesta Investment Limited ("Honesta Investment") at nil consideration during the Reporting Period and recorded a non-recurring other income of approximately HK$188,794,000.

Benefiting from the above factors, the Group's investment portfolio recorded unrealised fair value gain and realised gain on financial assets at fair value through profit or loss of approximately HK$276,931,000 and HK$525,444,000, respectively, for the Reporting Period as compared with the unrealised fair value loss and realised loss of approximately HK$1,346,743,000 and HK$16,313,000 for the Previous Period, indicating a significant improvement in the results. The unrealised fair value changes had no impact on the Group's cash flow as they were non-cash items.

c) Money lending

In the first half of the Previous Period, due to the impact of the COVID-19 pandemic, the Group's business team was unable to conduct on-site due diligence on customers and projects, thus restricting the development of the money lending business accordingly. Subsequently, as the COVID-19 pandemic situation stabilised, the Group increased its investment in the money lending business, which significantly expanded the scale of the money lending business. During the Reporting Period, the money lending business recorded a profit of approximately HK$72,120,000, an increase of 55.70% from approximately HK$46,319,000 for the Previous Period. With its strong financial strength, extensive channel network and experienced professional team, the Group's money lending business will continue to develop steadily.

d) Financial technology

The Group proactively responds to national policies and continuously adjusts and optimises its financial technology business strategies to further reduce operational risks. During the Reporting Period, the financial technology business recorded a loss of approximately HK$194,013,000, as compared with a profit of approximately HK$171,864,000 in the Previous Period. The loss was mainly attributable to an increase in impairment losses recognised for loans receivables, goodwill and computer software. In the future, the financial technology segment will continue to create synergies with other businesses of the Group, bringing favourable conditions for the Group's development.

FUTURE PROSPECTS

Looking ahead to 2021, the challenges posed by the COVID-19 pandemic remain and the global economy is still clouded with uncertainties, which indicate the pandemic will continue to dominate the global economic landscape. With the COVID-19 vaccine available, coupled with the support of economic stimulus measures by states, the global economy is widely expected to step out of the downturn gradually and achieve positive growth this year, but it may still take years to return to pre-epidemic levels. Governments launched massive fiscal stimulus programs last year, and major central banks such as the U.S. Federal Reserve and the European Central Bank also adopted unprecedented loose monetary policies. The monetary and fiscal policies this year will remain accommodative, however, governments may then gradually reduce fiscal stimulus measures as they try to cover fiscal deficits along the economy recovers steadily. In this context, risk assets in the near term, particularly those in emerging markets, are expected to maintain their upward trend, but there will inevitably be bumps in the road along the way.

MANAGEMENT DISCUSSION AND ANALYSIS

China's economy has taken the lead in recovery in the midst of the global economic downturn. With the coordination of the PRC government in preventing and controlling the pandemic and economic and social development, as well as the implementation of policies on the stability on the six fronts (namely, employment, finance, foreign trade, foreign investments, domestic investment, and market expectations) and security in the six areas (means safeguarding employment, people's livelihoods, the development of market entities, food and energy security, the stable operation of industrial and supply chains, and the smooth functioning of society), China's economy has resumed growth since the second quarter of last year. In terms of macro policy, China will continue to adopt a proactive fiscal policy and a more precise and flexible monetary policy this year, to promote the transformation and upgrading of consumption, improve the quality and efficiency of investment and strengthen innovation and industry synergy. This year is the opening year of the PRC's 14th Five-Year Plan and the first step in building a new development pattern in which the domestic economic cycle plays a leading role while the international economic cycle remains its extension and supplement in China. The establishment of the new development pattern will boost domestic market demand, foster the restructuring and upgrading of industries, and provide a strong impetus to China's economic development. The World Bank's Global Economic Prospects released in January this year predicts that benefiting from the confidence of domestic consumer and business and the improvement of the labour market, China's economy will achieve a growth of 7.9% and is expected to become the fastest-growing region in the world. Foreign capital is now pouring into the Chinese market, with stocks, bonds and other financial assets being favoured by capital from overseas markets. It is expected that overseas capital will continue to flow into China this year and provide strong support to the domestic capital market.

The COVID-19 has not affected the operations of the Group. The Group will pay close attention to the potential impact of the pandemic on the market and its business and will continue to take risk prevention and control as the core value and the first priority of its development, and establish a comprehensive internal control system with a comprehensive risk management system, adhere to the bottom line of compliance and promote the steady development of its work. The Group will actively respond to challenges, leverage its strengths, and optimise and consolidate internal and external resources to enhance coordination and synergy across all business lines and explore new opportunities for sustainable growth while strengthening the foundation of its advantageous businesses.

The Group will continue to promote all aspects of business in an orderly and steady manner, and further strengthen its overall investment research and project development capabilities to explore more high-quality projects and investment opportunities. In addition, the Group will strengthen the market positioning of each subsidiary to consolidate the differentiated competitive advantages of each subsidiary. At present, the business of the Group covers the PRC, Hong Kong and Singapore, with diversified operating licenses and business forms. The Group will make full use of the market advantages of each region to deepen the overall synergy among its subsidiaries and cross-border linkage of investment businesses among different places of business. At the same time, the Group also encourages its subsidiaries to fully utilise their endogenous power and strengthen their investment capabilities to maximise the overall benefits of the Group.

In addition, the Group will continue to deepen the internal synergy with the subsidiaries of Shandong Hi-Speed Group, and fully tap the resources advantage of Shandong Hi-Speed Group to seek development on a higher platform and a broader market. As an overseas listed company, the Group will fully leverage its advantages of professional teams to properly carry out ancillary businesses such as asset securitisation, internationalisation, and overseas investment and financing. Meanwhile, based on the resource advantages given to the Group by Shandong Hi-Speed Group, the Group will deeply integrate its own advantages of the market-oriented mechanism to obtain complementary elements of operation and development, so as to achieve a win-win cooperation for both sides.

The Group will continue to seek potential acquisition targets that will create synergy with the Group and enhance its profitability. As at the date of this report, the Group does not have any specific acquisition targets.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events that took place after the end of the Reporting Period.

FUNDRAISING ACTIVITIES DURING THE REPORTING PERIOD

On 3 June 2020, Coastal Emerald Limited, an indirect wholly-owned subsidiary of the Company, issued 3.80% guaranteed bonds, which are guaranteed by the Company, due 2021 in an aggregate principal amount of US$800,000,000 to professional investors to raise funds for refinancing and general corporate purposes.

On 16 September 2020, Coastal Emerald Limited issued 3.80% guaranteed bonds, which are guaranteed by the Company, due 2021 in an aggregate principal amount of US$50,000,000 to a professional investor to raise funds for refinancing and general corporate purposes.

The Group did not conduct any equity financing activity during the Reporting Period.

DIVIDENDS

The Directors do not recommend the payment of any dividend for the Reporting Period (31 December 2019: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

In order to prevent the potential impacts of the COVID-19 pandemic, the Group proactively strengthened the management of external financing and banking facilities, effectively reduced capital costs and continuously improved debt structure. During the Reporting Period, the Group had sufficient liquidity and working capital to maintain normal business operations. As at 31 December 2020, the total amount of cash and cash equivalents of the Group was approximately HK$5,045,748,000 (2019: HK$8,214,075,000), total assets were approximately HK$24,966,194,000 (2019: HK$23,198,805,000) and total borrowings were approximately HK$14,829,314,000 (2019: HK$12,564,641,000).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2020, the outstanding borrowings of the Group were comprised of bank borrowings, bonds and other borrowings which were approximately HK$2,931,344,000 (2019: HK$2,825,575,000), HK$11,348,620,000 (2019: HK$9,584,184,000) and HK$549,350,000 (2019: HK$154,882,000), respectively. Details of the outstanding bank borrowings and other borrowings of the Group are disclosed in note 30 to the consolidated financial statements. As at 31 December 2020, the outstanding bonds of the Group included two secured bonds with coupon rates of 3.80% per annum (the aggregate outstanding amount: approximately HK$6,608,698,000), a secured bond with a coupon rate of 3.95% per annum (the outstanding amount: approximately HK$3,940,427,000), a secured bond with a coupon rate of 4.30% per annum (the outstanding amount: approximately HK$789,224,000) and an unsecured bond for a term of seven years with a coupon rate of 5% per annum (the outstanding amount: approximately HK$10,271,000). The above-stated bonds and other borrowings were denominated in US dollars and Hong Kong dollars, and the exchange rate of US dollars against Hong Kong dollars was relatively stable, thus the Company was not subject to the risks in relation to exchange rate fluctuations.

As at 31 December 2020, the gearing ratio (total outstanding borrowings divided by total assets) of the Group was approximately 59.40% (2019: 54.16%). The increase in gearing ratio was mainly due to the increase in the Company's borrowings during the Reporting Period.

As at 31 December 2020, the Company had a total of 24,089,384,437 issued shares with a par value of HK$0.00025 each, and the total equity attributable to the owners of the Company was approximately HK$2,393,777,000, representing a decrease of approximately 19.12% as compared with HK$2,959,705,000 as at 31 December 2019.

PLEDGE OF ASSETS

As at 31 December 2020, the Group's finance lease receivables with a carrying amount of approximately HK$67,940,000 (2019: HK$282,102,000) and financial asset at fair value through other comprehensive income of approximately HK$152,109,000 (2019: Nil) have been pledged to secure bank loan facilities of the Group.

CURRENCY RISK MANAGEMENT

The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Group is mainly exposed to foreign exchange risk with respect to Renminbi which may affect the Group's performance. The Group will pay attention to the possible exchange rate exposure due to the continuing fluctuation of Renminbi, closely monitor its impact on the performance of the Group and consider adopting appropriate hedging measures when necessary. In addition, the Group also pays attention to the impact of the U.S. interest rate fluctuations on its U.S. dollar-denominated assets from time to time, and takes appropriate response measures.

During the Reporting Period, the Group's foreign exchange exposure was manageable and therefore the Group has neither held any financial instruments for hedging purposes, nor any currency borrowings or other hedging instruments to hedge against its net foreign currency investments.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The Group did not have any significant contingent liabilities and capital commitment during the Reporting Period.

SIGNIFICANT INVESTMENTS

As at 31 December 2020, the Group did not have any individual investment with a fair value of 5% or more of the total assets of the Group. Save as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss disclosed in notes 21 and 22 to the consolidated financial statements, the Group did not have any other significant investments during the Reporting Period.

Save as disclosed in the section headed "FUTURE PROSPECTS" on pages 11 and 12 in this report, the Group did not have any specific plans for significant investment or capital assets acquisition during the Reporting Period.

MATERIAL ACQUISITION AND DISPOSAL

During the Reporting Period, the Group has conducted the following material acquisition and disposal:

Acquisition of 75% equity interest in Top Wish Holdings Limited ("Top Wish")

On 12 June 2020, the Group acquired the remaining 75% equity interest in Top Wish, an associate which the Group held its 25% equity interest, pursuant to a sale and purchase agreement dated 12 June 2020 at a total consideration of approximately HK$25,300,000. The consideration was settled by cash. Upon and after completion of the acquisition, the Group holds 100% equity interest in Top Wish, which became a wholly-owned subsidiary of the Group. Top Wish is an investment holding company and its subsidiaries are principally engaged in the securities brokerage business. The goodwill of approximately HK$47,003,000 arising from the acquisition of Top Wish was recognised during the Reporting Period. None of the goodwill recognised is expected to be deductible for income tax purposes. A gain on remeasurement of pre-existing interest in an associate of approximately HK$6,148,000 was recognised in the consolidated statement of comprehensive income during the Reporting Period.

Disposal of the entire interest in Eternal Billion Holding Group Limited ("Eternal Billion")

On 12 June 2020, the Group entered into a sale and purchase agreement with an independent third party to dispose the entire interest in Eternal Billion, for an aggregate cash consideration of HK$300,000. Eternal Billion is an investment holding company and its subsidiary is principally engaged in advisory on securities and asset management activities. The transaction was completed on 12 June 2020 and has resulted in recognition of an aggregate gain of approximately HK$300,000 in the consolidated income statement for the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries or associates of the Group during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, the Company bought back all of the 363,065,565 Consideration Shares from Honesta Investment Limited at nil consideration on 3 August 2020. The Consideration Shares bought back were subsequently cancelled on 6 August 2020. Details of the share buyback are disclosed in note 33 to the consolidated financial statements. Further details are set out in the announcements of the Company dated 29 December 2017, 26 March 2018 and 3 August 2020.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities subsequent to the Reporting Period and up to the date of this report.

IMPAIRMENT LOSSES ON FINANCE LEASE RECEIVABLES AND LOAN RECEIVABLES

For the year ended 31 December 2020, the Group has recorded impairment losses on finance lease receivables and loan receivables, net of reversal, of approximately HK$987.1 million and HK$131.0 million, respectively (the "Impairments"). Details of the Impairments are as follows:

Finance Lease (1): Yunan Highway Finance Lease

Reference is made to the announcement of the Company dated 30 December 2020 regarding a finance lease arrangement (the "Yunan Highway Finance Lease") entered into in July 2013 (as supplemented in December 2013) by, among others, (i) Shangao International Finance Leasing (Shenzhen) Co., Ltd.* (山高國際融資租賃(深圳)有限公司)("Shangao International Leasing"), an indirect wholly-owned subsidiary of the Company, as lessor; and (ii) China Yunnan Highway Construction Group Company Limited.* (中國雲南路建集團股份公司)(the "Yunan Highway") as lessee.

The Group has been continuously assessing the credit risks of Yunan Highway since its's default in repayment of lease payables under the Yunan Highway Finance Lease in March 2018. The Group's continuous measures included but not limited to the conducting of site visits and communicating with the ultimate beneficial owners, auditors and debtors of the Yunan Highway to keep abreast of the status and progress of Yunan Highway's business, financial liquidity, financial audits and bankruptcy reorganization. Pursuant to the Group's business and financial investigation, it became clear in the end of 2020 that the credit risks of Yunan Highway had reached a level of significance where substantial impairment of the loan receivables should be made. In assessing the credit risk of Yunan Highway and determining the need and extent of impairment of finance lease receivables under the Yunan Highway Finance Lease for the year ended 31 December 2020, the Group had primarily taken into account the following factors, events and circumstances at that material time:

(i) The Group had not received any repayment from Yunan Highway under the Yunan Highway Finance Lease since March 2018;

(ii) The Group's investigation revealed that Yunan Highway and its major operating subsidiaries had ceased their respective business operations, and that Yunan Highway was significantly insolvent (that its total liability exceeded its total assets under its financial statements by a significant degree);

(iii) According to public records as at 23 October 2020, (i) there were 204 records of enforcement of judgment against Yunan Highway; and (ii) there were 112 cases of unsuccessful enforcement of judgements against Yunan Highway due to lack of enforceable assets (終本案件), involving unfulfilled monetary obligations of approximately RMB292,462,100; and

(iv) The net realisable value of the Yunan Highway Leased Assets were unascertainable as the Group's investigation revealed that a significant portion of them may have become obsolete or untraceable.

For the reasons stated above, the Group regarded that the credit risk of Yunan Highway was high and therefore decided that an impairment of HK$137,302,479.73 for the Yunan Highway Finance Lease should be made for the year ended 31 December 2020. As at 31 December 2020, all loan receivables under the Yunan Highway Finance Lease had been fully impaired. It is the view of the Directors that the factors set out above which formed the primary foundation of the impairment could not have been anticipated by the Group when the agreement of Yunan Highway Finance Lease was entered into back on 26 July 2013 which was more than 6 years before the relevant impairment was made.

As disclosed in the announcement of the Company dated 30 December 2020, the Group has sought legal advice, has been conducting site visits and communicating with the ultimate beneficial owners, auditors and debtors of the Yunan Highway to keep abreast of the status and progress of Yunan Highway's business, financial liquidity, financial audits and bankruptcy reorganization. The Group has commenced relevant legal proceedings against Yunan Highway and the personal guarantors and corporate guarantors of the Yunan Highway Finance Lease in a view to recover the outstanding lease receivables. The Group will closely monitor the progress of the recovery of outstanding lease receivables, and make announcement as and when appropriate in compliance with the Listing Rules.

Finance Lease (2) – (4): China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and Ruizhan (Tongling) Finance Lease

Reference is made to the announcements of the Company dated 16 May 2018 and 2 December 2020 and the circular of the Company dated 17 July 2018 regarding (i) the finance lease arrangement agreed on 21 March 2018 (the "China Tieniu Lease") by, among others, Shangao International Finance as lessor and China Tieniu Group Co., Ltd.* (鐵牛集團有限公司) ("China Tieniu") as lessee; (ii) the finance lease arrangement agreed on 29 March 2018 (the "Hangzhou ESSEN Lease") (as amended by a supplemental agreement dated 7 May 2018) by, among others, Shangao International Finance as lessor and Hangzhou ESSEN Auto Component Co., Ltd.* (杭州易辰孚特汽車零部件有限公司) ("Hangzhou ESSEN") as lessee; and (iii) the finance lease arrangement agreed on 7 May 2019 (the "Ruizhan (Tongling) Lease") by, among others, Shangao International Finance as lessor and Ruizhan (Tongling) Technology Co., Ltd* (銳展(銅陵)科技有限公司) ("Ruizhan (Tongling)") as lessee.

MANAGEMENT DISCUSSION AND ANALYSIS

The assessment of credit risks by the Group of China Tieniu, Hangzhou ESSEN and Ruizhan (Tongling) under the China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and Ruizhan (Tongling) Finance Lease has been a continuous process. The Group realised that the credit risks of China Tieniu, Hangzhou ESSEN and Ruizhan (Tongling) have reached a level of significance where substantial impairment of the relevant finance lease receivables should be made in the end of 2020. In assessing the credit risk of China Tieniu, Hangzhou ESSEN and Ruizhan (Tongling) and determining the need and extent of impairment of finance lease receivables under the China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and the Ruizhan (Tongling) Finance Lease for the year ended 31 December 2020, the Group had primarily taken into account the following factors, events and circumstances at that material time:

(i) In August 2020, the applications for bankruptcy reorganisation of Zhejiang Zhuocheng (one of the guarantors of Ruizhan (Tongling) Lease and a subsidiary of China Tieniu) was accepted by the Zhejiang Yongkang People's Court (浙江省永康市人民法院);

(ii) In September 2020, Anhui Tongfeng (one of the guarantors of each of China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and the Ruizhan (Tongling) Finance Lease and a subsidiary of China Tieniu) was declared bankrupted by the Anhui Tongling Intermediate People's Court (安徽省铜陵市中级人民法院);

(iii) In December 2020, China Tieniu was declared bankrupt by the Zhejiang Yongkang People's Court (浙江省永康市人民法院);

(iv) In December 2020, the application for bankruptcy liquidation of Ruizhan (Tongling) was accepted by Anhui Tongling Intermediate People's Court (安徽省铜陵市中级人民法院);

(v) It was expected that the Group could only recovery a relatively low percentage of outstanding amount under China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and the Ruizhan (Tongling) Finance Lease from the distribution of bankruptcy assets of China Tieniu, Zhejiang Zhuocheng and Ruizhan (Tongling) (in their respective bankruptcies (if any));

(vi) the Group's investigation revealed that China Tieniu's major operating subsidiaries (including Hangzhou ESSEN) and Ruizhan (Tongling) had ceased their respective business operations;

(vii) According to public records as at 21 October 2020, there were 6 records of enforcement of judgment against Hangzhou ESSEN, involving monetary obligation of approximately RMB1,069,159,087; and

(viii) According to public records as at 29 October 2020, (i) there were 8 records of enforcement of judgements against Zhejiang Dehao (one of the guarantors of Ruizhan (Tongling) Lease), involving monetary obligation of approximately RMB253,477,980.00; (ii) there were 6 cases of unsuccessful enforcement of judgements against Zhejiang Dehao due to lack of enforceable assets（終本案件）, involving unfulfilled monetary obligations of approximately RMB10,659,900.

For the reasons stated above, the Group regarded that the credit risks of China Tieniu, Hangzhou ESSEN and Ruizhan (Tongling) were high, and therefore decided that impairment of HK$467,684,806.03, HK$168,017,333.04 and HK$197,476,560.75 for the China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and Ruizhan (Tongling) Finance Lease should be made for the year ended 31 December 2020, respectively. In respect of the leased assets under the China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and Ruizhan (Tongling) Finance Lease, in performing the annual audit procedures for the year ended 31 December 2020, the Group conducted site visits for ascertaining their existence and for performing physical inspections. The Company is waiting for the results of the relevant bankruptcy proceedings and will determine further plans for the disposal of such leased assets.

It is the view of the Directors that the factors set out above which formed the primary foundation of the impairment could not have been anticipated by the Group when the agreement of China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and the Ruizhan (Tongling) Finance Lease were entered into back on 21 March 2018, 29 March 2018 and 7 may 2019, respectively, as (i) the credit risks of China Tieniu, Hangzhou ESSEN and Ruizhan (Tongling) were acceptable to the Group at that time; (ii) their businesses were operating in an ordinary manner at that time; and (iii) their financial performance had deteriorated significantly only after the respective agreements of finance leases were entered into.

In February 2021, the application for bankruptcy liquidation of Zhejiang Dehao (one of the guarantors of Ruizhan (Tongling) Lease) was accepted by Zhejiang Yongkang People's Court（浙江省永康市人民法院）. The Group has been actively participating in the bankruptcy processes of Zhejiang Zhuocheng, Ruizhan (Tongling) and Zhejiang Dehao including but not limited to the exploration of new investors to participate in their respective bankruptcy processes. The Group has also been communicating with the bankruptcy administrators of China Tieniu and Anhui Tongfeng for further recovery of lease receivables. The Group will closely monitor the progress of the recovery of finance lease receivables and the disposal of the leased assets under the China Tieniu Finance Lease, Hangzhou ESSEN Finance Lease and Ruizhan (Tongling) Finance Lease, and make announcement as and when appropriate in compliance with the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

Loan Receivable (1) – (4): Gao Xin Investment Loans, Cheng Shun Tai Loans, Yonglihe Loan and Gao Sheng Investment Loans

Background of the Gao Xin Investment Loans, Cheng Shun Tai Loans, Yonglihe Loan and Gao Sheng Investment Loans

During the year ended 31 December 2018, the Group (through Shenzhen Honesta New Finance Holding Limited*(深圳厚生新金融控股有限公司)("Honesta New Finance"), a then subsidiary of the Group) as lender entered into a total of 12 loan agreements with Shenzhen Gao Xin Investment Limited Partnership*(深圳市高欣投資合夥企業(有限合夥))("Gao Xin Investment") as borrower, with an aggregated loan principal totaling RMB98,936,246.98 (equivalent to approximately HK$111,169,787.43) ("Gao Xin Investment Loans"), all drawn down within April and May of 2018, all with annual interest rates of 12%, all with loan period of 18 months and thus with expected maturity dates falling within October and November of 2019. On 1 November 2019, the Group entered into a loan extension agreement with Gao Xin Investment, pursuant to which the maturity dates of all Gao Xin Investment Loans were extended to 31 December 2020 with an annual interest rate of 12% and the aggregated loan principal was adjusted to RMB92,624,012.92 (equivalent to approximately HK$109,616,810.95).

During the year ended 31 December 2018, the Group (through Honesta New Finance) as lender entered into a total of 10 loan agreements with Shenzhen Cheng Shun Tai Industrial Company Limited*(深圳市誠順泰實業有限公司)("Cheng Shun Tai") as borrower, with an aggregated loan principal totaling RMB23,369,086.28 (equivalent to approximately HK$27,656,377.99) ("Cheng Shun Tai Loans"), with drawdown dates ranged from 18 May 2018 to 3 September 2018, all with annual interest rates of 12%, all with loan period of 18 months and thus with expected maturity dates ranged from 17 November 2019 to 2 March 2020. On 17 November 2019, the Group entered into a loan extension agreement with Cheng Shun Tai, pursuant to which the maturity dates of all Cheng Shun Tai Loans were extended to 31 December 2020 with an annual interest rate of 12%.

During the year ended 31 December 2018, the Group (through Honesta New Finance) as lender entered into a loan agreement with Shenzhen Yonglihe Industrial Company Limited*(深圳市永利和實業有限公司)("Yonglihe") as borrower for the provision of loan with principal amounted to RMB43,690,000.00 (equivalent to approximately HK$51,705,365.81) (the "Yonglihe Loan"), annual interest rate of 12%, drawdown date of 22 May 2018, loan period of 18 months and thus a maturity date of 21 November 2019. On 21 November 2019, the Group entered into a loan extension agreement with Yonglihe, pursuant to which the maturity date of the Yonglihe Loan was extended to 31 December 2020 with an annual interest rate of 12%.

During the year ended 31 December 2019, the Group (through Honesta New Finance) as lender entered into a total of three loan agreements with Shenzhen Gao Sheng Investment Limited Partnership*(深圳市高生投資合夥企業(有限合夥))("Gao Sheng Investment") as borrower, with an aggregated loan principal totaling RMB34,000,000.00 (equivalent to approximately HK$40,237,638.76) ("Gao Sheng Investment Loans"), all drawn down in July 2019, all with annual interest rates of 12%, all with loan period of 18 months and thus with expected maturity dates falling in January 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

After the Group sent out letters of repayment reminder to Gao Xin Investment, Cheng Shun Tai, Yonglihe and Gao Sheng Investment (collectively, the "Loan Borrowers") on 15 September 2020, 15 September 2020, 15 September 2020 and 15 October 2020, respectively, the Group received a letter from each of Gao Xin Investment, Cheng Shun Tai, Yonglihe and Gao Sheng Investment on 30 September 2020, 30 September 2020, 30 September 2020 and 30 October 2020, respectively, (collectively, the "Loan Extension Requests") indicating their respective expected default in repayment of outstanding principals and interest payables under the Gao Xin Investment Loans, Cheng Shun Tai Loans, Yonglihe Loan and Gao Sheng Investment Loans, respectively, (collectively, the "Loans") by reason of shortage of funds and indicating their respective intentions to apply for loan extensions. In this regard, the Group entered into loan extension agreements with each of the Loan Borrowers on 1 November 2020 to further extend the maturity dates under the Loans to 31 December 2022 with the same annual interest rates.

Impairment losses recorded by the Company for the Gao Xin Investment Loans, Cheng Shun Tai Loans, Yonglihe Loan and Gao Sheng Investment Loans

The Group became aware of the Loan Borrowers' inability to settle the outstanding loan receivables under the Loans when the Loan Extension Requests were received by the Group on 30 September 2020, 30 September 2020, 30 September 2020 and 30 October 2020 from Gao Xin Investment, Cheng Shun Tai, Yonglihe and Gao Sheng Investment, respectively. In assessing the credit risk of each of the Loan Borrowers and determining the need and extent of impairment of loan receivables under each of the Loans for the year ended 31 December 2020, the Group had taken into account the historical repayment records of the Loan Borrowers under the Loans.

Before the maturity dates under the Loans were extended to 31 December 2022 pursuant to the loan extension agreements entered into by the Group with each of the Loan Borrowers in November 2020 for reason of the Loan Borrowers' expected default pursuant to the Loan Extension Requests, the Group had received similar extension requests and as a result had to extend the maturity dates under Gao Xin Investment Loans, Cheng Shun Tai Loans and Yonglihe Loan from their respective original maturity dates to 31 December 2020. (the "Previous Extensions").

At the time when the decisions of the Previous Extensions were made, the Group had assessed the credit risks of each of Gao Xin Investment, Cheng Shun Tai and Yonglihe, but had decided to make minor impairment to their respective loan receivables at that time. However, subsequent to the Previous Extensions, after receiving the Loan Extension Requests in late 2020, the Group re-assessed the credit risks of Loan Borrowers and decided that impairment of a substantial portion of the loan receivables under the Loans should be recorded for the year ended 31 December 2020. In this regard, impairments of HK$61,900,318.14, HK$15,991,929.42, HK$29,737,694.11 and HK$22,780,094.46 for the loan receivables under the Gao Xin Investment Loans, Cheng Shun Tai Loans, Yonglihe Loan and Gao Sheng Investment Loans were made for the year ended 31 December 2020, respectively. Despite the relatively high risk of default anticipated by the Group, the Group decided it would be strategically beneficial to extend the respective maturity dates under the Loans to 31 December 2022 by entering into the loan extension agreements as mentioned above, instead of initiating legal proceedings or filing bankruptcy applications against the Loan Borrowers.

MANAGEMENT DISCUSSION AND ANALYSIS

It is the view of the Directors that the factors explained above which formed the primary foundation of the impairment could not have been anticipated by the Group when the agreements of Gao Xin Investment Loans, Cheng Shun Tai Loans, Yonglihe Loan and Gao Sheng Investment Loans were respectively entered into as the credit risks of the Loan Borrowers at that time were acceptable to the Group.

Bought-back of the Company's Shares for Nil Consideration after the Relevant Companies of Honesta New Finance Failed to Meet the Profit Guarantee in respect of the Acquisition of 60% Issued Share Capital of Kun Peng International Limited

Reference is made to the announcement of the Company dated 29 December 2017 in relation to the acquisition and subscription of an aggregate of 60% shares in Kun Peng International Limited ("Kun Peng") (the "Acquisition") and the announcement of the Company dated 3 August 2020 in relation to, among others, the non-fulfilment of certain profit guarantees in relation to the Acquisition. Honesta New Finance has been controlled by a subsidiary of Kun Peng through structured contracts, and therefore has become an indirect subsidiary of the Group after the Acquisition. Pursuant to the share purchase agreement dated 29 December 2017 (the "Acquisition Agreement") in respect of the Acquisition, among others,

(1) Honesta Investment Limited ("Honesta Investment"), the then sole shareholder of Kun Peng before the Acquisition, and Mr. Hua Meng ("Mr. Hua", together with Honesta Investment, the "Profit Guarantors"), the then 40% shareholder of Honesta Investment, jointly and severally guaranteed that the minimum distributable operating net profit (the "Profit Guarantees") of Shenzhen Cashlai Financial Information Services Co. Ltd. (深圳錢來網金融信息服務有限公司)("Cashlai Financial"), a PRC incorporated limited liability company which has been held as to approximately 45.6% by Honesta New Finance as at the date of the Acquisition Agreement and up to the date of this reply, and Shenzhen Qianhai Honesta Asset Management Company Ltd. (深圳前海厚生資產管理有限公司), a PRC incorporated limited liability company which has been held as to 60% by Honesta New Finance as at the date of the Acquisition Agreement and up to the date of this reply, (together, the "Relevant Companies") shall not be less than certain amounts set out in the Acquisition Agreement for the years ended 31 December 2018, 2019 and 2020;

(2) the Company allotted and issued to Honesta Investment 363,065,565 shares in the Company (the "Consideration Shares") as part of the consideration for the Acquisition.

As the operating net profits of the Relevant Companies failed to meet the respective Profit Guarantees, pursuant to a supplemental deed to the Acquisition Agreement entered into by the Group and each of the Profit Guarantors on 3 August 2020, the Group exercised its rights under the Acquisition Agreement and bought back the Consideration Shares from Honesta Investment for nil consideration on 3 August 2020 in order to safeguard the Group's assets.

MANAGEMENT DISCUSSION AND ANALYSIS

The Disposal of Honesta New Finance and the Creation of Charge Over the Loan Receivables Under the Loans

Reference is made to the announcement of the Company dated 7 April 2021. On 7 April 2021, the Group (through Perfect Waters Limited, a direct wholly-owned subsidiary of the Company) entered into a share purchase agreement with Ms. Fu Yu（傅妤）, pursuant to which the Group has agreed to sell the entire issued shares of Coastal Silk Limited to Ms. Fu Yu（傅妤）for a consideration of RMB3,000,000 (or its equivalent in HK$) (the "Disposal of Coastal Silk").

In order to maintain the business operation of Honesta New Finance and for the Profit Guarantors to satisfy the Profit Guarantees, the Group agreed to retain, among others, the then management team and a list of key employees of Honesta New Finance (the "Retained Management Team") for at least three years from the date of completion of the Acquisition. Accordingly, the Retained Management Team was retained by the Group to play a major role in the business operation of Honesta New Finance after the completion of the Acquisition.

However, the performance of the Retained Management Team was not satisfactory and resulted in Honesta New Finance failing to meet the Profit Guarantees. As a result, the Group exercised its rights under the Acquisition Agreement and bought back the Consideration Shares from Honesta Investment for nil consideration on 3 August 2020 in order to safeguard the Group's assets. Eventually, the Group has decided to dispose all its interest in Honesta New Finance through the disposal of Coastal Silk Limited, which indirectly controls Honesta New Finance through structured contracts. After the completion of the Disposal of Coastal Silk which took place on 7 April 2021, the Group ceased to be interested in the Loans in the capacity as lender of the Loans.

Shangao International Finance provided certain loans to Honesta New Finance of an aggregate amount of RMB300,000,000 in 2018. After the completion of the Disposal of Coastal Silk on 7 April 2021, such loans were recognized as loan receivables due from Honesta New Finance to the Group (the "Loan to Honesta"). As the Group entered into a receivable charge agreement dated 7 April 2021 with Honesta New Finance for the creation by Honesta New Finance of first ranking charges in favour of the Group over, among others, all Honesta New Finance's rights, title and interests arising from the Loans as security for Honesta New Finance's repayment obligations under the Loan to Honesta, despite that the Group has ceased to be the lender of the Loans after the disposal of Honesta New Finance upon completion of the Disposal of Coastal Silk, the Group remained interested in the loan receivables under the Loans as chargee and will be entitled to the loan receivables under the Loans in the event of default on repayment by Honesta New Finance under the Loan to Honesta.

MANAGEMENT DISCUSSION AND ANALYSIS

Entering into a Guarantee Agreement in favour of the Group in respect of the Loan to Honesta

The Group entered into a guarantee agreement (the "Guarantee Agreement") dated 7 April 2021 with (i) Cashlai Financial; (ii) Shangao Puhui (Shenzhen) Information Services Co., Ltd.* (山高普惠(深圳)信息服務有限公司)(a wholly-owned subsidiary of Cashlai Financial) ("Shangao Puhui"); (iii) the Loan Borrowers; and (iv) three other PRC entities (together with Cashlai Financial, Shangao Puhui and the Loan Borrowers, the "Guarantors"), pursuant to which the Guarantors agreed to bear irrevocable joint and several liabilities (連帶責任保證) for the repayment obligations of Honesta New Finance under the Loan to Honesta.

Other Finance Leases and Loan Receivables

The impairment loss recorded by the Company for our finance leases other than the those set out above for the year ended 31 December 2020 amounted to HK$16,593,222.19.

The impairment loss and reversal of impairment loss recorded by the Company for loan receivables other than those set out above for the year ended 31 December 2020 amounted to HK$16,739,030.02 and HK$16,024,284.94, respectively.

Method and Basis Used in Determining the Amount of the Impairments

For details of the method and basis used in determining the amount of the Impairments and details of valuation used for assessing the Impairments, please refer to note 3, 4, 23, 24 and the section headed "Credit risk" under the note 41 to the consolidated financial statements. The Board considers the Impairments have been provided appropriately.

EMPLOYEES, REMUNERATION POLICY AND RETIREMENT BENEFITS SCHEME

As at 31 December 2020, there were 512 employees (including the directors of the Group and directors of the Company's subsidiaries) (2019: 562 employees), of which 420, 83 and 9 were based in the PRC, Hong Kong and Singapore, respectively. During the Reporting Period, the Group's employee costs (including Directors' remuneration) incurred and included in profit or loss were approximately HK$187,018,000, an increase of 15.51% over the Previous Period, mainly due to the increase in salaries, allowances and benefits-in-kind of Directors and employees.

The Group actively attracts outstanding talents and builds a strong team to maintain the overall business growth of the Group. In order to retain and motivate employees, the Group has formulated an internal remuneration policy. When selecting and promoting employees, the Group will make a decision with reference to their qualification, experience and suitability for the position offered. The performance of employees will also be used as the basis for reviewing remuneration package during the annual review. Meanwhile, competitive remuneration packages are offered to employees by reference to the prevailing market level and individual merits.

In addition, the Group also provides employees with a series of welfare policies to enhance their sense of belonging and work enthusiasm, and jointly promote the sustainable development of the Group. In order to motivate employees to work hard, the Group provides bonuses and rewards to outstanding performance employees. The Group determines the working hours of employees in accordance with relevant laws and regulations, and provides transportation reimbursement and compensatory leave for employees who work overtime. In addition, the Group provides employees with social insurance, employee dormitories, housing provident fund and mandatory provident fund and other benefits. In addition to statutory holidays and regular paid annual leave, employees are also entitled to additional leave benefits such as sick leave, marriage leave, maternity leave, paternity leave and compassionate leave.

Employees are the essential driving force to the sustainable development of the Group. Adhering to a people-oriented approach to talent management, the Group continues to invest resources to attract and retain talents. Employees are provided with competitive remuneration and benefit packages and equal opportunities, as well as a wide range of training and development opportunities. The Group optimises its human resources management system continuously with a view to providing employees with a friendly and healthy workplace and ensuring that employees may can develop their talents and potential.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As an investment holding enterprise, the Group's emissions and resource consumption during business operations mainly come from office premises. Although there are no material impacts caused by its business activities on the environment and natural resources, the Group is committed to introducing green elements into our business operations and makes every effort to support sustainable development and minimise the potential impacts of operations on the environment.

The Group actively advocates a sustainable green office policy and adheres to low-carbon travel without hindering the efficient operations of the Group. Employees shall strictly comply with the Group's specifications of travel allowance claim under the daily expense standards and choose means of transportation based on the principles of efficiency and conservation. The Group encourages employees to use video conferencing facilities whenever possible to avoid unnecessary business trips. The Group requires employees to take public transport and avoid using private cars to reduce both carbon emissions and vehicle exhaust emissions.

The Group concerns about global climate change, and commits to reducing carbon emissions in business operations by implementing various measures. The Group has installed energy-efficient LED lights to replace traditional light tubes in offices and encourages employees to reduce the use of lights when natural light is abundant. Energy-saving reminders are posted in easily visible places in offices to enhance employees' awareness of energy conservation. Besides, the Group uses sockets with independent switches and turns off electrical appliances, such as lights, computers and air conditioners in offices after normal office hours. The Group has installed solar film on windows to lower indoor temperature, and maintained a reasonable temperature level of air-conditioners by controlling the central air-conditioning system to minimise energy consumption related to air-conditioners. For office equipment procurement, models with better energy efficiency are prioritised in order to further reduce energy consumption in the office.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Reporting Period, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws or regulations by the Group that has a material adverse impact on the business and operation of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE HKEX GROUP

Set out below is the reproduction of the management discussion and analysis of the HKEX Group's operations for the financial years ended 31 December 2018, 2019 and 2020, respectively. The information reproduced below is completely extracted from the sub-sections respectively headed "Business Review", "Financial Review" and "10-Year Financial Statistics" of "Management Discussion and Analysis" section of the annual report of HKEX for each of the three financial years ended 31 December 2020 to provide further information relating to the financial conditions and results of business operations of the HKEX Group during the respective years stated.

Capitalised terms used in this section shall have the same meanings as those defined in the respective annual reports of HKEX. These extracted materials below were prepared prior to the date of this circular and speak as of the date they were originally published, and any opinion and beliefs stated were made by the then directors of HKEX at such time when the related annual report(s) of HKEX was or were issued.

The extracted material of the HKEX Group contained in this Appendix appears for information purposes only. The Directors take no responsibility for the extracted material of the HKEX Group, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the extracted material of the HKEX Group contained in this Appendix.

For the year ended 31 December 2018

Business Review

Overview

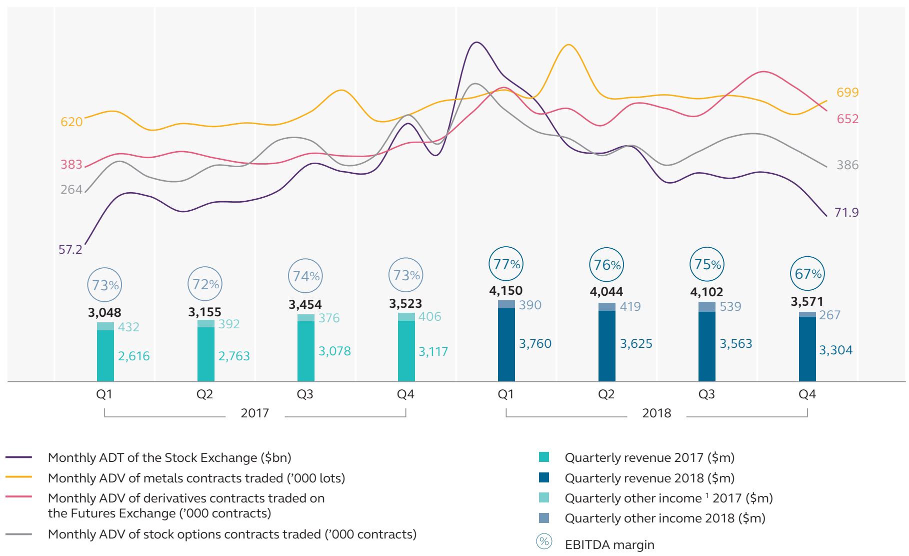


Fig. 1 – Market activity and Group's revenue and other income

2018 was a great year for both trading volumes and IPOs. The market started strongly in Q1 2018[2], with the benchmark HSI achieving a historic intraday high of 33,484 points in January. However, market sentiment started to weaken in 2H 2018 due to increased concerns over the US/China trade tensions and a weakening economic outlook in China. Notwithstanding this, benefiting from a strong 1H 2018, Cash Market trading achieved a record high headline ADT[3] of $107.4 billion in 2018, 22 per cent above 2017.

Stock Connect trading volumes also reached record highs with Northbound and Southbound ADT being 113 per cent and 30 per cent higher respectively than in 2017. Increased volatility in our Derivatives Market helps deliver record high trading volumes, with increases in ADV of HKFE contracts and stock options traded of 56 per cent and 21 per cent respectively against 2017. The IPO market saw a record 218 listings[4] in 2018, including seven companies that listed under New Chapters[5], and the number of newly listed DWs and CBBCs also reached record highs. As a result, revenue and other income reached a record of $15,867 million in 2018.

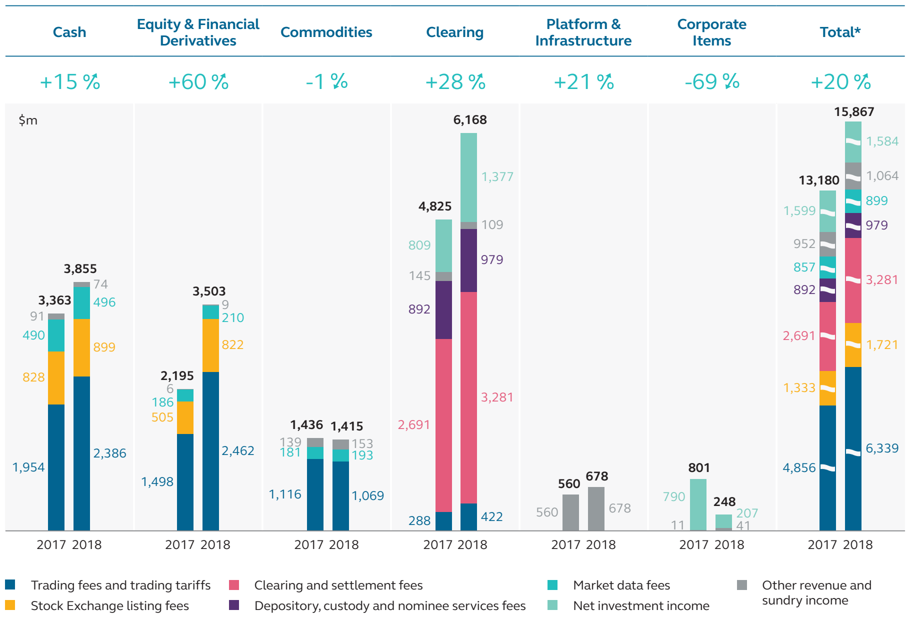
Operating expenses in 2018 increased by 15 per cent compared with 2017. This primarily reflects higher staff costs due to increased headcount, annual payroll adjustments and higher variable pay, higher premises and relocation expenses for consolidation of offices, and increased maintenance expenses for new IT systems and upgraded networks.

In view of the current macroeconomic backdrop, the Group continues to maintain a prudent approach to cost management whilst pursuing key strategic initiatives for future growth.

1 Includes net investment income and sundry income
2 Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, 1H = first half, 2H = second half
3 ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange
4 Includes transfers of listing from GEM to the Main Board
5 Refers to the Main Board Listing Rules Chapters 8A, 18A and 19C

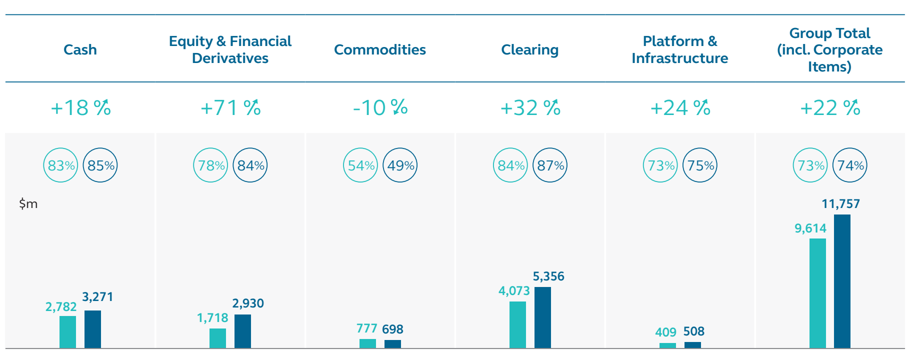
Business Update and Analysis of Results by Operating Segment

Analysis of Revenue and Other Income by Segment



* Total revenue and other income is not presented in full scale, but is proportionately resized.

Analysis of EBITDA and EBITDA Margin by Segment*



(%) EBITDA margin = EBITDA divided by Revenue and Other Income

* Further details of the results by segment are set out in note 4 to the Consolidated Financial Statements of this Annual Report.

Cash Segment

Key Market Indicators

	2018	2017	Change
ADT of equity products traded on the Stock Exchange [1,2] ($bn)	84.2[4]	71.2	18%
ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect [2] (RMBbn)	11.6[4]	5.6	107%
ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect [2] (RMBbn)	8.8[4]	4.0	120%
ADT of Bond Connect (RMBbn)	3.6[4]	2.2	64%
Average daily number of trades of equity products traded on the Stock Exchange [1,2]	1,224,697[4]	1,034,651	18%
Number of newly listed companies on Main Board [3]	143[4]	94	52%
Number of newly listed companies on GEM	75	80	(6%)
Number of companies listed on Main Board at 31 Dec	1,926	1,794	7%
Number of companies listed on GEM at 31 Dec	389	324	20%
Total	2,315	2,118	9%
Market capitalisation of companies listed on Main Board at 31 Dec ($bn)	29,723	33,718	(12%)
Market capitalisation of companies listed on GEM at 31 Dec ($bn)	186	281	(34%)

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes $8.2 billion[4] (2017: $ 7.5 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and $4.5 billion[4] (2017: $2.3 billion) under Shenzhen-Hong Kong Stock Connect
2 Includes buy and sell trades under Stock Connect
3 Includes 10 transfers from GEM (2017: 13)
4 New record highs in 2018

	2018 $bn	2017 $bn	Change
Total equity funds raised on Main Board			
– IPOs	282.9	122.6	131%
– Post-IPO	250.3	444.8	(44%)
Total equity funds raised on GEM			
– IPOs	5.1	5.9	(14%)
– Post-IPO	5.8	8.1	(28%)
Total	544.1	581.4	(6%)

Stock Connect – New Record Highs in 2018

	2018	2017	Change
Northbound Trading value (RMBbn)	4,674	2,266	106%
Southbound Trading value ($bn)	2,834	2,259	25%
Total revenue and other income [1] ($m)	678	412	65%

1 $418 million of which arose from trading and clearing activities (2017: $238 million)

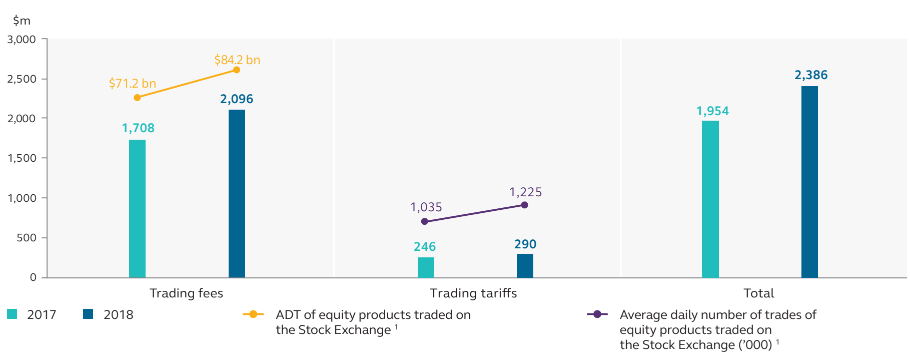
Analysis of Results

Summary

	2018 $m	2017 $m	Change
Trading fees and trading tariffs [1]	2,386	1,954	22%
Stock Exchange listing fees [1]	899	828	9%
Market data fees [1]	496	490	1%
Other revenue	74	91	(19%)
Total revenue	3,855	3,363	15%
Operating expenses [2]	(584)	(581)	1%
EBITDA	3,271	2,782	18%
EBITDA margin	85%	83%	2%

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)
2 Includes Listing Division costs relating to equity products traded on the Stock Exchange

Trading Fees and Trading Tariffs

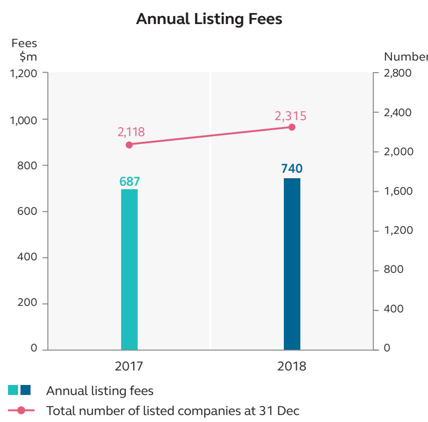


1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

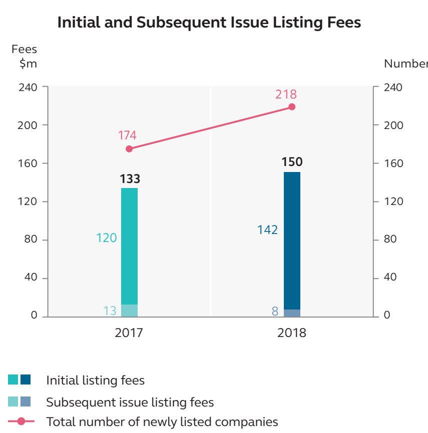
Trading fees increased by $388 million (23 per cent), outpacing the 18 per cent rise in equity products ADT. This was primarily due to higher Stock Connect trading, higher fees from new equities funds raised, and an improvement in product mix – with a drop in the proportion of ETF trades (of which approximately 50 per cent were conducted by market makers who are exempted for trading fees). Trading tariffs rose by 18 per cent, in line with the increase in number of trades of equity products.

Stock Exchange Listing Fees

	2018 $m	2017 $m	Change
Annual listing fees	740	687	8%
Initial and subsequent issue listing fees	150	133	13%
Others	9	8	13%
Total	899	828	9%



Annual listing fees increased in line with the rise in the total number of listed companies.



Initial and subsequent issue listing fees increased by 13 per cent due to the higher number of newly listed companies and an increase in forfeitures and withdrawals. As a result of the adoption of new accounting standard HKFRS15, initial listing fees are recognised over the years when the services are provided.

EBITDA

Operating expenses increased by $3 million, or 1 per cent, due to higher staff costs from increased headcount and higher variable pay, and increased IT maintenance expenses for Stock Connect, partly offset by cost savings associated with the conversion of the former HKEX trading hall into a multi-purpose function space – the HKEX Connect Hall, operating costs of which are now recorded under Corporate Items. The increase in EBITDA margin from 83 per cent to 85 per cent reflects the increase in revenue.

Business Update

2018 was a record year for HKEX. The year started strongly and Q1 saw a record level of trading activities, stock market performance and market capitalisation. The benchmark HSI achieved a historic intraday high of 33,484 points on 29 January 2018. Market capitalisation also reached a record high of $37,715.7 billion on 26 January 2018. Market sentiment and level of trading activities nonetheless moderated since Q2, reflecting investors' concerns about US/China trade tensions and the weakening macroeconomic environment, but headline ADT reached a record yearly high of $107.4 billion.

Stock Connect

Stock Connect achieved record turnover in a second consecutive year. The doubling of Northbound Trading volume can be partly attributed to the A shares inclusion in MSCI Emerging Markets Index and All Country Index (MSCI Indices) effective in June and September 2018.

Key Highlights of Stock Connect during 2018

- Over 4,500 new Special Segregated Accounts (SPSA) were opened in 2018, with total SPSA now reported at over 7,000 accounts as at 31 December 2018
- Expansion of daily quota under Stock Connect to RMB52 billion for each of Shanghai Connect and Shenzhen Connect in Northbound Trading and to RMB42 billion for Southbound Trading came into effect on 1 May 2018
- Real-time delivery-versus-payment settlement facility, which was introduced in late 2017, saw an average of 14 per cent usage in 2018 compared with less than 1 per cent for the Hong Kong Market
- China Connect Clearing Participants (CCEPs) are allowed to use USD or HKD as collateral on trading days for the early release of China Connect Securities that are securities-on-hold from May 2018
- Successful inclusion of A shares into MSCI Indices effective in June and September 2018, which partly contributed to the growth of Northbound Trading volume. An investor identification regime for Northbound Trading, aiming at facilitating market surveillance and monitoring, was launched on 26 September 2018
- HKEX, together with Digital Asset Holdings, LLC and key market participants, completed a Distributed Ledger Technology (DLT) prototype platform for Northbound Trading of Stock Connect post-trade allocation processing to enable real time synchronisation of post-trade status among multiple market players and HKEX

Key Initiatives of Stock Connect to be Effective in 2019

- In July 2018, HKEX, the Shanghai Stock Exchange and the Shenzhen Stock Exchange agreed on adjusting the inclusion arrangements for eligible securities under Stock Connect's Southbound Trading. An initial Special Stability Trading Period (SSTP) will be required for Hong Kong listed weighted voting rights (WVR) companies. A consensus was reached in December 2018, and it is expected that the new rules will be implemented in mid-2019
- The SFC and the China Securities Regulatory Commission (CSRC) jointly announced the implementation of an investor identification regime for Southbound Trading, targeting the end of Q1 2019. Meanwhile, HKEX has enhanced its SMARTS trade surveillance system to prepare for the launch
- In September 2018, MSCI announced the launch of a consultation on the further addition of A shares in its Emerging Markets Index with inclusion factor of up to 20 per cent in 2019; and FTSE Russell also announced first time inclusion of A shares in its global indices starting June 2019, up to a 15 per cent inclusion factor by September 2019
- In December 2018, S&P Dow Jones Indices LLC announced its plan to debut A shares (specifically eligible A shares under Stock Connect's Northbound Trading) in its indices on 23 September 2019 with a 25 per cent inclusion factor
- HKEX is planning to take the DLT prototype forward by engaging a wider base of market participants to gather requirements for a possible production deployment

Issuer Business

Hong Kong was again No. 1 market worldwide for IPOs in 2018, welcoming 218[6] new companies to this market, raising a total of $288 billion. With the recent transformative changes to the listing regime, seven companies are WVR or biotech companies listed under the New Chapters[7] of the Main Board Listing Rules, with IPO funds raised of $94 billion.

During the year, HKEX sought to proactively engage the market about our new listing regime in the Mainland, Hong Kong, and overseas. HKEX's flagship event, HKEX Biotech Summit, gathered around 600 delegates, connecting senior biotech industry leaders with sell-side advisors and research analysts in the biotech community to share industry insights and trends.

Apart from establishing a biotech ecosystem in Hong Kong public market, HKEX this year has focused on expanding its reach and engagement overseas. We participated in "Venture", an inaugural conference that brought venture capitalists together with entrepreneurs to discuss the latest developments and investment opportunities in technology. The event was well attended by more than 350 guests and 250 tech entrepreneurs.

Looking forward, HKEX will continue to focus on promoting Hong Kong as the premier listing platform for high growth and innovative companies across the globe.

ETF Market Development

HKEX continues to expand its regional marketing presence through a number of events including Inside ETF Asia 2018, ETF Global Markets Roundtable and Asia ETF Forum, a series of roadshows in Hong Kong, South Korea, Taiwan, Japan, Singapore and Thailand, targeting institutions and intermediaries.

As of 31 December 2018, HKEX's Exchange Traded Products (ETP) (which comprises ETF and Leveraged and Inverse Products (L&I Products)) accounted for total market capitalisation of $557 billion (31 December 2017: $636 billion), and ADT for 2018 of $4.5 billion (2017: $4.7 billion).

Closing Auction Session

The quarterly MSCI rebalancing on 31 May 2018 increased on a net basis index weightings of Hong Kong-listed stocks. $96.2 billion, or 47 per cent of HKEX's total securities market turnover of $205.7 billion on that day, was transacted in the Closing Auction Session (CAS), the highest CAS turnover since its launch in 2016. Such a high level of CAS activities demonstrates investors' increasing confidence in using this relatively new mechanism for meeting their needs to execute at closing price.

Bond Connect

Market participation in Bond Connect grew steadily throughout the year, with ADT reaching RMB3.6 billion in 2018, an increase of 64 per cent compared with 2017. In addition, the number of approved overseas institutional investors participating in Bond Connect continued to increase. As at 31 December 2018, there were 503 approved investors across 24 jurisdictions, compared with 247 as of 31 December 2017. Meanwhile, overall foreign holdings in China's interbank bond market reached RMB1,730 billion at the end of December 2018, more than double the size since the launch of Bond Connect.

In addition, China's bonds will be, for the first time, included in the Bloomberg Barclays Global Aggregate Index from April 2019 by phases. We expect this move to drive global allocation to China's bond market and demand for the Bond Connect scheme.

6 Includes transfers of listing from GEM to the Main Board
7 Refers to the Main Board Listing Rules Chapters 8A, 18A and 19C

In August 2018, Bond Connect upgraded its settlement system to fully implement real-time delivery-versus-payment, which will further enhance the efficiency and security of Bond Connect's settlement services. In the same month, Bond Connect also launched a block trade allocation service, which allows asset managers to allocate block trades to multiple client accounts prior to trading. These developments are expected to accelerate the participation in Bond Connect by global asset managers and investors.

Market Data Business

The Mainland market data business continues to grow, with more than 70 real-time Mainland information vendors as at 31 December 2018, compared with 22 at the launch of Stock Connect. To further promote market transparency of Stock Connect trading, HKEX extended its existing market data programmes until the end of 2020 to continue to increase the visibility and penetration of securities market data in the Mainland. In conjunction with future development, the Mainland Market Data Hub (MMDH) in Shanghai will be upgraded with lower latency datafeed and premium content. MMDH is HKEX's first market data infrastructure footprint in Mainland China, strengthening connectivity by enabling Mainland investors to access HKEX's market data through reliable and cost-effective infrastructure. This upgrade aims to further enhance the services for brokers to receive higher quality data for Southbound Trading. HKEX will also continue to enhance the scope and service level of its reference data products to promote more interaction between the two markets.

Listing Regulation

In 2018, the Stock Exchange issued various proposals and conclusions on Listing Rules amendments as set out in the following table. Details of the consultations and other main policy issues arising in 2018 as well as the proposals under review in 2019 are set out in the 2018 Listing Committee Report.

Proposals and Conclusions in 2018

	Consultation paper [1]	Consultation conclusions [1]	Effective date of changes (if any)
• Delisting and Other Rule Amendments	Sep 2017	May 2018	1 Aug 2018
• Capital Raisings by Listed Issuers	Sep 2017	May 2018	3 Jul 2018
• Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments	Nov 2017	Feb 2019	1 Mar 2019
• Review of the Corporate Governance Code and Related Listing Rules	Nov 2017	Jul 2018	1 Jan 2019
• Proposed Exemption for Aircraft Leasing Activities	Nov 2017	Aug 2018	15 Oct 2018
• A Listing Regime for Companies from Emerging and Innovative Sectors	Feb 2018	Apr 2018	30 Apr 2018
• Backdoor Listing, Continuing Listing Criteria and Other Rule Amendments	Jun 2018	2H 2019 (tentative)	–
• Review Structure in relation to Listing Committee Decisions	Aug 2018	Jan 2019	Mid-2019 [2]
• Proposal relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements	Sep 2018	2H 2019 (tentative)	–

1 All the consultation papers and conclusions are available under the News (Market Consultations) section of the HKEX Market website.
2 The revised Rules will take effect around mid-2019 (subject to the establishment of the Listing Review Committee). The effective date will be announced later.

Key Initiatives by the Stock Exchange to Promote Issuers' Self-compliance with the Listing Rules

- Issued series of listing decisions on interpretation of the Listing Rules, including reasons for rejection and return of new applications and sufficiency of operations or assets
- Published new/updated guidance materials on (i) implementing a new regime for companies from emerging and innovative sectors; (ii) the Stock Exchange's approach to listing applicants in the internet technology sector or that have internet-based business models; (iii) IPO vetting and suitability for listing; (iv) pricing flexibility for IPOs; (v) reallocation of shares from placing tranche to the public subscription tranche in an IPO; (vi) suitability for continued listing; (vii) rule changes regarding delisting and capital raising; (viii) streamlining of listing guidance materials; (ix) Guidance for Boards and Directors; and (x) How to prepare an ESG report?
- Published reports on review of listed issuers' (i) disclosure in annual reports; (ii) financial statements; (iii) corporate governance practices; and (iv) Environmental, Social and Governance reports
- Introduced the first e-training for directors of companies listed on the Stock Exchange to understand the new corporate governance requirements that took effect on 1 January 2019
- Published a guide on listing new structured products to structured products issuers to facilitate a more efficient introduction of new products to give investors more product choices

IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Stock Exchange in processing new listings and monitoring issuers' compliance for the purposes of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

Stock Exchange's IPO Work

	2018	2017
• Number of listing applications vetted [1]	511	412
• Number of applications brought to the Listing Committee (or their delegates) for decisions [2]	250	194
– within 120 calendar days	85	60
– between 121 to 180 calendar days	71	66
– after more than 180 calendar days	94	68
• Number of applications for which approval was granted in principle [3]	245	216
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of listing matters	238	158
– Average response time (in business days)	10	9
• Number of listing applications for transfer of listing from GEM to Main Board accepted	21	22
• Applications listed [4]	234	197
• New listing applications rejected [5]	25	8
• New listing applications withdrawn	14	14
• New listing applications returned	–	5
• Application in process at year-end	167	139

1 Comprises 372 (2017: 310) new applications and 139 (2017: 102) existing applications brought forward from previous year
2 Refers to listing applications heard by the Listing Committee (or their delegates) for the first time and excludes Chapter 20 listing applications
3 At the end of 2018, 35 (2017: 33) approved applications had not yet been listed, and 7 (2017: 6) approved applications had lapsed during the year.
4 Includes 16 investment vehicles listed on Main Board and deemed new listings (2017: 23)
5 In 2018, no rejection decisions (2017: 2) were subsequently reversed by the Listing (Review) Committee/Listing Appeals Committee upon review.

Number of Compliance and Monitoring Actions

	2018	2017
• Announcements of issuers vetted	59,861	57,498
• Circulars of issuers vetted	2,083	1,841
• Share price and trading volume monitoring actions undertaken [1]	7,945	6,461
• Complaints handled	404	568
• Cases (including complaints) referred to Listing Enforcement Team for investigation [2]	81	40

1 In 2018, monitoring actions undertaken included 794 enquiries (2017: 603) on unusual share price and trading volume movements, and the actions undertaken led to 24 resumption announcements (2017: 32) on trading suspensions.
2 The increase in the number of case referrals is mainly due to refinements of referral thresholds for consideration of investigation.

Long Suspension

	Main Board		GEM	
Status of Long Suspended Companies (at year-end)	**2018**	2017	**2018**	2017
Resumption of trading of securities during the year	10	14	2	1
Cancellation/withdrawal of listing during the year	4	3	–	2
Companies in the third stage of delisting	16	14	N/A	N/A
Companies notified of the Stock Exchange's intention to cancel their listing [1]	–	1	3	2
Companies suspended for 3 months or more	71	53	11	3

1 For GEM, the figures represent companies that had failed to maintain sufficient operations or assets to warrant their continued listing. In these cases, the Stock Exchange had notified the companies of its intention to cancel the companies' listing and place them in a one-stage delisting procedure (as compared to three stages for Main Board).

Listing Enforcement

The enforcement statistics set out below represent a high-level overview of the enforcement work undertaken in 2018 by the Stock Exchange.

Further details and information relating to enforcement work (including the Stock Exchange's general approach, disciplinary procedures and recent cases) can be found at the HKEX Market website, the bi-annual "Enforcement Newsletter" and are set out in the 2018 Listing Committee Report.

Enforcement Statistics

	2018	2017
Investigations [1,2,3]	111	86
Public sanctions [4]	21	9
Warning/caution letters [5]	14	9

1 Figures cover all cases which were investigated in 2018 (both concluded cases and ongoing investigations at year-end).
2 At the end of 2018, there were 35 ongoing investigations as compared to 28 ongoing investigations at the end of 2017.
3 In 2018, 3 enforcement cases (2017: 4) originating from complaints were subject to enforcement investigation, and might give rise to disciplinary proceedings.
4 The number of investigation cases that resulted in a public sanction. Actions taken at a lower level in the same case, eg, private reprimand, are not included.
5 The warning and caution letters were issued in circumstances where disciplinary proceedings before the Listing Committee were not considered appropriate. These are recorded as part of the compliance history for the relevant party.

Costs of Listing Function

The costs of the front line regulation of listed issuers, performed by the Listing Committee and the Listing Division, are absorbed by the Cash and Equity and Financial Derivatives segments in proportion to the listing fee income of the two segments.

Equity and Financial Derivatives Segment

Key Market Indicators

	2018	2017	Change
ADT of DWs, CBBCs and warrants traded on the Stock Exchange ($bn)	23.2	17.0	36%
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange	372,095[2]	205,518	81%
ADV of derivatives contracts traded on the Futures Exchange [1]	685,126[2]	440,563	56%
ADV of stock options contracts traded on the Stock Exchange	517,395[2]	428,499	21%
Number of newly listed DWs	11,794[2]	7,989	48%
Number of newly listed CBBCs	26,678[2]	13,235	102%
ADV of contracts traded during After-Hours Trading [1]	89,338[2]	30,148	196%

	At 31 Dec 2018	At 31 Dec 2017	Change
Open interest of futures and options [1]	10,593,376	11,154,897	(5%)

1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)
2 New record highs in 2018

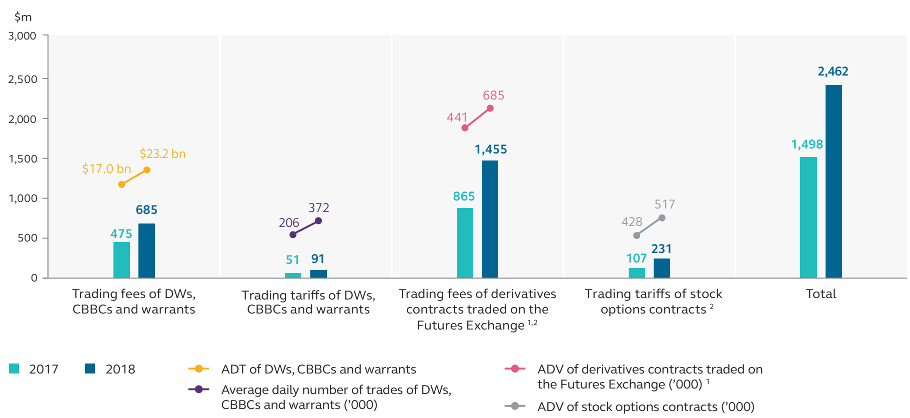
Analysis of Results

Summary

	2018 $m	2017 $m	Change
Trading fees and trading tariffs [1]	2,462	1,498	64%
Stock Exchange listing fees	822	505	63%
Market data fees [1]	210	186	13%
Other revenue	9	6	50%
Total revenue	3,503	2,195	60%
Operating expenses [2]	(573)	(477)	20%
EBITDA	2,930	1,718	71%
EBITDA margin	84%	78%	6%

1 Excludes cash equities (which are included under the Cash segment)
2 Includes Listing Division costs apportioned to DWs, CBBCs and warrants traded on the Stock Exchange

Trading Fees and Trading Tariffs



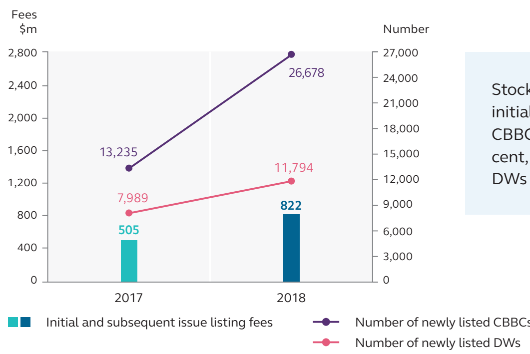
1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)
2 Excludes trading fees and trading tariffs allocated to the Clearing segment (Derivatives contracts traded on the Futures Exchange – 2018: $338 million; 2017: $218 million; stock options contracts – 2018: $84 million; 2017: $70 million)

Trading fees and trading tariffs for the segment are generated from the trading of derivatives on the Stock Exchange (ie, DWs, CBBCs, warrants, and stock options) and trading of futures and options on the Futures Exchange. A portion of the trading fees and trading tariffs for futures and options contracts is allocated to the Clearing segment (see Clearing segment below) as the trading and clearing fees of these products are bundled together in the form of trading fees and tariffs.

Trading fees and trading tariffs from trading of DWs, CBBCs and warrants rose by $250 million or 48 per cent, reflecting the 36 per cent increase in ADT, higher fees from new issues of DWs and CBBCs, and a decrease in average transaction size which led to a higher increase in trading tariff income.

Driven by increased volatility in 2018, ADV of derivatives contracts traded on the Futures Exchange and stock options contracts both reached record highs. As a result, derivatives trading fees of the Futures Exchange and trading tariffs for stock options contracts rose by 68 per cent and 116 per cent respectively compared with 2017. Average fee per derivatives contract traded on the Futures Exchange increased, due to a higher proportion of derivatives contracts being higher fee contracts (including HSI products), compared with 2017; and average fee per stock option contract rose as various stock options traded moved to a higher fee tier in 2018.

Stock Exchange Listing Fees



Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees for DWs and CBBCs. The fees increased by $317 million or 63 per cent, reflecting the record number of newly listed DWs and CBBCs during 2018.

EBITDA

Operating expenses increased by 20 per cent due to higher allocated costs of the Listing Division, arising from the proportionately higher increase in listing fees from DWs and CBBCs compared with equities, and higher index licence fees attributable to increased volume of derivatives contracts traded. As the percentage increase in revenue is more than the percentage increase in operating expenses, the EBITDA margin rose from 78 per cent to 84 per cent.

Business Update

The turbulent and more uncertain macroeconomic environment has seen investors increasingly utilise derivatives contracts on HKEX to manage risks, resulting in the following records being achieved in 2018:

New Record Highs – Full Year Trading Volume

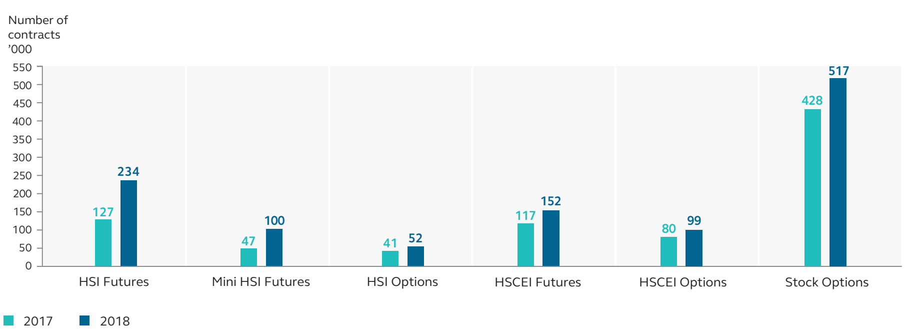
	2018 Number of contracts	Pre-2018 record Number of contracts	
Total Futures and Options [1]	295,820,120	214,658,273	(2017)
HSI Futures	57,668,346	32,313,994	(2016)
Mini HSI Futures	24,664,381	12,477,552	(2016)
HSCEI Futures	37,451,281	33,379,310	(2015)
HSI Options	12,716,495	10,667,426	(2011)
Mini HSI Options	2,461,296	1,640,881	(2017)
HSCEI Options	24,258,084	19,777,920	(2017)
Mini HSCEI Options	583,549	377,243	(2017)
Stock Futures	863,027	729,013	(2015)
Stock Options	127,279,101	105,839,179	(2017)
RMB Currency Futures – USD/CNH Futures	1,755,130	732,569	(2017)

1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

New Record Highs – Single-day Trading Volume and Open Interest

	Single-day Trading Volume		Open Interest	
	Date (2018)	Number of contracts	Date (2018)	Number of contracts
HSI Futures	26 Oct	422,450	N/A	N/A
Mini HSI Futures	7 Feb	215,927	26 Oct	22,321
HSCEI Futures	N/A	N/A	27 Dec	635,051
Mini HSCEI Futures	6 Feb	76,471	N/A	N/A
HSI Options	23 Jan	130,998	N/A	N/A
Mini HSI Options	2 Nov	25,534	28 Nov	48,450
HSCEI Options	9 Feb	232,994	28 Nov	3,749,790
Mini HSCEI Options	9 Feb	11,728	29 Oct	29,525
Stock Options	N/A	N/A	27 Mar	13,725,731
RMB Currency Futures – USD/CNH Futures	6 Aug	22,105	N/A	N/A
RMB Currency Options – USD/CNH Options	28 Aug	1,529	14 Sep	10,827

Average Daily Volume of Major Futures and Options Contracts



After-Hours Trading Enhancements

With positive market feedback after the implementation of the first phase of the After-Hours Trading enhancements to 1 am in November 2017, HKEX implemented its second phase (the inclusion of equity index options) on 14 May 2018. In response to initial market feedback on liquidity provision, HKEX actively recruited new market makers and implemented new initiatives, including providing additional incentives to market makers, to maintain market quality in the After-Hours Trading (T+1) Session. Trading volume of equity index derivatives in the T+1 Session grew significantly, and ADV reached 87,200 contracts in 2018, a 196 per cent increase as compared to 2017. Equity index options ADV in the T+1 Session also increased to 10,536 in Q4 2018 from 1,753 in Q2 2018 and the volume reached a historic high of 22,924 contracts on 11 October 2018. Subject to regulatory approval and market readiness, the third phase of the enhancements (extension of trading hours to 3 am) is targeted for implementation in mid-2019.

Equity Futures and Options Market Development

Record high trading volume was achieved in the equity derivatives market with strong volume growth in index futures and options products, driven by active trading and hedging activities amid uncertain market conditions in 2018. The total trading volume of all equity derivatives was 294 million contracts in 2018, a 37 per cent increase compared to 2017. HKEX pursued further extensions in flagship product suites and expansion of new product offering as follows:

Key Products Introduced and Product Initiatives during 2018

- Narrowed strike intervals for stock index options on 22 January 2018
- Extended contract month for HSI/HSCEI Futures and Options up to 5.5 years on 5 March 2018
- Introduced MSCI All Country Asia ex Japan Net Total Return Index Futures on 11 June 2018
- Introduced stock futures market enhancements including implementation of a three-tier trading fee model, a liquidity provider programme, and revision of the final settlement price determination method on 3 July 2018
- Introduced HSI/HSCEI Total Return Index Futures on 5 November 2018
- Introduced 16 new stock futures and 13 new stock options (including stock futures and stock options on two listed WVR companies (Meituan Dianping and Xiaomi Corporation))
- Enhanced existing Futures and Options Mobile app to improve user experience

Fixed Income and Currency (FIC) Development

New full-year and single-day records for trading volume and open interest were set for HKEX currency products in 2018 (see tables under New Record Highs sections). The total trading volume of USD/CNH Futures was 1.76 million contracts in 2018, 140 per cent increase against the previous record set in 2017. Such strong trading results during the highly volatile periods seen during summer in 2018 demonstrated strong market demand for capital efficient RMB risk management tools.

HKEX continues to work on further enhancements to existing products to meet market demand. On 19 June 2018, additional contract month and additional calendar spreads of the USD/CNH Futures were introduced to facilitate long-term RMB hedging and calendar rolling activities of market participants.

On 12 June 2018, HKEX hosted its fifth annual RMB FIC Conference, attracting over 700 industry experts and business leaders, discussing key regulatory and business issues with a special focus on the current phase of RMB internationalisation and the progress of Bond Connect.

Stock Option Position Limits

In 2018, HKEX enhanced its Large Open Position (LOP) surveillance systems to support the introduction of new products including new stock futures on Tracker Fund of Hong Kong and Hang Seng China Enterprises Index ETF, MSCI All Country Asia ex Japan Net Total Return Index Futures (MSCI AC Asia ex Japan NTR Index Futures), HSI Total Return Index Futures and HSCEI Total Return Index Futures.

Risk Management

As part of HKEX's continuous effort to engage market participants and to promote a strong compliance culture, HKEX launched quarterly compliance roundtables with different groups of market participants in 2018. HKEX also completed the 2018 Annual Attestation and Inspection Programme and announced the findings to the market on 25 February 2019.

With the rapidly changing trading landscape and increasing participation of algorithmic trading in its Derivatives Market, HKEX is mindful that there could be self-execution risk for EPs to trade against themselves, especially for market makers, liquidity providers and proprietary desks. This in turn could lead to potential regulatory and compliance risk management considerations. To assist EPs in avoiding self-trade, HKEX plans to introduce a self-trade prevention function, after a stabilisation period following the upgrade of the derivatives platforms (see details in the Platform and Infrastructure segment). The self-trade prevention mechanism would help to cater for further market growth while aiding in maintaining a fair and orderly market.

Commodities Segment

Key Market Indicators

	2018	2017	Change
ADV of metals contracts traded on the LME (lots)			
Aluminium	272,016	217,412	25%
Copper	159,386	141,602	13%
Zinc	135,743	123,037	10%
Nickel	97,332	87,279	12%
Lead	53,949	44,136	22%
Ferrous	2,131	1,476	44%
Precious	3,481	2,917	19%
Others	6,460	6,621	(2%)
Total	730,498	624,480	17%
Less: Admin Trades	(100,942)	(23,413)	331%
Total chargeable ADV	629,556	601,067	5%

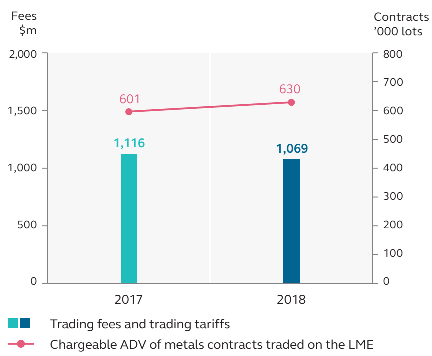
	At 31 Dec 2018	At 31 Dec 2017	Change
Total futures Market Open Interest (lots)	1,997,911	2,253,477	(11%)

Analysis of Results

Summary

	2018 $m	2017 $m	Change
Trading fees and trading tariffs	1,069	1,116	(4%)
Market data fees	193	181	7%
Other revenue:			
Commodities stock levies and warehouse listing fees	66	77	(14%)
Financial OTC booking fees	27	–	N/A
Others	60	62	(3%)
Total revenue	1,415	1,436	(1%)
Operating expenses	(717)	(659)	9%
EBITDA	698	777	(10%)
EBITDA margin	49%	54%	(5%)

Trading Fees and Trading Tariffs



Excluding non-fee generating administrative trades introduced in June 2017 to meet new requirements resulting from MiFID II (Admin Trades), ADV of metals contracts traded was 5 per cent higher compared with 2017. However, trading fees fell by $47 million (4 per cent) due to the fee reductions for short- and medium-dated carry trades introduced as a result of LME's Strategic Pathway.

EBITDA

Operating expenses rose by $58 million (9 per cent). Excluding the one-off insurance recovery of $23 million in 2017 (relating to the costs of warehouse litigation in the US incurred in prior years), operating expenses rose by 5 per cent. The increase was mainly attributable to higher staff costs from increased headcount and annual payroll adjustments, and higher legal and professional fees for strategic initiatives, partly offset by a drop in operating expenses of QME from reduced staff costs. As a result of the lower revenue and the increase in operating expenses, EBITDA margin dropped from 54 per cent in 2017 to 49 per cent in 2018.

Business Update

LME

The LME has continued to deliver its Strategic Pathway initiatives, as outlined in 2017. The short- and medium-dated carry fee reductions originally introduced in Q4 2017 were made indefinite in September 2018. Since the introduction of the medium-dated carry discount on 1 November 2017, volumes for medium-dated carries have continued to grow and the ADV in 2018 was up 20 per cent against the first ten months of 2017.

Other Strategic Pathway deliveries include the Financial OTC booking fee, introduced in June 2018, which delivered $27 million in 2018. The Registered Intermediating Broker (RIB) membership category, designed to give greater market access to less liquid LME contracts, is ready for service launch in Q1 2019, and implied pricing was piloted and launched in July 2018. Further, enhancements to the warrants-as-collateral service, which allows members to pledge LME warrants against their margin requirements, were successfully launched in November 2018.

LME Gold recorded a record trading day on 21 February 2018, with 14,801 lots of gold traded. In total, 148,566 lots (23,105 tonnes) of silver and 732,188 lots (2,277 tonnes) of gold were traded in 2018. Contract liquidity remains strong and has increased since the successful foundation laid in 2017. Following demand from market participants, the LME also launched an Asian hours' liquidity provision programme on 1 June 2018.

The LME continues to work on all the initiatives outlined in the Strategic Pathway and deliveries will continue throughout 2019, starting with the launch of seven new cash settled products (comprising two regional ferrous, two regional aluminium premiums, alumina, molybdenum, and cobalt contracts), likely in Q1 2019.

In October 2018 the LME published its position paper on responsible sourcing of brands listed for good delivery on the LME, which laid out the LME's proposed pathway for ensuring that its listed brands appropriately embody the responsible sourcing standards expected by downstream consumers. The feedback period ended on 30 November 2018 and the LME aims to publish its response to such feedback, as well as its next steps, in 1H 2019.

In light of the continuing uncertainty concerning the terms on which the UK will leave the European Union (EU), Brexit[8] contingency planning has been a central priority for both the LME and LME Clear throughout 2018. The LME and LME Clear have been putting in place a broad set of contingency plans based on a number of potential outcomes, with a view to such plans being operationally ready at the currently expected date of Brexit (29 March 2019). The contingency planning comprises three key priorities including continued access to LME trading systems, continued provision of clearing services through LME Clear, and operational readiness that may be required in order to manage the additional regulatory obligations that would arise were there to be an interim period without the UK being granted trading venue equivalence.

Other Commodities Product Development

In August 2018, HKEX's USD Gold Futures became the first HKEX commodities contract to receive regulatory approval to be traded by investors in Taiwan. In 2018, a total of 25,006 contracts of CNH Gold Futures, and 326,700 contracts of USD Gold Futures were traded, with 205 kilograms of gold bars physically delivered against futures contracts.

Research and market consultations are in progress for the enhancement of the existing London Metal Mini Futures and Iron Ore Futures and for the potential launch of other metal derivatives products and metals indices.

LME Week

The annual LME Asia Week 2018 event, held in Hong Kong from 15 to 18 May 2018, attracted over 1,900 metals professionals, as well as local and international media. Six additional events were hosted throughout the week as well as the traditional Chairman's Cocktails, LME Asia Metals Seminar and LME Asia Dinner, in order to provide more opportunities for the industry to share information and exchange ideas.

The annual LME Week was held during the week of 8 October 2018. The LME seminar on Monday, 8 October saw record attendance with over 1,000 delegates debating key issues affecting the global metals markets, including ongoing geopolitical tensions and innovations in the metals industry. The LME dinner, held on the evening of 9 October, also saw a record 1,950 attendees. HKEX also hosted a China Reception on 8 October in London, welcoming over 300 metal market participants.

QME

QME officially launched on 19 October 2018 as scheduled and received positive attention from the industry in the Mainland. The first product traded on QME was Alumina. As of 31 December 2018, the number of participants and Alumina trading volumes had achieved stable growth, and the price of Alumina traded on QME has attracted increasing recognition from the key industry players. QME will continue to expand its network of client coverage and product portfolio, and enhance services provided to participants.

Clearing Segment

Key Market Indicators

	2018	2017	Change
ADT on the Stock Exchange ($bn)	107.4	88.2	22%
Average daily number of Stock Exchange trades	1,596,792	1,240,169	29%
Average value per trade ($)	67,266	71,159	(5%)
Average daily value of Settlement Instructions (SIs) settled by CCASS ($bn)	266.2	220.5	21%
Average daily number of SIs	103,033	92,459	11%
Average value per SI ($)	2,584,067	2,385,005	8%
Chargeable ADV of metals contracts traded on the LME (lots)	629,556	601,067	5%

8 In a referendum held on 23 June 2016, the UK voted to exit the EU.

Analysis of Results

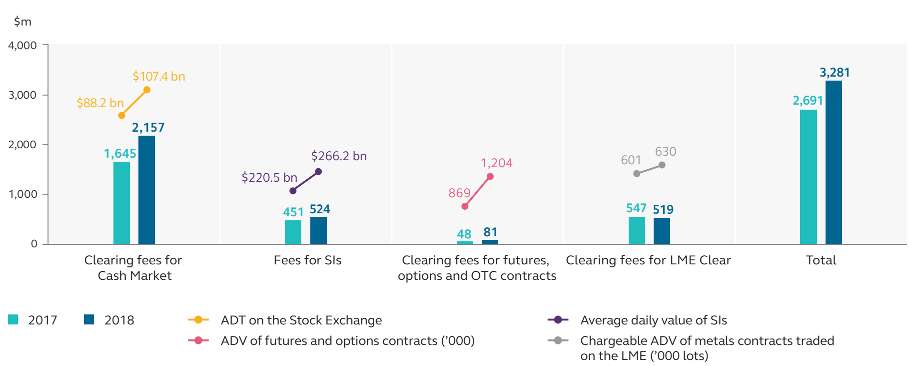
Summary

	2018 $m	2017 $m	Change
Trading fees and trading tariffs – allocated from Equity and Financial Derivatives segment	**422**	288	47%
Clearing and settlement fees	**3,281**	2,691	22%
Depository, custody and nominee services fees	**979**	892	10%
Other revenue and sundry income	**109**	145	(25%)
	4,791	4,016	19%
Net investment income	**1,377**	809	70%
Total revenue and other income	**6,168**	4,825	28%
Operating expenses	**(812)**	(752)	8%
EBITDA	**5,356**	4,073	32%
EBITDA margin	**87%**	84%	3%

Trading Fees and Trading Tariffs

Trading fees and trading tariffs allocated from the Equity and Financial Derivatives segment for clearing derivatives products rose by 47 per cent, due to a 56 per cent increase in ADV of derivatives contracts traded on the Futures Exchange and 21 per cent increase in ADV of stock options traded (see commentary in the Equity and Financial Derivatives segment).

Clearing and Settlement Fees



Clearing and settlement fees for Cash Market and SIs increased by 31 per cent and 16 per cent respectively compared with 2017. The increase was primarily driven by a higher number of transactions, and a 2 per cent and a 4 per cent higher average fee per Cash Market trade, and per SI transaction, respectively.

Despite a 5 per cent increase in chargeable ADV of metals contracts traded, clearing fees for LME Clear dropped by $28 million or 5 per cent due to fee reductions for short- and medium-dated carry trades.

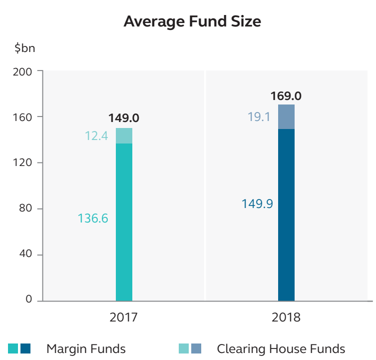
Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees are not directly impacted by changes in market activity. They rose by $87 million or 10 per cent due to higher portfolio fees from an increase in the overall portfolio value held under Stock Connect, and higher electronic IPO service fees and corporate action fees, from increased numbers of stocks and structured products listed.

Other Revenue and Sundry Income

Other revenue dropped by $36 million due to a one-off post-liquidation interest payment of $55 million received from Lehman's liquidators in March 2017, partly offset by an increase in accommodation income[9].

Net Investment Income



The increase in the average size of Margin Funds during the year arose from higher margin requirements per contract cleared through HKCC and SEOCH due to increased volatility and higher open interest, but partly offset by lower average Margin Fund size of LME Clear attributable to lower open interest and market prices compared to 2017.

The analysis of net investment income is as follows:

	2018			2017		
	Margin Funds $m	**Clearing House Funds $m**	**Total $m**	Margin Funds $m	Clearing House Funds $m	Total $m
Net investment income from:						
Cash and bank deposits	**1,257**	**58**	**1,315**	746	24	770
Debt securities	**60**	**–**	**60**	36	–	36
Exchange gains	**2**	**–**	**2**	3	–	3
Total net investment income	**1,319**	**58**	**1,377**	785	24	809
Net investment return	**0.88%**	**0.31%**	**0.81%**	0.57%	0.19%	0.54%

The higher net investment income on Margin Funds in 2018 arose from higher interest income on cash and bank deposits, attributable to both higher average fund size and higher bank deposit rates in Hong Kong.

9 Accommodation income mainly comprises income from CPs on depositing securities as alternatives to cash deposits of Margin Funds, or depositing currencies if the relevant bank deposit rates are negative, and interest shortfall collected from LME Clear CPs on cash collateral where the investment return on the collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.

EBITDA

Operating expenses rose by $60 million (8 per cent) over 2017, as a result of higher staff costs including annual payroll adjustments and higher variable pay, increased premises costs, higher IT support and maintenance costs and new regulatory fees imposed on LME Clear, partly offset by savings in legal and professional fees. As the percentage increase in revenue and other income was higher than the percentage increase in operating expenses, EBITDA margin increased from 84 per cent in 2017 to 87 per cent in 2018.

Business Update

Cash and Derivatives Clearing

Northbound portfolio value of A shares reached a record high of RMB719 billion in September 2018 and stood at RMB668 billion at 31 December 2018 (31 December 2017: RMB530 billion). The increase reflects the continuous interest in accessing the A share market through Stock Connect.

In 2018, HKEX continued to improve market quality and to achieve a higher level of compliance with international regulatory requirements, including:

(i) HKSCC, HKCC, SEOCH and OTC Clear introduced a number of enhancements to the recovery plan. Notably, HKSCC, HKCC and SEOCH introduced close-out netting provisions in their respective rules, which substantially reduce the capital costs of bank-based participants clearing through our clearing houses;

(ii) HKEX increased its risk capital support in HKSCC, HKCC and SEOCH by increasing the clearing houses' contribution to their respective default funds to 10 per cent of the default fund size instead of using a fixed amount;

(iii) HKCC's Contingent Advance Capital facility (previously provided by HKCC to relieve 50 per cent of CPs' default fund contribution requirements) was removed and each HKCC CP is granted a $1 million dynamic default fund credit; and

(iv) HKSCC, HKCC and SEOCH increased the Tier 1 capital requirement of settlement banks and General CPs (that are Registered Institutions) to a minimum of $390 million.

OTC Clear

Total notional amount cleared in 2018 was US$120.4 billion, up 210 per cent compared with 2017. Clearing volume of both Cross Currency Swaps (CCS) and Interest Rate Swaps from Mainland banks increased substantially following the addition of seven new clearing members in 2017, and a further two in 2018. The OTC clearing service continues to expand with the addition of CCS denominated in USD/HKD and Deliverable Foreign Exchange (DFX) denominated in USD/CNH and USD/HKD.

LME Clear

LME Clear is considering changing the initial margining approach for its contracts and is working closely with the market and regulators to define and develop a model that ensures a conservative measure of risk and which also reflects the inherent characteristics of the LME products. This market engagement will continue through 2019 to the intended implementation in 2020.

Platform and Infrastructure Segment

Analysis of Results

Summary

	2018 $m	2017 $m	Change
Network, terminal user, dataline and software sub-license fees	515	413	25%
Hosting services fees	162	143	13%
Others	1	4	(75%)
Total revenue	678	560	21%
Operating expenses	(170)	(151)	13%
EBITDA	508	409	24%
EBITDA margin	75%	73%	2%

Network, Terminal User, Dataline and Software Sub-license Fees

Network fees rose by $102 million (25 per cent) due to increased sales of throttles, driven in turn by the MSCI inclusion, as well as new EPs and CCEPs migrating from Open Gateway to the new China Connect Central Gateway (CCCG).

Hosting Services Fees

Hosting services fees increased due to organic growth from both new customer subscriptions and increased usage by existing customers. At the end of December 2018, 116 EPs were using HKEX's Hosting Services. These EPs generated, in aggregate, approximately 49 per cent of the Cash Market turnover and 63 per cent of the trading volume of the Derivatives Market.

EBITDA

Operating expenses increased mainly due to higher IT costs directly consumed by participants. As the percentage increase in revenue was higher than the percentage increase in operating expenses, EBITDA margin improved from 73 per cent in 2017 to 75 per cent in 2018.

Business Update

During 2018, all major trading, clearing, settlement, and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform reliably.

The new securities trading system for Hong Kong Cash Market, the Orion Trading Platform – Securities Market (OTP-C), was launched successfully on 5 February 2018 and has been running smoothly despite its launch coinciding with a period of record turnover during 1H 2018. It is a scalable high performance system based on open technology architecture that gives it flexibility to support a variety of new functionalities. The system is designed to initially support up to 60,000 orders per second, double the previous AMS/3.8 system, with scope for further increases. The OTP-C is expected to meet capacity requirements in the next decade.

Software development for the Orion Trading Platform – China Stock Connect (OTP-CSC) was completed in Q4 2018. Market readiness activities will be carried out in 1H 2019. The OTP-CSC will replace the legacy proprietary hardware currently supporting Northbound Trading of Stock Connect.

Development work continues on the upgrade of the derivatives platforms, the Hong Kong Futures Automated Trading System (HKATS) and the Derivatives Clearing and Settlement System (DCASS), are tentatively scheduled for rollout by Q2 2019. The upgrade will enhance stability and reliability of the Derivatives Market infrastructure, facilitate swift adaptation to future market developments, with a reduction of the hardware footprint required at participants' premises. Along with the upgrade, a new web-based front-end will be provided to EPs for emergency purposes and reporting of block trades.

The first phase of the Next Generation Post Trade Programme is set to roll out in Q1 2019 beginning with Client Connect. Client Connect is a single platform to unify all client access to HKEX services to improve customer experience. The majority of the current paper-based services will be digitised to enhance operational efficiency on Client Connect, and the platform will integrate with other Next Generation Post Trade applications.

Since it was established in Q3 2018, HKEX's Innovation Lab has launched several projects to enhance the efficiency and effectiveness of HKEX's business operations by applying emerging technologies, including knowledge graph, secure computation, machine learning, natural language processing, robotic process automation and distributed ledger technology. It also continues to explore, incubate and invest in innovative opportunities that support the growth of HKEX's business and maintain its leadership in the global capital markets.

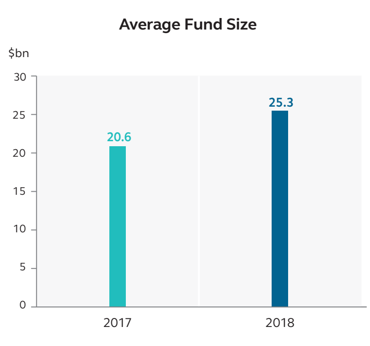
Corporate Items

"Corporate Items" is not a business segment but comprises central income (including net investment income of the Corporate Funds), the costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segments.

Summary

	2018 $m	2017 $m	Change
Net investment income	**207**	790	(74%)
Others	**41**	11	273%
Total revenue and other income	**248**	801	(69%)
Operating expenses	**1,254**	946	33%

Net Investment Income



Average fund size increased principally due to cash generated and retained by the business after payment of cash dividends.

The analysis of net investment income is as follows:

	2018 $m	2017 $m
Net investment income/(loss) from:		
Cash and bank deposits	328	142
Collective investment schemes	(106)	632
Equity securities	–	14
Debt securities	1	–
Exchange (losses)/gains	(16)	2
Total net investment income	207	790
Net investment return	0.82%	3.83%

Net investment income of Corporate Funds decreased by $583 million compared with 2017 principally due to fair value losses on collective investment schemes held under the external portfolio, as opposed to the fair value gains in 2017, partly offset by higher interest income earned on cash and bank deposits from increased fund size and higher deposit rates.

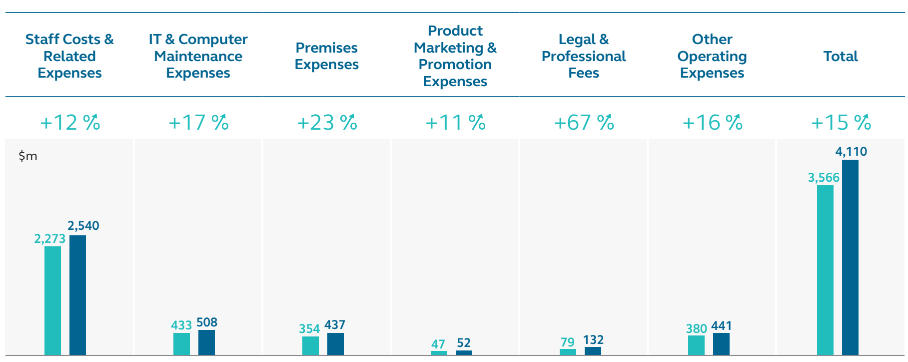
As the valuation of investments reflect movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold or redeemed.

Operating Expenses

Operating expenses increased by 33 per cent over 2017 mainly due to increased staff costs from annual payroll adjustments and higher variable pay, and higher premises costs and relocation expenses for new offices and the new HKEX Connect Hall.

Expenses, Other Costs and Taxation

Operating Expenses



Staff costs and related expenses increased by $267 million or 12 per cent mainly due to annual payroll adjustments, increase in performance-related variable pay, and increased headcount for strategic initiatives.

Overview Organisation MD & A Governance Financials Others

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by participants of $88 million (2017: $73 million), were $420 million (2017: $360 million). The increase in maintenance expenses was mainly attributable to new IT systems and upgraded networks.

Premises expenses increased by $83 million or 23 per cent due to the new offices taken up at Exchange Square in Hong Kong and overlap from the prior location.

Legal and professional fees increased by $53 million (67 per cent). Excluding the one-off insurance recovery of $23 million relating to the warehouse litigation in the US in 2017, legal and professional fees increased by $30 million due to higher professional fees incurred for strategic initiatives.

Other operating expenses increased by $61 million or 16 per cent due to higher relocation expenses for consolidation of offices, and higher index licence fees attributable to increased volumes of derivatives contracts traded.

Depreciation and Amortisation

	2018 $m	2017 $m	Change
Depreciation and amortisation	**762**	858	(11%)

Depreciation and amortisation dropped by $96 million or 11 per cent, as certain IT systems were fully amortised in Q4 2017 and 2018.

Finance Costs

	2018 $m	2017 $m	Change
Finance costs	**114**	134	(15%)

The decrease in finance costs was due to the repayment of all bank borrowings in 2017.

Taxation

	2018 $m	2017 $m	Change
Taxation	**1,592**	1,255	27%

Taxation increased due to higher profit before taxation in 2018.

Financial Review

Analysis of Results by Quarter

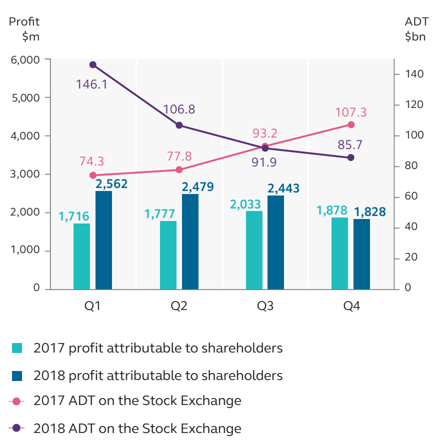
Quarterly Results

	Q1 2018 $m	Q2 2018 $m	Q3 2018 $m	Q4 2018 $m	Total 2018 $m
Revenue and other income	4,150	4,044	4,102	3,571	15,867
Operating expenses	(935)	(983)	(1,025)	(1,167)	(4,110)
EBITDA	3,215	3,061	3,077	2,404	11,757
Depreciation and amortisation	(180)	(198)	(198)	(186)	(762)
Operating profit	3,035	2,863	2,879	2,218	10,995
Finance costs	(27)	(28)	(31)	(28)	(114)
Share of profits less losses of joint ventures	2	2	(1)	(1)	2
Profit before taxation	3,010	2,837	2,847	2,189	10,883
Taxation	(456)	(366)	(409)	(361)	(1,592)
Profit for period/year	2,554	2,471	2,438	1,828	9,291
Loss attributable to non-controlling interests	8	8	5	–	21
Profit attributable to shareholders	2,562	2,479	2,443	1,828	9,312

	Q1 2017 $m	Q2 2017 $m	Q3 2017 $m	Q4 2017 $m	Total 2017 $m
Profit attributable to shareholders	1,716	1,777	2,033	1,878	7,404

1 As a result of adopting the final agenda decision published by the IFRS Interpretations Committee of the International Accounting Standards Board in January 2019 (note 2(c)(ii) to the Consolidated Financial Statements refers), initial listing fees dropped by $34 million. Since the amount is not material, its impact and the related tax impact (tax credit of $5 million) are included in 2018 Q4 results and the results of first three quarters of 2018 are not restated.

Analysis of Quarterly Results



Market started strong in Q1 2018 with headline ADT reaching the second highest quarterly ADT after the previous record in Q2 2015. However, market sentiment started to weaken in Q3 2018 due to increased concerns over the US/China trade war and the weakening economic outlook in China, and headline ADT declined to $85.7 billion in Q4 2018.

As profit generally follows the level of ADT, Q1 was the most profitable quarter during the year. Q4 was the least profitable quarter in 2018 due to the low ADT and seasonal increase in operating costs towards the end of the year.

Overview
Organisation
MD & A
Governance
Financials
Others

Changes to Key Items in Consolidated Statement of Financial Position

(A) Financial Assets and Financial Liabilities

	At 31 Dec 2018 $m	At 31 Dec 2017 $m	Change
Financial assets			
Cash and cash equivalents	121,196	155,660	(22%)
Financial assets measured at fair value through profit or loss	61,004	95,037	(36%)
Financial assets measured at fair value through other comprehensive income	3,755	–	N/A
Financial assets measured at amortised cost	31,885	30,817	3%
Total	217,840	281,514	(23%)

The Group's financial assets comprised financial assets of Corporate Funds, Margin Funds, Clearing House Funds, base and precious metals derivatives contracts, and cash prepayments and collateral for A shares traded under Stock Connect, as follows:

	At 31 Dec 2018 $m	At 31 Dec 2017 $m	Change
Financial assets			
Corporate Funds [1,2]	24,833	21,464	16%
Margin Funds [3]	120,573	155,384	(22%)
Clearing House Funds	15,505	17,642	(12%)
Base and precious metals derivatives contracts cleared through LME Clear	53,915	85,335	(37%)
Cash prepayments and collateral for A shares	3,014	1,689	78%
Total	217,840	281,514	(23%)

1 Includes $724 million (31 December 2017: $Nil) solely used for supporting contributions to default funds and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund
2 Excludes prepayments for and receivables from collective investment schemes of $384 million (31 December 2017: $Nil)
3 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of $3,155 million (31 December 2017: $2,430 million), which are included in accounts receivable, prepayments and other deposits

	At 31 Dec 2018 $m	At 31 Dec 2017 $m	Change
Financial liabilities			
Base and precious metals derivatives contracts cleared through LME Clear	53,915	85,335	(37%)
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	123,728	157,814	(22%)
CPs' contributions to Clearing House Funds	14,787	16,626	(11%)
Total	192,430	259,775	(26%)

The 22 per cent decrease in financial assets and financial liabilities of Margin Funds at 31 December 2018 against those at 31 December 2017 was mainly attributable to decreased contributions from members of LME Clear in response to a drop in open positions on metals contracts and lower metals contracts prices.

The decrease in financial assets and financial liabilities of Clearing House Funds was mainly attributable to lower contributions required from members of LME Clear and CPs of SEOCH in response to changes in risk exposures.

After adjusting the prepayments for and receivables from collective investment schemes (footnote 2 above), Corporate Funds at 31 December 2018 increased by $3,753 million as compared to those at 31 December 2017 due to the retention of cash generated by the business over the past year partly offset by the cash paid for the 2017 final dividend and 2018 first interim dividend.

A portion of the Corporate Funds is invested in collective investment schemes which are designed to enhance returns and mitigate portfolio volatility and asset class concentration risk. Further details of investment in collective investment schemes are included in note 50(a)(iv) to the Consolidated Financial Statements of this Annual Report.

(B) Fixed Assets, Intangible Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets rose by $250 million from $19,394 million at 31 December 2017 to $19,644 million at 31 December 2018. The increase was mainly due to additions of $988 million, but was partly offset by depreciation and amortisation of $762 million. Additions during the year mainly related to the development and upgrade of various trading and clearing systems and Stock Connect technology infrastructure, and renovation of new offices and the HKEX Connect Hall.

The Group's capital expenditure commitments at 31 December 2018, including those authorised by the Board but not yet contracted for, amounted to $935 million (31 December 2017: $1,433 million). These related mainly to the development and upgrade of various IT systems including the cash, derivatives and commodities trading and clearing systems, and Stock Connect technology infrastructure.

(C) Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

During the year, the Company subscribed for 6,327 ordinary shares in OTC Clear, a non wholly-owned subsidiary, at a total consideration of $307 million, and the non-controlling interests have subscribed for 1,921 non-voting ordinary shares at a total consideration of $93 million. As a result, the shareholding in OTC Clear held by the Company increased from 75 per cent to 76 per cent.

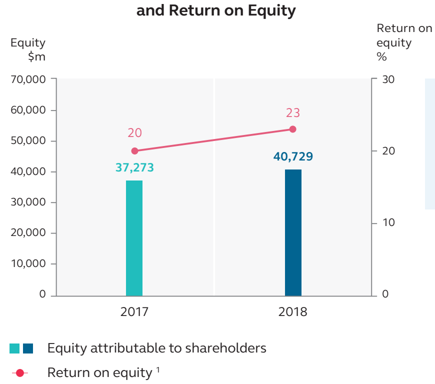
On 20 February 2019, the Group signed a letter of intent to acquire a 51 per cent stake in Shenzhen Ronghui Tongjin Technology Co. Ltd., a subsidiary of Shenzhen Kingdom Sci-Tech Co. Ltd., which is a technology services provider that specialises in financial exchanges, regulation technologies and data applications. The transaction is subject to the signing of binding agreements and is expected to complete in the second quarter of 2019.

Save for those disclosed in this Annual Report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries during the year under review. Apart from those disclosed in this Annual Report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this Annual Report.

(D) Equity attributable to Shareholders and Return on Equity

Equity attributable to shareholders increased by $3,456 million to $40,729 million at 31 December 2018 from $37,273 million at 31 December 2017. This arose principally from the $2,587 million shares issued in lieu of cash dividends and an increase in retained earnings (excluding transfer from designated reserves) of $990 million mainly attributable to profit for the year less dividends declared or paid.

Equity attributable to Shareholders and Return on Equity



1 Based on equity attributable to shareholders at year-end

Return on equity increased by 3 per cent due to the increase in profit attributable to shareholders in 2018.

Liquidity, Financial Resources and Gearing

Working capital rose by $2,750 million to $22,202 million at 31 December 2018 (31 December 2017: $19,452 million) mainly due to profit attributable to shareholders of $9,312 million and reclassification of deferred revenue of $418 million as non-current liabilities following the adoption of the new accounting standard, HKFRS 15. The increase was partly offset by the 2017 final dividend and 2018 first interim dividend (net of scrip dividends) of $5,465 million, reclassification of borrowings of $743 million from non-current liabilities to current liabilities as they became repayable within twelve months, the net payments for non-current financial assets of $338 million and net increase in fixed assets and intangible assets of $250 million.

At 31 December 2018, the Group had the following outstanding borrowings:

	At 31 Dec 2018		At 31 Dec 2017	
	Carrying value $m	Maturity	Carrying value $m	Maturity
USD fixed rate notes with coupon of 2.85 per cent (2017: average coupon of 2.8 per cent)	753	Jan 2019	1,533	Dec 2018 & Jan 2019
Written put options to non-controlling interests	413	N/A	327	N/A
	1,166		1,860	

At 31 December 2018, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 3 per cent (31 December 2017: 5 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2017: zero per cent). For this purpose, gross debt is defined as total borrowings and net debt[10] is defined as total borrowings less cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds), and adjusted capital as all components of equity attributable to shareholders other than designated reserves.

10 Net debt will be zero when the amount of cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds) is greater than total borrowings.

Apart from the borrowings used to fund the acquisition of the LME Group, banking facilities have been put in place for contingency purposes. At 31 December 2018, the Group's total available banking facilities for its daily operations amounted to $20,024 million (31 December 2017: $18,963 million), which included $13,523 million (31 December 2017: $11,954 million) of committed banking facilities and $6,500 million (31 December 2017: $7,000 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2018, the total amount of the facilities was RMB21,500 million (31 December 2017: RMB21,500 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2017: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect, eg, natural disasters or extreme weather conditions in Hong Kong.

At 31 December 2018, 83 per cent (31 December 2017: 88 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Pledges of Assets

Details of pledges of assets are included in note 48 to the Consolidated Financial Statements of this Annual Report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 50(a)(i) – Foreign exchange risk to the Consolidated Financial Statements of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 45 to the Consolidated Financial Statements of this Annual Report.

10-Year Financial Statistics

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Key Market Statistics										
ADT traded on the Stock Exchange ($bn)	107.4	88.2	66.9	105.6	69.5	62.6	53.9	69.7	69.1	62.3
ADV of derivatives contracts traded on the Futures Exchange ('000 contracts)	687	441	464	394	275	284	260	269	222	206
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	517	428	298	374	302	249	228	303	246	192
ADV of metals contracts traded on LME * ('000 lots)	730	624	619	670	700	676	634	N/A	N/A	N/A

* HKEX completed the acquisition of the LME Group on 6 December 2012.

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Consolidated Income Statement										
($m)										
Revenue and other income	15,867	13,180	11,116	13,375	9,849	8,723	7,211	7,855	7,566	7,035
Operating expenses	(4,110)	(3,566)	(3,455)	(3,290)	(2,958)	(2,777)	(1,957)	(1,733)	(1,505)	(1,392)
EBITDA	11,757	9,614	7,661	10,085	6,891	5,946	5,254	6,122	6,061	5,643
Depreciation and amortisation	(762)	(858)	(771)	(684)	(647)	(507)	(158)	(90)	(107)	(101)
Costs relating to acquisition of LME Group	–	–	–	–	–	–	(138)	–	–	–
Finance costs	(114)	(134)	(82)	(114)	(196)	(183)	(55)	–	–	–
Fair value loss on derivative component of convertible bonds	–	–	–	–	–	–	(55)	–	–	–
Share of profits/(losses) of joint ventures	2	(12)	(9)	(9)	(10)	(10)	(3)	–	–	–
Profit before taxation	10,883	8,610	6,799	9,278	6,038	5,246	4,845	6,032	5,954	5,542
Taxation	(1,592)	(1,255)	(1,058)	(1,347)	(900)	(700)	(761)	(939)	(917)	(838)
Profit for the year	9,291	7,355	5,741	7,931	5,138	4,546	4,084	5,093	5,037	4,704
Loss attributable to non-controlling interests	21	49	28	25	27	6	–	–	–	–
Profit attributable to shareholders	9,312	7,404	5,769	7,956	5,165	4,552	4,084	5,093	5,037	4,704
Dividend per share ($)	6.71	5.40	4.25	5.95	3.98	3.54	3.31	4.25	4.20	3.93
Basic earnings per share ($)	7.50	6.03	4.76	6.70	4.44	3.95	3.75	4.71	4.66	4.36
Consolidated Statement of Financial Position										
($m)										
Non-current assets	20,165	19,586	19,508	19,622	19,672	20,797	20,260	1,580	2,350	2,637
Current assets	235,783	298,018	227,810	218,571	232,188	65,146	60,577	52,448	45,534	42,695
Current liabilities	(213,581)	(278,566)	(210,688)	(203,976)	(222,564)	(57,538)	(55,337)	(44,809)	(39,160)	(36,985)
Net current assets	22,202	19,452	17,122	14,595	9,624	7,608	5,240	7,639	6,374	5,710
Total assets less current liabilities	42,367	39,038	36,630	34,217	29,296	28,405	25,500	9,219	8,724	8,347
Non-current liabilities	(1,464)	(1,663)	(4,246)	(4,255)	(7,937)	(7,887)	(7,736)	(60)	(47)	(320)
Total equity	40,903	37,375	32,384	29,962	21,359	20,518	17,764	9,159	8,677	8,027
Non-controlling interests	(174)	(102)	(118)	(146)	(86)	(113)	–	–	–	–
Equity attributable to HKEX's shareholders	40,729	37,273	32,266	29,816	21,273	20,405	17,764	9,159	8,677	8,027
Equity per share [1] ($)	32.65	30.14	26.42	24.74	18.26	17.59	15.48	8.50	8.06	7.46
Financial Ratios										
Dividend payout ratio	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Cost to income ratio [2]	26%	27%	31%	25%	30%	32%	27%	22%	20%	20%
Pre-tax profit margin [2]	69%	65%	61%	69%	61%	60%	67%	77%	79%	79%
Return on equity [3]	23%	20%	18%	27%	24%	22%	23%	56%	58%	59%
Current ratio	1.1	1.1	1.1	1.1	1.0	1.1	1.1	1.2	1.2	1.2

Notes:
1 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
2 For the purpose of computing cost (ie, operating expenses) to income ratio and pre-tax profit margin, income includes share of profits/losses of joint ventures.
3 Based on equity attributable to HKEX's shareholders at year end

For the year ended 31 December 2019

Business Review

Overview

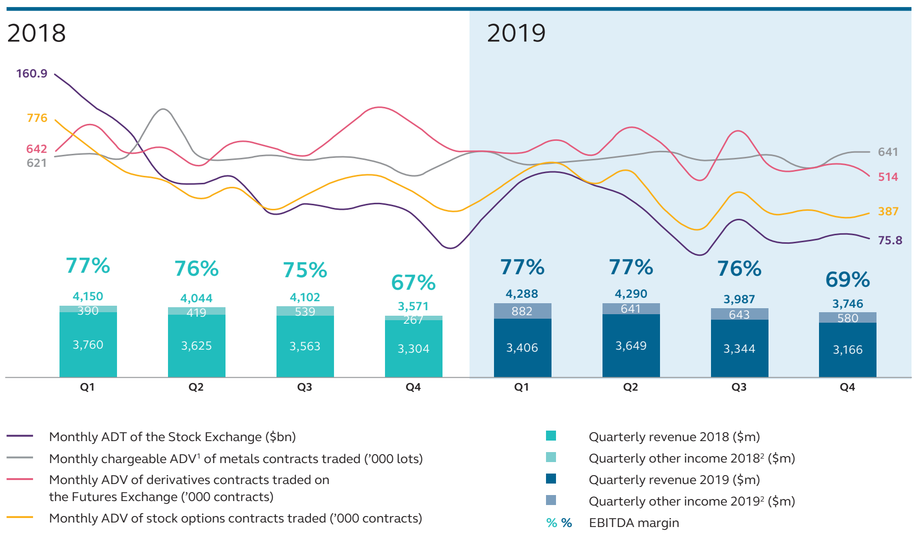


Fig. 1 – Market activity and Group's revenue and other income

HKEX's business performed well in 2019, reporting the highest ever revenue and other income and profit, despite subdued market sentiment driven by trade tensions between China and the US, social unrest in Hong Kong, a weakening economic outlook and uncertainties over Brexit. Stock Connect saw record revenue and other income, at a level of $1 billion. Furthermore, HKEX topped the global exchanges for IPO funds raised, for the seventh time in 11 years, welcoming a number of the world's biggest 2019 listings including Alibaba.

Revenue and other income in 2019 reached a record of $16.3 billion, 3 per cent higher than 2018, driven by higher net interest income from Corporate Funds and Margin Funds, an increase in net investment income from fair value gains on collective investment schemes, and record income generated from Stock Connect. This was partly offset by the reduction in trading and clearing fees from a 19 per cent drop in Cash Market headline ADT[3] and moderate declines in trading volumes in the Derivatives and Commodities Markets.

Operating expenses in 2019 decreased by 2 per cent compared with 2018, due to lower premises expenses as a result of adopting the new accounting standard for leases[4]. Excluding the impact of this accounting change, operating expenses increased by 6 per cent against 2018, attributable to increased headcount and annual payroll adjustments, and higher maintenance expenses for new IT systems and upgraded networks.

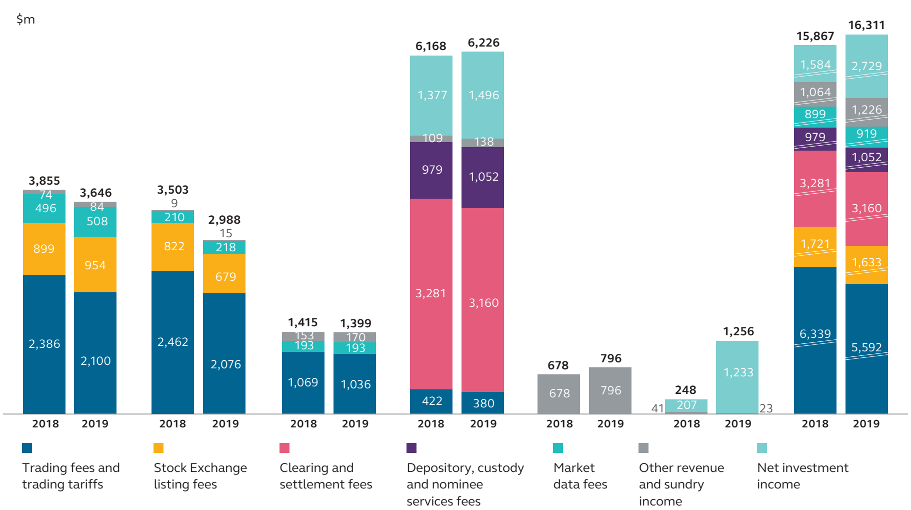
With a phase one trade deal between China and the US, there are signs of recovery in investor confidence, although the current COVID-19 outbreak brings renewed uncertainty. The Group will continue to manage costs prudently whilst pursuing key strategic initiatives for future growth.

1 Chargeable ADV excludes administrative trades (Admin Trades) and other non-chargeable trades. Admin Trades were introduced in 2017 to meet requirements resulting from MiFID II.
2 Includes net investment income and sundry income
3 ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange
4 As a result of the adoption of HKFRS 16: Leases, operating lease rentals are no longer recognised under operating expenses. Please refer to note 2 to the Consolidated Financial Statements for further details.

Business Update and Analysis of Results by Operating Segment[5]

Analysis of Revenue and Other Income by Segment

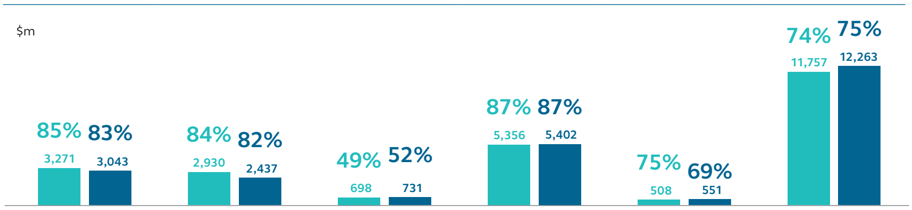
Cash	Equity & Financial Derivatives	Commodities	Post Trade	Technology	Corporate Items	Total*
↓5%	↓15%	↓1%	↑1%	↑17%	↑406%	↑3%



* Total revenue and other income is not presented in the same scale as segmental results, but is proportionately resized.

Analysis of EBITDA and EBITDA Margin by Segment*

Cash	Equity & Financial Derivatives	Commodities	Post Trade	Technology	Group Total (incl. Corporate Items)
↓7%	↓17%	↑5%	↑1%	↑8%	↑4%



% % EBITDA margin = EBITDA divided by Revenue and Other Income

* Further details of the results by segment are set out in note 4 to the Consolidated Financial Statements of this Annual Report.

5 To optimise resources to successfully deliver the initiatives set out in the Group's Strategic Plan 2019-2021, the Group's operating segments have been fine-tuned. As a result, since April 2019, the "Clearing segment" has been renamed the "Post Trade segment", and the "Platform and Infrastructure segment" has been renamed the "Technology segment".

As set out in the Group's Strategic Plan 2019-2021, our vision is to be ***the Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World***. To support this vision, HKEX has focused on the 3 pillars of China Anchored, Globally Connected, and Technology Empowered.

Progress made up to the date of this Annual Report is set out in the table below and further elaborated upon in the Business Update sections in each of the operating segments:

China Anchored

- **Enhance Stock Connect:** Inclusion of eligible companies with weighted voting rights (WVR) in Southbound Trading; launch of the investor identification regime for Southbound Trading
- **Enhance Bond Connect:** Enhancements to connectivity, market infrastructure and investor admission processes, including addition of Bloomberg as a second trading platform, introduction of Primary Market Information Platform as the first English language portal, launch of Negotiable Certificate of Deposit primary subscription service, offering of T+3 settlement cycle and launch of E-Filing System for investor admission

Technology Empowered

- **Modernise our core systems:** Upgrade of Derivatives Market platform; launch of Client Connect; and launch of Orion Trading Platform – China Stock Connect (OTP-CSC)
- **Leverage new technology:** Continued development of HKEX Innovation Lab
- **Expand our technology resources:** Completed acquisition of a 51 per cent equity interest in BayConnect; invested in a minority interest in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao) with the vision of developing a scalable data marketplace platform
- **Unlock new growth opportunities:** Signed a MOU with Ping An Insurance (Group) Company of China Limited (Ping An) to explore cooperation and collaboration in Fintech and data analytics

Globally Connected

- **Improve our market microstructure:** Further expansion of Closing Auction Session; extension of After-Hours Trading in Derivatives Market to 3 a.m.; the introduction of buy-in exemption for Exchange Traded Products (ETPs); enhancement of the Third Party Clearing arrangement allowing a Non-Clearing Participant to appoint different General Clearing Participants for clearing and settling trades; extension of trading hours and contract offerings for RMB currency derivatives products and kerb trading extension for the LME's six main contracts; introduction of new membership category for Registered Intermediating Brokers and Membership Incentive Programme at the LME
- **Enhance our product ecosystem across asset classes:** Launch of the International Central Securities Depository settlement model for ETPs; launch of Inline Warrants, Weekly Index Options, Indian Rupee Currency Futures, six gold futures indices and USD-denominated London Metal Mini Futures for six base metals in Hong Kong; seven new cash-settled metals futures contracts on the LME; and four new base metals products on the QME
- **Develop a listing and capital raising hub for major global and regional companies:** Listing of several of the world's biggest listings in 2019, including Alibaba and Budweiser APAC; introduction of the respective derivatives products; launch of a market consultation on a proposal to allow corporate entities as WVR beneficiaries

Cash Segment

Key Market Indicators

	2019	2018	Change
ADT of equity products traded on the Stock Exchange[1,2] ($bn)	69.2	84.2	(18%)
ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect[2] (RMBbn)	21.3[5]	11.6	84%
ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect[2] (RMBbn)	20.4[5]	8.8	132%
ADT of Bond Connect (RMBbn)	10.7[4,5]	3.6	197%
Average daily number of trades of equity products traded on the Stock Exchange[1,2] ('000)	1,157	1,225	(6%)
Number of newly listed companies on Main Board[3]	168[5]	143	17%
Number of newly listed companies on GEM	15	75	(80%)
Number of companies listed on Main Board at 31 Dec	2,071	1,926	8%
Number of companies listed on GEM at 31 Dec	378	389	(3%)
Total	2,449	2,315	6%
Market capitalisation of companies listed on Main Board at 31 Dec ($bn)	38,058	29,723	28%
Market capitalisation of companies listed on GEM at 31 Dec ($bn)	107	186	(42%)

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes $6.8 billion (2018: $8.2 billion) of ADT of Southbound Trading under Shanghai-Hong Kong Stock Connect and $4.0 billion (2018: $4.5 billion) under Shenzhen-Hong Kong Stock Connect
2 Includes buy and sell trades under Stock Connect
3 Includes 20 transfers from GEM (2018: 10)
4 Excludes the special trading days of 29 September 2019 (Sunday) and 12 October 2019 (Saturday), which are trading days for China but holidays for global investors
5 New record highs in 2019

	2019 $bn	2018 $bn	Change
Total equity funds raised on Main Board			
– IPOs	313.2	282.9	11%
– Post-IPO	136.7	250.3	(45%)
Total equity funds raised on GEM			
– IPOs	1.0	5.1	(80%)
– Post-IPO	3.3	5.8	(43%)
Total	454.2	544.1	(17%)

Stock Connect – New Record Highs in 2019

	2019	2018	Change
Northbound Trading value (RMBbn)	9,757	4,674	109%
Total revenue and other income[1] ($m)	1,009	678	49%

1 $699 million of which arose from trading and clearing activities (2018: $418 million)

MD&A

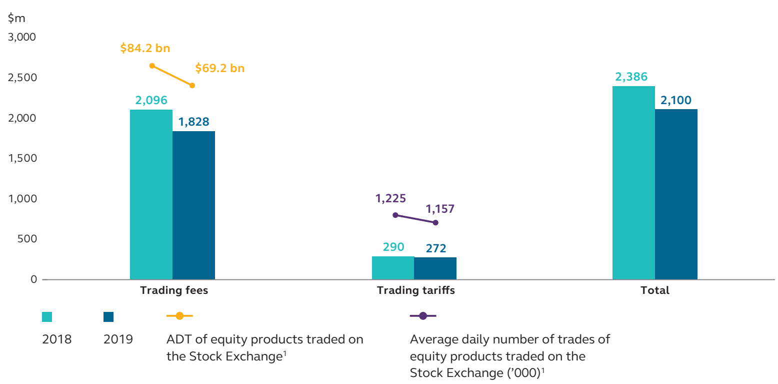
Analysis of Results

Summary

	2019 $m	2018 $m	Change
Trading fees and trading tariffs[1]	**2,100**	2,386	(12%)
Stock Exchange listing fees[1]	**954**	899	6%
Market data fees[1]	**508**	496	2%
Other revenue	**84**	74	14%
Total revenue	**3,646**	3,855	(5%)
Operating expenses[2]	**(603)**	(584)	3%
EBITDA	**3,043**	3,271	(7%)
EBITDA margin	**83%**	85%	(2%)

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)
2 Includes Listing Division costs relating to equity products traded on the Stock Exchange

Trading Fees and Trading Tariffs



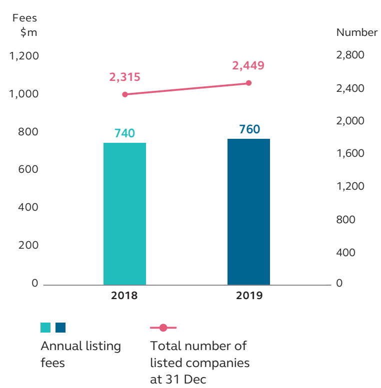
1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

Trading fees dropped by $268 million (13 per cent), less than the 18 per cent decrease in equity products ADT. This was primarily due to record high fees from Northbound Trading of Stock Connect. Trading tariffs dropped by 6 per cent, in line with the decrease in number of trades of equity products.

Stock Exchange Listing Fees

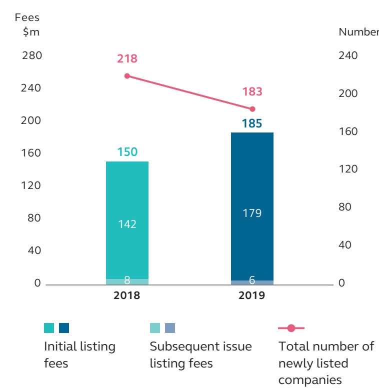
	2019 $m	2018 $m	Change
Annual listing fees	**760**	740	3%
Initial and subsequent issue listing fees	**185**	150	23%
Others	**9**	9	0%
Total	**954**	899	6%

Annual Listing Fees



Annual listing fees increased by 3 per cent, less than the increase in total number of listed companies, as there were more newly listed companies in 2H 2019.

Initial and Subsequent Issue Listing Fees



Initial and subsequent issue listing fees increased by 23 per cent mainly due to an increase in forfeitures.

EBITDA

Operating expenses increased by $19 million, or 3 per cent, due to additional headcount for strategic projects and annual payroll adjustments, increased IT maintenance expenses for Stock Connect, partly offset by lower premises expenses ($47 million) as a result of adopting the new accounting standard for leases[4]. EBITDA margin dropped from 85 per cent to 83 per cent due to the decrease in revenue and the increase in operating expenses.

Business Update

The Hong Kong Cash Market showed resilient performance in 2019. The benchmark HSI closed at 28,189.75 on 31 December 2019, up 9 per cent from 31 December 2018. On 30 December 2019, market capitalisation reached a record high of $38,362 billion. Market sentiment and trading activities were relatively strong in Q1 2019 with headline ADT at $101.1 billion, which moderated to $77.1 billion in Q4. Annual headline ADT was at $87.2 billion, 19 per cent down from 2018 which saw a record high headline ADT of $107.4 billion.

Stock Connect

Stock Connect celebrated its fifth anniversary in 2019, with Northbound Trading achieving record turnover for the third consecutive year. Headline ADT (buy+sell) was RMB41.7 billion, a 104 per cent increase from 2018. Southbound Trading was also active with ADT (buy+sell) of $10.8 billion in 2019. As a result, Stock Connect generated record high revenue and other income for the third consecutive year, at a level of $1 billion in 2019.

Northbound Trading operated smoothly during the three inclusion processes of China A shares in MSCI Indexes, the two inclusion processes in FTSE Russell Indexes and the inclusion process in S&P Dow Jones Indices. On 26 November 2019, during the last tranche of the three inclusion processes of the MSCI Indexes, Northbound Trading turnover (buy+sell) reached a daily record high of RMB124.3 billion.

In March 2019, the SFC clarified that the Institutional Professional Investor requirement for trading ChiNext shares under Northbound Trading of Stock Connect would apply only to a corporation licensed for Type 9 regulated activity, not to its underlying funds, accounts or customers. The clarification further covered asset management companies regulated overseas in November 2019. The clarification improved ChiNext accessibility and was widely welcomed by market participants.

On 28 October 2019, the market welcomed the inclusion of eligible companies with WVR in Southbound Trading of Stock Connect. Two WVR stocks, namely Meituan Dianping and Xiaomi Corporation, have been actively traded by Southbound investors since the inclusion.

In December 2019, the China Securities Regulatory Commission (CSRC) and the SFC jointly announced the launch of the investor identification regime for Southbound Trading, which came into effect on 13 January 2020. This is expected to further facilitate Stock Connect's orderly operations.

Market Structure Development

HKEX continues its focus on improving market microstructure. Effective 8 October 2019, Closing Auction Session (CAS) was expanded to cover all equities and funds. Market participants welcomed this mechanism, and benefited from its utilisation in particular on index rebalancing days.

A consultation on Volatility Control Mechanism (VCM) and Pre-opening Session (POS) enhancements, and the possibility of a market-wide circuit breaker (CB), was released on 16 August 2019, with consultation conclusion issued on 13 December 2019. In view of majority support for the proposed enhancements to VCM and POS, HKEX plans to implement both enhancements in 2020. The market views for a CB, however, were divided, hence HKEX will not proceed with its implementation at this current time.

Issuer Business

Hong Kong topped the world's IPO fundraising tables in 2019 – the seventh time in the last 11 years[6], welcoming 183[7] listed companies and raising a total of $314.2 billion. HKEX also welcomed several of the world's biggest listings in 2019[6], including the secondary listing of Alibaba. Alibaba also became the first IPO in Hong Kong that was successfully launched without any physical forms or printed prospectus, with all the subscription payments

6 Source: Dealogic
7 Includes transfers of listing from GEM to the Main Board

to Share Registrar being made electronically. The issuer also has an arrangement in place to shorten the conversion of American Depositary Receipt (ADR) to Ordinary Share (and vice versa) from up to 14 business days to as short as two business days.

The momentum for biotech listing continued to be strong in 2019 following the introduction of the Biotech Companies chapter (Chapter 18A of the Main Board Listing Rules) in April 2018. The Stock Exchange welcomed 16 biotech and healthcare companies (including 9 biotech companies listed under Chapter 18A) in 2019, raising a total of $39.1 billion. In May 2019, HKEX organised "HKEX Biotech Week 2019", which attracted over 1,000 scientists, biotech entrepreneurs, investors, technology experts and policymakers, to share industry insights and trends on the biotech industry and capital markets.

With a view to further strengthening Hong Kong's status as a leading IPO and fund raising centre, HKEX focused on expanding its reach and engagement overseas, particularly in Southeast Asia during the year. Looking forward, HKEX will continue to focus on promoting Hong Kong as a premier listing platform for high growth and innovative companies across the globe.

ETF Market Development

During 2019, HKEX introduced a series of market structure enhancements for Exchange Traded Products (ETPs) (which comprise ETFs and Leveraged and Inverse Products (L&I Products)), including the Designated Specialist programme, the International Central Securities Depository (ICSD) settlement model and a new buy-in exemption for ETP market makers. In addition, the first two-time Inverse Product and the first actively-managed ETF were listed on the Stock Exchange on 28 May 2019 and 18 June 2019, respectively.

On 12 November 2019, HKEX celebrated the 20th anniversary of the launch of ETFs on HKEX. The market capitalisation of Hong Kong's ETP market was $679 billion as of 31 December 2019 and the ADT of ETPs was $5.0 billion in 2019.

Bond Connect

Trading through Bond Connect gained significant momentum during 2019, with monthly trading volumes reaching new records seven times during the year, the latest being RMB376 billion in November 2019. Single-day trading volume also recorded an all-time high of RMB30.3 billion on 21 October 2019. Overall, ADT of Bond Connect rose to RMB10.7 billion in 2019, nearly triple that of 2018.

Market participation in Bond Connect expanded significantly in 2019, amid the inclusion of Chinese RMB-denominated bonds in the Bloomberg Barclays Global Aggregate Indices from April 2019. As of 31 December 2019, a total of 1,601 institutional investors from 31 jurisdictions globally were admitted to Bond Connect, up 218 per cent from 503 institutional investors as of 31 December 2018.

In 2019, the following enhancements to Bond Connect's connectivity, market infrastructure as well as investor admission processes were achieved:

(i) Bloomberg was welcomed as a second trading platform on 17 January 2019;

(ii) Primary Market Information Platform (PMIP), the first English language portal for the dissemination of Chinese primary bond market information, was launched in February 2019. As of 31 December 2019, PMIP had disclosed pre- and post-issuance information of over 1,200 new issues;

(iii) Negotiable Certificate of Deposit (NCD) primary subscription service was launched in April 2019;

(iv) T+3 settlement cycle was made available starting from August 2019, enabling global investors to choose from T+0, T+1, T+2, or T+3 settlement for Bond Connect trades. The offering of longer settlement cycle provides greater flexibility for investors' settlement needs; and

(v) E-Filing System was launched in December 2019 to enhance transparency and efficiency in the investor onboarding process.

Chinese bonds gained sizable representation in global benchmark bond indices in 2019, and such representation is expected to further expand in 2020. Chinese RMB-denominated bonds were added to the Bloomberg Barclays Global Aggregate Indices from 1 April 2019, phased over a 20-month period. In September 2019, JPMorgan Chase & Co. announced that Chinese government bonds will be included in its Government Bond Index-Emerging Markets global diversified and narrow diversified indices starting from 28 February 2020.

Listed Bond Market Development

In 2019, there were 420 new listings of debt securities on the Stock Exchange, with total funds raised of $1,402 billion, surpassing the previous record set in 2017. As part of HKEX's continuing efforts to develop its fixed-income markets, a concurrent bond offering issued by Agricultural Development Bank of China to both retail and institutional investors was successfully completed in May 2019. HKEX continues its efforts in 2019 in promoting green investments and actively participated in a number of green finance initiatives, including signing up to the "Green Investment Principles for the Belt and Road" to promote green investment in the Belt & Road region in April 2019, and participating as the supporting organisation of Task Force on Climate-related Financial Disclosures in June 2019. In September 2019, HKEX supported the Hong Kong Green Finance Association in publishing the Green Bonds Guide, which laid out the core principles and provides guidance on the listing of green bonds in Hong Kong. Later in October 2019, HKEX supported the United Nations World Green Organisation Climate Finance & Sustainable Investing Conference to help promote Hong Kong as an international hub for green finance.

Listing Regulation

In 2019, the Stock Exchange issued various proposals and conclusions on Listing Rules amendments as set out in the following table. Details of the consultations and other main policy issues arising in 2019 as well as the proposals under review in 2020 are set out in the 2019 Listing Committee Report.

Key Proposals and Conclusions in 2019

	Consultation paper[1,2]	Consultation conclusions[1]	Effective date of changes (if any)
• Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments	Nov 2017	Feb 2019	1 Mar 2019
• Backdoor Listing, Continuing Listing Criteria and Other Rule Amendments	Jun 2018	Jul 2019	1 Oct 2019
• Review Structure in relation to Listing Committee Decisions	Aug 2018	Jan 2019	6 Jul 2019
• Proposal relating to Listed Issuers with Disclaimer or Adverse Audit Opinion on Financial Statements	Sep 2018	May 2019	1 Sep 2019
• Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules	May 2019	Dec 2019	1 Jul 2020
• Codification of General Waivers and Principles relating to IPOs and Listed Issuers and Minor Rule Amendments	Aug 2019	1H 2020 (tentative)	–
• Review of Chapter 37 – Debt Issues to Professional Investors only	Dec 2019	1H 2020 (tentative)	–

1 All the consultation papers and conclusions are available under the News (Market Consultations) section of the HKEX Market website.
2 In January 2020, the Stock Exchange published a consultation paper on Corporate WVR Beneficiaries to seek public feedback on a proposal to allow corporate entities to benefit from WVR, subject to additional conditions and investor safeguards.

Key Initiatives by the Stock Exchange to Promote Issuers' Self-compliance with the Listing Rules

- Issued series of listing decisions on interpretation of the Listing Rules, including reverse takeover transactions and reasons for rejection of listing applications in 2018
- Published reports on review of listed issuers' annual report disclosure and Environmental, Social and Governance disclosures
- Published the inaugural issue of the semi-annual Listed Issuer Regulation Newsletter which provides insights and observations on listed companies' compliance, as well as highlights matters that may assist listed companies in compliance
- Published new guidance materials on (i) sanctions risks; (ii) competition between the businesses of a new applicant and its controlling shareholder; (iii) accounting policies and stock-taking procedures performed by the reporting accountants; (iv) presentation of the non-GAAP financial measures in a listing document; (v) application of the reverse takeover Rules; (vi) large scale issues of securities; and (vii) sufficiency of operations
- Updated various guides on the Stock Exchange's practices and procedures for handling listing-related matters to assist listed issuers in meeting their listing obligation

IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Stock Exchange in processing new listings and monitoring issuers' compliance for the purposes of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

Stock Exchange's IPO Work

	2019	2018
• Number of listing applications vetted[1]	467	511
• Number of applications brought to the Listing Committees (or their delegates) for decisions[2]	221	250
– within 120 calendar days	117	85
– between 121 to 180 calendar days	67	71
– after more than 180 calendar days	37	94
• Number of applications for which approval was granted in principle[3]	209	245
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of listing matters	127	238
– Average response time (in business days)	10	10
• Number of listing applications for transfer of listing from GEM to Main Board accepted	27	21
• Applications listed[4]	197	234
• New listing applications rejected[5]	26	25
• New listing applications withdrawn	21	14
• New listing applications returned	4	–
• Application in process at year-end	126	167

1 Comprises 300 (2018: 372) new applications and 167 (2018: 139) existing applications brought forward from previous year
2 Refers to listing applications heard by the Listing Committees (or their delegates) for the first time and excludes Chapter 20 listing applications
3 At the end of 2019, 33 (2018: 35) approved applications had not yet been listed, and 5 (2018: 7) approved applications had lapsed during the year.
4 Includes 14 investment vehicles listed on Main Board and deemed new listings (2018: 16)
5 Includes seven rejection decisions (2018: nil) in 2019 which were subsequently reversed upon review. One rejection decision is currently under review.

Number of Compliance and Monitoring Actions

	2019	2018
• Announcements of issuers vetted	**62,977**	59,861
• Circulars of issuers vetted	**2,350**	2,083
• Share price and trading volume monitoring actions undertaken[1]	**7,939**	7,945
• Complaints handled	**438**	404
• Cases (including complaints) referred to Listing Enforcement Team for investigation	**74**	81

1 In 2019, monitoring actions undertaken included 677 enquiries (2018: 794) on unusual share price and trading volume movements, and the actions undertaken led to 29 resumption announcements (2018: 24) on trading suspensions.

Long Suspension

	Main Board		GEM	
Status of Long Suspended Companies	**2019**	2018	**2019**	2018
Resumption of trading of securities during the year	**22**	10	**4**	2
Cancellation of listing after expiry of prescribed remedial periods during the year	**7**	–	**2**	–
Cancellation of listing under grandfathered provisions during the year (Main Board Rule 6.01A(2)(a) or (c) or GEM Rule 9.14A(2)(b))	**6**	4	**4**	–
Voluntary withdrawal of listing during the year	**1**	–	**–**	–
Companies suspended for 3 months or more at year-end	**68**	71	**15**	11

Updates of the work on listed companies' compliance and insights and observations that may assist listed companies in compliance can be found at the semi-annual "Listed Issuer Regulation Newsletter".

Listing Enforcement

The enforcement statistics set out below represent a high-level overview of the enforcement work undertaken in 2019 by the Stock Exchange.

Further details and information relating to enforcement work (including the Stock Exchange's general approach, disciplinary procedures and recent cases) can be found at the HKEX Market website and the bi-annual "Enforcement Newsletter", and are set out in the 2019 Listing Committee Report.

Enforcement Statistics

	2019	2018
Investigations[1, 2, 3]	112	111
Public sanctions[4]	13	21
Warning/caution letters[5]	15	14

1 Figures cover all cases which were investigated in 2019 (both concluded cases and ongoing investigations at year-end).
2 At the end of 2019, there were 28 ongoing investigations (2018: 35).
3 In 2019, 4 enforcement cases (2018: 3) originating from complaints were subject to enforcement investigation.
4 The number of investigation cases that resulted in a public sanction. Actions taken at a lower level in the same case, eg, private reprimand, are not included. Included in the 2018 figure was a number of public sanctions against directors for their failure to co-operate with the Stock Exchange's investigation.
5 The warning and caution letters were issued in circumstances where disciplinary proceedings before the Listing Committee were not considered appropriate. These are recorded as part of the compliance history for the relevant party.

Costs of Listing Function

The costs of the front line regulation of listed issuers, performed by the Listing Committee and the Listing Division, are absorbed by the Cash and Equity and Financial Derivatives segments in proportion to the listing fee income of the two segments.

Equity and Financial Derivatives Segment

Key Market Indicators

	2019	2018	Change
ADT of DWs, CBBCs and warrants traded on the Stock Exchange ($bn)	18.0	23.2	(22%)
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange ('000)	296	372	(20%)
ADV of derivatives contracts traded on the Futures Exchange[1] ('000 contracts)	624	685	(9%)
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	442	517	(15%)
Number of newly listed DWs	8,939	11,794	(24%)
Number of newly listed CBBCs	24,732	26,678	(7%)
ADV of contracts traded during After-Hours Trading[1] ('000 contracts)	82	89	(8%)

	At 31 Dec 2019	At 31 Dec 2018	Change
Open interest of futures and options[1] ('000 contracts)	9,695	10,593	(8%)

1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

MD&A

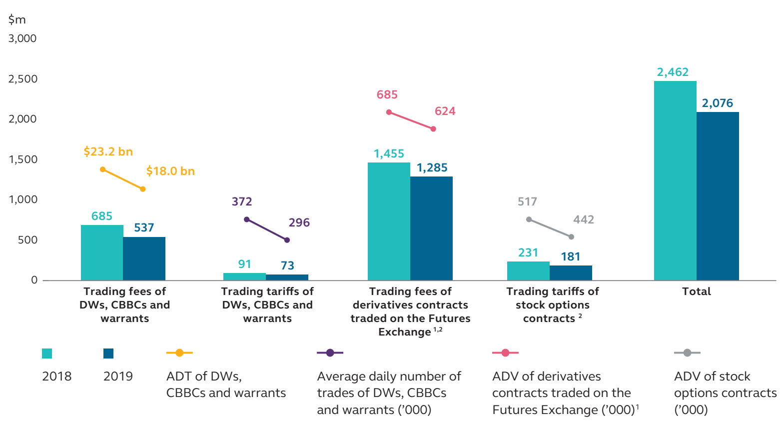
Analysis of Results

Summary

	2019 $m	2018 $m	Change
Trading fees and trading tariffs[1]	**2,076**	2,462	(16%)
Stock Exchange listing fees	**679**	822	(17%)
Market data fees[1]	**218**	210	4%
Other revenue	**15**	9	67%
Total revenue	**2,988**	3,503	(15%)
Operating expenses[2]	**(551)**	(573)	(4%)
EBITDA	**2,437**	2,930	(17%)
EBITDA margin	**82%**	84%	(2%)

1 Excludes cash equities (which are included under the Cash segment)
2 Includes Listing Division costs apportioned to DWs, CBBCs and warrants traded on the Stock Exchange

Trading Fees and Trading Tariffs



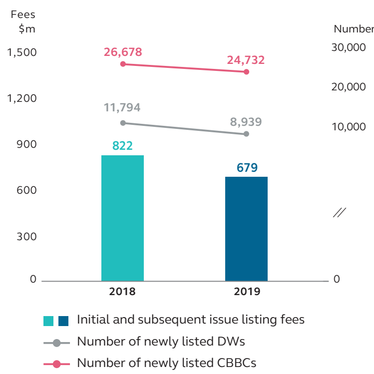
1 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts (which are included under the Commodities segment)
2 Excludes trading fees and trading tariffs allocated to the Post Trade segment (Derivatives contracts traded on the Futures Exchange – 2019: $308 million; 2018: $338 million; stock options contracts – 2019: $72 million; 2018: $84 million)

Trading fees and trading tariffs for the segment are generated from the trading of derivatives on the Stock Exchange (ie, DWs, CBBCs, warrants, and stock options) and trading of futures and options on the Futures Exchange. A portion of the trading fees and trading tariffs for futures and options contracts is allocated to the Post Trade segment as the trading and clearing fees of these products are bundled together in the form of trading fees and tariffs.

Trading fees and trading tariffs from DWs, CBBCs and warrants dropped by $166 million or 21 per cent, reflecting the 22 per cent decrease in ADT.

Driven by decreased volatility in 2019, ADV of derivatives contracts traded on the Futures Exchange and stock options contracts both dropped from the record highs in 2018. As a result, derivatives trading fees of the Futures Exchange and trading tariffs for stock options contracts dropped by 12 per cent and 22 per cent respectively compared with 2018.

Stock Exchange Listing Fees



Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees for DWs and CBBCs. The fees decreased by $143 million or 17 per cent, reflecting the decrease of newly listed DWs and CBBCs compared with the record highs in 2018.

EBITDA

Operating expenses decreased by 4 per cent due to lower premises expenses ($41 million) as a result of adopting the new accounting standard for leases[4] partly offset by an increase in IT costs and staff costs due to annual payroll adjustments. EBITDA margin dropped from 84 per cent to 82 per cent due to the decrease in revenue but partly offset by the decrease in operating expenses.

Business Update

Despite a challenging environment, the Hong Kong Derivatives Market showed resilient performance in 2019. The total number of futures and options contracts traded in 2019 was 262,227,110[8], 11 per cent down from the previous record of 2018. A number of futures and options contracts reached new record highs (see below).

New Record Highs – Full Year Trading Volume

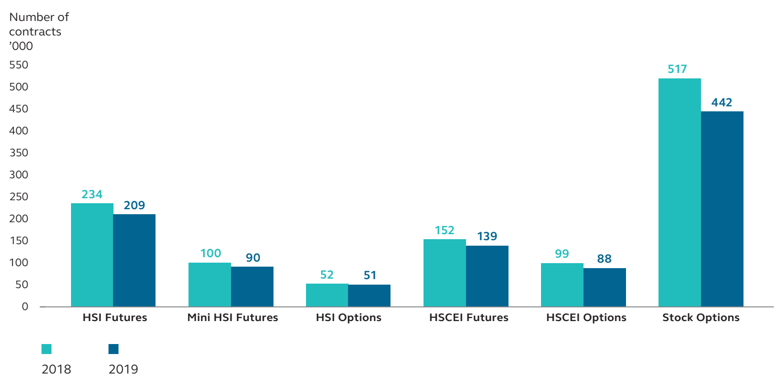
	2019 Number of contracts	Pre-2019 record Number of contracts	
Mini HSI Options	**3,343,429**	2,461,296	(2018)
Stock Futures	**917,358**	863,027	(2018)
RMB Currency Futures – USD/CNH Futures	**1,938,891**	1,755,130	(2018)
MSCI AC Asia ex Japan NTR[9] Index Futures	**237,533**	5,545	(2018)

8 Excludes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts which are included under the Commodities segment
9 MSCI All Country Asia ex Japan Net Total Return

New Record Highs – Single-day Trading Volume and Open Interest

	Single-day Trading Volume		Open interest	
	Date (2019)	Number of contracts	Date (2019)	Number of contracts
HSCEI Futures	25 Feb	477,061	N/A	N/A
HSI Options	26 Aug	133,419	N/A	N/A
Mini HSI Options	26 Aug	36,928	28 Aug	66,588
Mini HSCEI Options	N/A	N/A	26 Sep	34,635
MSCI AC Asia ex Japan NTR[9] Index Futures	16 Dec	56,378	17 Sep	46,698
RMB Currency Futures – USD/CNH Futures	5 Aug	24,345	N/A	N/A

Average Daily Volume of Major Futures and Options Contracts



After-Hours Trading Extension

On 17 June 2019, HKEX extended trading hours to 3 a.m. for 27 products including equity index futures and options, currency futures, and commodity futures. Trading volume in the After-Hours Trading (T+1) Session reached daily record high of 248,853[8] contracts on 13 August 2019, and the percentage of volume traded in the T+1 Session over the T Session also reached a daily record high on 23 August 2019 at 49.4 per cent. Furthermore, ADV for equity index options traded in the T+1 Session grew 59 per cent year-on-year with ADV of over 10,000 contracts in 2019.

Equity Futures and Options Market Development

HKEX introduced Weekly HSI Options and Weekly HSCEI Options (Weekly Index Options) on 16 September 2019. As of 31 December 2019, ADV of Weekly Index Options since launch was 4,670 contracts.

In 2019, HKEX introduced futures and options of Alibaba and Budweiser APAC, allowed issuers to list DWs of the two companies, and designated the shares of the two companies as securities eligible for short selling, all of which provided more investment options and risk management tools for investors.

Fixed Income and Currency (FIC) Development

RMB currency derivatives market attained record trading volume in 2019, with 1.9 million contracts of USD/CNH Futures contracts traded, a 10 per cent increase compared with the previous record set in 2018. The contract also attained a new record daily turnover of 24,345 contracts on 5 August 2019.

HKEX further expanded its fixed income and currency product coverage to address evolving risk management needs of market participants. The Indian Rupee (INR) Currency Futures, which include INR/USD Futures and INR/CNH Futures contracts, were launched on 4 November 2019, with the latter being the first listed futures of the INR/CNH pair globally.

Enhancements on trading hours and contract offerings were made to the RMB currency derivatives products. The opening time for trading USD/CNH Options contracts was changed from 9:00 a.m. to 8:30 a.m. starting from 18 November 2019, allowing market participants to benefit from efficient cross-product trading. Two additional calendar quarter months (ie, the 5th and 6th calendar quarter months) were introduced to USD/CNH Options and cash-settled CNH/USD Futures contracts since 19 November 2019 to facilitate market participants in managing their long-term RMB exposure.

The sixth annual HKEX RMB FIC Pan-Asian Conference was hosted in Hong Kong and Singapore in April 2019, attracting over 1,200 industry experts and professionals across Asia. Key regulatory and business issues were discussed, including the development of the bond market in China and the bond issuance business in Hong Kong.

Structured Products

Hong Kong is the world's most actively-traded market for structured products[10]. ADT of CBBCs, DWs and warrants was $18.0 billion, accounting for 21 per cent of total market turnover. In particular, ADT of CBBCs reached a record high of $8.1 billion in 2019, up 9 per cent from 2018. A new product type being the first in Asia, Inline Warrants, was launched in July 2019. Inline Warrants complement HKEX's Strategic Plan in developing Hong Kong into a trading hub for structured products in the Asia Pacific time zone and offer an alternative investment product to serve different trading strategies. As at 31 December 2019, 922 Inline Warrants were listed.

10 Source: World Federation of Exchanges

Commodities Segment

Key Market Indicators

	2019	2018	Change
ADV of metals contracts traded on the LME ('000 lots)			
Aluminium	236	234	1%
Copper	131	137	(4%)
Zinc	109	117	(7%)
Nickel	89	83	7%
Lead	42	45	(7%)
Ferrous	2	2	0%
Precious	1	3	(67%)
Others	7	6	17%
Total chargeable ADV excluding Admin Trades[1]	617	627	(2%)
Chargeable Admin Trades[1]	46	–	N/A
Non-chargeable Admin Trades[1] and other non-chargeable trades	34	103	(67%)
Total ADV	697	730	(5%)

1 Admin Trades were introduced in 2017 to meet requirements resulting from MiFID II. These trades were not chargeable prior to 1 May 2019, but became chargeable at US$0.04 per contract thereafter.

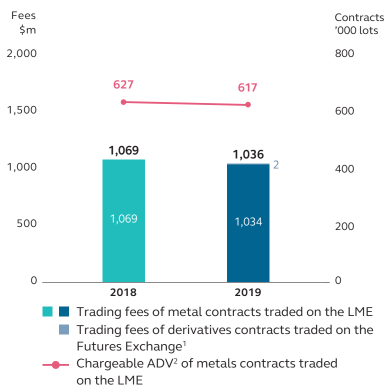
	At 31 Dec 2019	At 31 Dec 2018	Change
Total futures market open interest ('000 lots)	2,170	1,998	9%

Analysis of Results

Summary

	2019 $m	2018 $m	Change
Trading fees and trading tariffs	1,036	1,069	(3%)
Market data fees	193	193	0%
Other revenue:			
Commodities stock levies and warehouse listing fees	63	66	(5%)
Financial OTC booking fees	45	27	67%
Others	62	60	3%
Total revenue and other income	1,399	1,415	(1%)
Operating expenses	(668)	(717)	(7%)
EBITDA	731	698	5%
EBITDA margin	52%	49%	3%

Trading Fees and Trading Tariffs



1 Includes London Metal Mini Futures, Gold Futures and Iron Ore Futures contracts
2 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower trading fee rate of US$0.04 per contract) and other non-chargeable trades.

Chargeable ADV of metal contracts traded on the LME dropped only by 2 per cent despite slowing global economic growth momentum and geopolitical tensions. As a result, LME trading fees dropped by $35 million (3 per cent).

EBITDA

Operating expenses dropped by $49 million or 7 per cent, mainly attributable to lower premises expenses ($32 million) as a result of adopting the new accounting standard for leases[4], and lower professional fees incurred for strategic initiatives. As the percentage decrease in operating expenses more than offset the percentage decrease in revenue, EBITDA margin rose from 49 per cent in 2018 to 52 per cent in 2019.

Business Update

LME

Since the launch of seven new cash-settled products in Q1 2019, LME Steel Hot-Rolled Coil (HRC) Free On Board (FOB) China contracts in particular have seen strong growth in trading activity, with ADV of over 600 lots in December 2019. Further product launches are planned in 2020 across the aluminium and ferrous product suites. In addition, the LME's intended introduction of a lithium contract has been advanced with the formation of the LME Lithium Committee (first meeting in October 2019), which includes representation from leading participants across the value chain.

To support the liquidity of new products, the LME introduced (i) a new membership category for Registered Intermediating Brokers (RIB) in Q1 2019 (8 members approved as of 31 December 2019); and (ii) a Member Incentive Programme (MIP) on 1 November 2019.

In 1H 2019, the LME successfully trialed deriving the 3-month Nickel Closing Price electronically via its trading platform, LMEselect, complemented by the introduction of trade-at-settlement functionality for the same contract. Following a successful trial on zinc, the LME extended the kerb trading period on the Ring from 5 minutes to 10 minutes and rolled it out across all the LME's six main contracts in September. The LME has also continued to support liquidity with the roll-out of implied pricing which was well received by the market.

Following two years of market engagement, including a formal market-wide consultation, the LME announced in October 2019 its Responsible Sourcing requirements underpinned by OECD Due Diligence Guidance for responsible supply chains, which will apply to all its listed brands. This marks the first time that the LME has applied ethical standards to its listed brands and represents a significant step forward for the efforts of the LME and the metals market to promote inclusive, sustainable and responsible global metal supply chains.

The LME continued to work closely with its Warehousing Committee to put together a warehouse reform proposal designed to ensure that the LME's physical network continues to remain relevant and attractive to users and represents best practice, and to this end, published both a discussion paper and consultation during 2019. The results of the consultation were published in November 2019, and the LME will proceed with its proposed package of measures aimed at optimising its warehousing network for the benefit of the global metals industry.

HKFE Commodities Product Development

In Hong Kong, research and market consultations are in progress for the enhancement of the Gold Futures and Iron Ore Futures contracts and for the potential launch of other metals derivatives products and metals indices. Six gold futures indices (Gold Futures Excess Return Index, Total Return Index and Spot Price Index in both USD and CNH) were launched on 24 June 2019, offering independent, transparent and timely benchmarks for gold price changes in the Hong Kong market. USD-denominated London Aluminium/Copper/Zinc/Lead/Tin/Nickel Mini Futures contracts were also launched on 5 August 2019 to complement the existing CNH-denominated London Metal Mini Futures.

In 2019, a total of 81,768 contracts of CNH Gold Futures and 491,405 contracts of USD Gold Futures were traded, with 299 kilograms of gold bars physically delivered against the contracts. In addition, 29,334 contracts of USD-denominated London Metal Mini Futures and 55,944 contracts of Iron Ore Futures were traded.

QME

QME launched four new products in base metals (aluminium ingot, aluminium billet, copper rod and copper cathode) in 2019. The overall trading volume increased in 2019, primarily due to growth of client base, expansion of spot trading models, along with smooth physical delivery and financing. QME's warehouse warrants have proved to be a valid means for financial institutions to provide affordable financing to the industry. QME also started building its price benchmarking capabilities through indexation and initiated the application of new technology to upgrade the warehouse ecosystem.

Post Trade Segment

Key Market Indicators

	2019	2018	Change
ADT on the Stock Exchange ($bn)	**87.2**	107.4	(19%)
Average daily number of Stock Exchange trades ('000)	**1,453**	1,597	(9%)
Average value per trade ($)	**59,988**	67,266	(11%)
Average daily value of Settlement Instructions (SIs) settled by CCASS ($bn)	**238.4**	266.2	(10%)
Average daily number of SIs	**94,951**	103,033	(8%)
Average value per SI ($)	**2,510,576**	2,584,067	(3%)
Chargeable ADV[1] of metals contracts traded on the LME ('000 lots)	**617**	627	(2%)

1 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower clearing fee rate of US$0.02 per contract) and other non-chargeable trades.

Analysis of Results

Summary

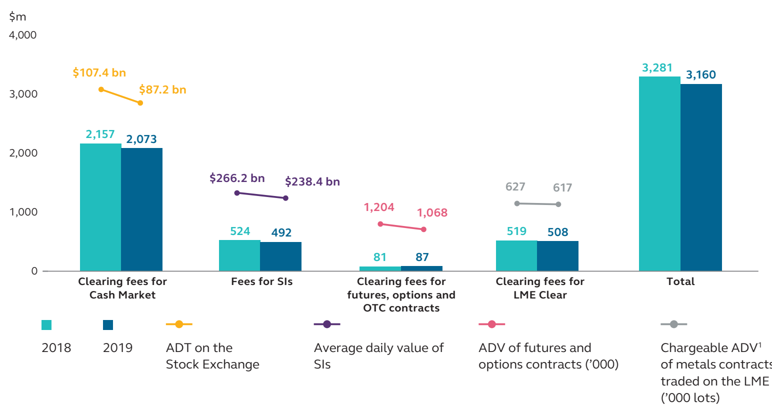
	2019 $m	2018 $m	Change
Trading fees and trading tariffs – allocated from Equity and Financial Derivatives segment	**380**	422	(10%)
Clearing and settlement fees	**3,160**	3,281	(4%)
Depository, custody and nominee services fees	**1,052**	979	7%
Other revenue and sundry income	**138**	109	27%
	4,730	4,791	(1%)
Net investment income	**1,496**	1,377	9%
Total revenue and other income	**6,226**	6,168	1%
Operating expenses	**(824)**	(812)	1%
EBITDA	**5,402**	5,356	1%
EBITDA margin	**87%**	87%	–

Trading Fees and Trading Tariffs

Trading fees and trading tariffs allocated from Equity and Financial Derivatives segment for clearing derivatives products dropped by 10 per cent, due to a 9 per cent decrease in ADV of derivatives contracts traded on the Futures Exchange and a 15 per cent decrease in ADV of stock options traded (see commentary in the Equity and Financial Derivatives segment).

MD&A

Clearing and Settlement Fees



1 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower clearing fee rate of US$0.02 per contract) and other non-chargeable trades.

Clearing and settlement fees for Cash Market and SIs decreased by 4 per cent and 6 per cent respectively compared with 2018. The decreases were primarily driven by a lower number of transactions, but was partly offset by a 6 per cent and a 2 per cent higher average fee per Cash Market trade, and per SI transaction respectively.

Clearing fees for LME Clear dropped by $11 million or 2 per cent, in line with the decrease in chargeable ADV[1] of metals contracts traded.

Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees are not directly impacted by changes in market activity. They rose by $73 million or 7 per cent due to higher Stock Connect portfolio fees, scrip fees and stock withdrawal fees.

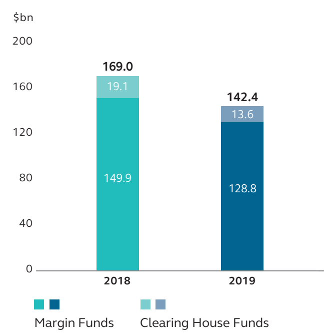
Other Revenue and Sundry Income

Other revenue increased by $29 million mainly due to an increase in accommodation income[11] arising from CPs placing more negative interest currencies as collateral.

11 Accommodation income mainly comprises income from CPs on depositing securities as alternatives to cash deposits of Margin Funds, or depositing currencies whose relevant bank deposit rates are negative, and interest shortfall collected from LME Clear CPs on cash collateral where the investment return on the collateral is below the benchmarked interest rates stipulated in the clearing rules of LME Clear.

Net Investment Income

Average fund size



The decrease in the average size of Margin Funds during the year was attributable to lower average Margin Fund sizes of LME Clear, HKCC and SEOCH due to lower margin requirements per contract, reflecting reduced volatility.

The decrease in the average size of Clearing House Funds during the year was attributable to lower average fund size of LME Clear due to changes in risk exposures.

The analysis of net investment income is as follows:

	2019			2018		
	Margin Funds $m	Clearing House Funds $m	Total $m	Margin Funds $m	Clearing House Funds $m	Total $m
Net investment income from:						
– Cash and bank deposits	1,296	109	1,405	1,257	58	1,315
– Debt securities	97	–	97	60	–	60
– Exchange (losses)/gains	(6)	–	(6)	2	–	2
Total net investment income	1,387	109	1,496	1,319	58	1,377
Net investment return	1.08%	0.80%	1.05%	0.88%	0.31%	0.81%

The higher net investment income on Margin Funds in 2019 arose from higher interest income on cash and bank deposits, due to rising interest rates in Hong Kong, partly offset by lower average fund size.

To lower the funding costs of CPs and to facilitate a more efficient market in Hong Kong, effective from 2 September 2019, HKCC and SEOCH have increased the interest rebate for HKD margins collateral from prevailing bank savings rate to a rate calculated with reference to 1 month Hong Kong Interbank Offered Rate (HIBOR).

EBITDA

Operating expenses rose by $12 million or 1 per cent over 2018, as a result of higher staff costs for strategic projects, annual payroll adjustments, and higher IT support and maintenance costs, partly offset by lower premises expenses ($58 million) as a result of adopting the new accounting standard for leases[4]. EBITDA margin remained stable at 87 per cent in both 2019 and 2018.

Business Update

Cash and Derivatives Clearing

Driven by the further weighting increase of China A Shares in MSCI Indexes and the inclusion of China A shares in FTSE Russell Indexes this year, there was a strong increase in demand for Stock Connect clearing facilities:

(i) a 4.2 times increase in the average daily value of Northbound SIs settled through the Real-time Delivery versus Payment arrangement in 2019 as compared with 2018;

(ii) the number of Special Segregated Accounts increased by 35 per cent (9,564 accounts as of 31 December 2019 compared with 7,062 as of 31 December 2018); and

(iii) both Northbound and Southbound portfolio values of Stock Connect reached record highs in December 2019, with Northbound portfolio value increased by 114 per cent to RMB1,429 billion as of 31 December 2019 (31 December 2018: RMB668 billion) and Southbound portfolio value increased by 44 per cent to $1,138 billion as of 31 December 2019 (31 December 2018: $789 billion).

On 11 November 2019, HKSCC enhanced the Third Party Clearing (TPC) arrangement to allow a Non-Clearing Participant (NCP) to appoint different General Clearing Participants (GCPs) for clearing and settling Exchange Trades and China Connect Securities Trades. HKSCC will further enhance the TPC arrangement in Q1 2020 to allow a CCASS Clearing Participant (either a Direct Clearing Participant or GCP) to continue to self-clear its Exchange Trades, while appointing a GCP for clearing its China Connect Securities Trades.

Registered Institutions (RI) are allowed to be admitted directly as HKCC and SEOCH CPs starting from October 2019. This enables RIs to utilise their capital more efficiently by not requiring capital to be allocated to their local affiliates who shall at all times set aside capital to meet the Financial Resources Rules requirements.

HKEX completed the 2019 Annual Attestation and Inspection Programme, with focus on three areas: (i) position limits and large open position reporting; (ii) risk management; and (iii) China Connect rules. The results and findings were announced to the market in February 2020.

OTC Clear

Total notional amount cleared by OTC Clear in 2019 reached a record high of US$198.3 billion, up 65 per cent compared with 2018. Clearing volume of HKD Interest Rate Swaps (IRS) more than doubled compared with 2018 and Cross Currency Swaps (CCS) clearing volume rose by 45 per cent.

In December 2019, OTC Clear received a license from the Financial Services Agency of Japan to become a Foreign Financial Instruments Clearing Organisation, allowing it to offer clearing services to Japanese banks.

LME Clear

Throughout the year, LME Clear has worked with its members to develop a more effective LME-specific margin methodology and has received regulatory approval for plans to introduce Value-at-Risk (VaR) margining. VaR margining is expected to launch in Q3 2021, and LME Clear has proceeded with educating the market on this change and the system work required for its implementation.

Technology Segment

Analysis of Results

Summary

	2019 $m	2018 $m	Change
Network, terminal user, data line and software sub-license fees	**575**	515	12%
Hosting services fees	**188**	162	16%
BayConnect sales and service revenue and other income	**33**	–	N/A
Others	**–**	1	(100%)
Total revenue and other income	**796**	678	17%
Operating expenses	**(245)**	(170)	44%
EBITDA	**551**	508	8%
EBITDA margin	**69%**	75%	(6%)

Network, Terminal User, Data Line and Software Sub-license Fees

Network fees rose by $60 million (12 per cent) due to increased usage of the Orion Central Gateway by new and existing EPs, and additional fees arising from throttle usage fees, and increased China Connect Central Gateway (CCCG) fees.

Hosting Services Fees

Hosting services fees increased due to organic growth from both new customer subscriptions and increased usage by existing customers. At the end of December 2019, 119 EPs were using HKEX's Hosting Services. These EPs generated, in aggregate, approximately 52 per cent of the Cash Market turnover and 59 per cent of the trading volume of the Derivatives Market in 2019.

EBITDA

Operating expenses increased due to inclusion of costs of Innovation Lab (which were included in Corporate Items in 2018) and operating expenses of BayConnect, a 51 per cent subsidiary acquired in June 2019. EBITDA margin dropped from 75 per cent in 2018 to 69 per cent in 2019 as a result of the higher operating expenses; however overall EBITDA increased by 8 per cent year-on-year.

Business Update

During 2019, all major trading, clearing, settlement, and market data dissemination systems performed robustly, excepting the two minor incidents that occurred on the LME's platform on 15 May and 19 July 2019, and a temporary suspension of Derivatives Market in Hong Kong on 5 September 2019. An external consultant has been engaged for conducting comprehensive review of the Derivatives Market system to further strengthen the entire system's stability and robustness.

The upgrade of the derivatives platforms, the Hong Kong Futures Automated Trading System (HKATS) and the Derivatives Clearing and Settlement System (DCASS), was successfully rolled out in May 2019 to enhance the stability and reliability of infrastructure, enable swift adaptation to future market developments, and reduce hardware footprint required at participants' premises. HKEX rolled out, along with the upgrade, a new web-based front-end (HKATS Online) which included a block trade reporting function and a new optional self-match prevention tool.

The pilot run for Client Connect, the first phase of the Next Generation Post Trade programme, was launched in May 2019. Client Connect aims to provide a single platform to unify all client access to HKEX services. Starting from January 2020, Client Connect has become the mandatory channel for participants to submit digitalised requests. Response from participants has been positive, and both user-error and in-house complications have been reduced substantially while also reducing paper usage.

Following the launch of the Orion Trading Platform – Securities Market (OTP-C) in February 2018, the Orion Trading Platform – China Stock Connect (OTP-CSC) was successfully rolled out on 5 August 2019 to replace the legacy proprietary platform supporting the Northbound Trading of Stock Connect. OTP-CSC offers a scalable, flexible and high performance order routing platform based on open system technology to meet the evolving business needs and future growth of Northbound Trading volume.

In 2019, the LME began a programme to replace its core trading infrastructure using HKEX's Orion Trading Platform architecture, which will underpin the LME's new trading platform in the coming years.

In June 2019, HKEX completed the acquisition of a 51 per cent equity interest in BayConnect, a Shenzhen-based financial markets technology firm that specialises in financial exchanges, regulation technologies and data applications. The acquisition is expected to support HKEX's strategy to further build its financial markets technological capabilities and spearhead its future IT projects and initiatives.

In December 2019, HKEX entered into a subscription agreement to become a minority shareholder in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao). TsingJiao specialises in the research and development of Multi-party Computation (MPC) technologies, a subfield of cryptography that seeks to allow collaborative data analysis without revealing private data during the computation and analysis process. HKEX believes that partnering with TsingJiao is one of the building blocks to realise the Company's vision of building a data marketplace. In January 2020, HKEX closed the first stage investment in TsingJiao.

Under the "Technology Empowered" pillar of the Group's Strategic Plan 2019-2021, the HKEX Innovation Lab has been dedicated to exploring, accelerating and applying new technologies that support the growth of HKEX's business and maintain its position as the global market leader in the Asian time zone. In 2019, using both in-house development capabilities and external partnerships, a number of new technology projects were incubated in the HKEX Innovation Lab and deployed in the Group's business. These include an Artificial intelligence (AI) powered corporate actions management platform, the scale-up of HKEX's robotic process automation programme, a behavioural analysis of algorithmic trading in collaboration with The University of Hong Kong, and new knowledge graph systems for risk management and regulatory surveillance. These initiatives have been delivering steady efficiencies to the Group's operations.

Corporate Items

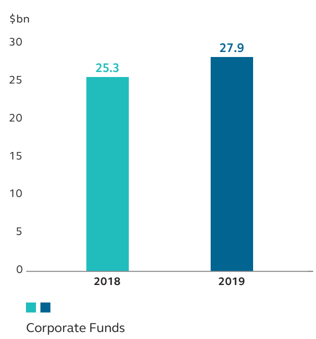
"Corporate Items" is not a business segment but comprises central income (including net investment income of the Corporate Funds), the costs of central support functions that provide services to all operating segments and other costs not directly related to any operating segments.

Summary

	2019 $m	2018 $m	Change
Net investment income	1,233	207	496%
Others	23	41	(44%)
Total revenue and other income	1,256	248	406%
Operating expenses	1,157	1,254	(8%)

Net Investment Income

Average fund size



Average fund size increased principally due to cash generated and retained by the business after payment of cash dividends and the increase in fair values of collective investment scheme investments.

The analysis of net investment income is as follows:

	2019 $m	2018 $m
Net investment income/(loss) from:		
Cash and bank deposits	437	328
Collective investment schemes	789	(106)
Debt securities	6	1
Exchange gains/(losses)	1	(16)
Total net investment income	1,233	207
Net investment return	4.42%	0.82%

Net investment income of Corporate Funds increased by $1,026 million compared with 2018 principally due to fair value gains on collective investment schemes held under the external portfolio, as opposed to the fair value losses in 2018, and higher interest income earned on cash and bank deposits from increased fund size and higher deposit rates.

The increase in fair value gains on collective investment schemes principally came from funds invested in the public equities asset class ($532 million) and multi-sector fixed income asset class ($145 million). As the valuation of external portfolio reflects movements in market prices, fair value gains or losses may fluctuate or reverse until the investments are sold.

Business Update

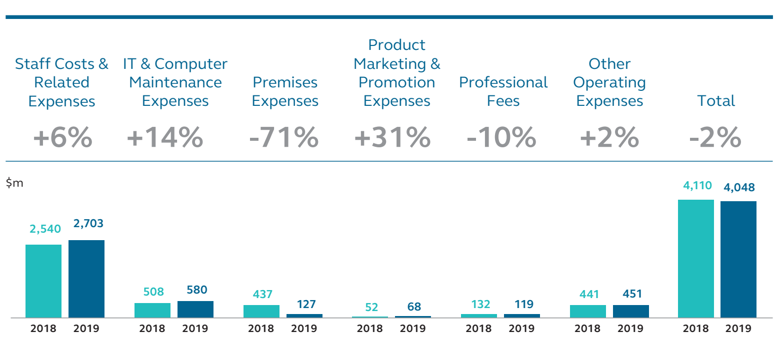
In 2019, HKEX became a minority shareholder in Fusion Bank Limited (formerly known as Infinium Limited), which was granted a virtual banking license by the Hong Kong Monetary Authority in May 2019. Fusion Bank Limited aims to leverage its advanced technology and new applications of Fintech to promote financial inclusion in Hong Kong and to bring customers a brand-new, efficient and secure virtual banking experience, enabling them to enjoy better and more convenient financial services.

In September 2019, HKEX entered into a MOU with Ping An Insurance (Group) Company of China Limited (Ping An) to explore possible areas of cooperation and collaboration in Fintech and data analytics to enhance the region's financial market ecosystem. HKEX and Ping An are working together to identify areas of collaboration, including Fintech solutions across different asset classes, as well as the application of data and AI technology to support the mutual connectivity of the Mainland Chinese, Hong Kong and international markets.

In 2019, HKEX carried out a detailed analysis on the proposed combination with LSEG, but decided not to proceed with making a firm offer, as HKEX was unable to engage with the management of LSEG in realising its vision, and continuation would not be in the best interests of shareholders.

Expenses, Other Costs and Taxation

Operating Expenses



Staff costs and related expenses increased by $163 million or 6 per cent mainly due to annual payroll adjustments, and increased headcount for strategic initiatives.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by participants of $93 million (2018: $88 million), were $487 million (2018: $420 million). The increase was mainly attributable to higher maintenance expenses for new IT systems and upgraded networks.

Premises expenses dropped by $310 million or 71 per cent as office rental of around $300 million was no longer recognised as premises expenses under the new accounting standard for leases[4].

Depreciation and Amortisation

	2019 $m	2018 $m	Change
Depreciation and amortisation	1,044	762	37%

The "right-of-use assets" recognised under the new accounting standard for leases[4] adopted in 2019 gave rise to depreciation and amortisation of $271 million. Excluding such impact, depreciation and amortisation increased by $11 million or 1 per cent, due to depreciation of new IT systems.

Finance Costs

	2019 $m	2018 $m	Change
Finance costs	177	114	55%

Finance costs increased due to the recognition of interest expense on lease liabilities of $89 million under the new accounting standard for leases[4], partly offset by lower interest charge due to the maturity of fixed rate notes in December 2018 and January 2019.

Costs relating to proposed combination with LSEG

In 2019, HKEX carried out a detailed analysis on the proposed combination with LSEG, but decided not to proceed with making a firm offer. Costs incurred for the proposed combination with LSEG amounted to $123 million.

Taxation

	2019 $m	2018 $m	Change
Taxation	1,561	1,592	(2%)

Taxation dropped by 2 per cent as compared with 2018. Excluding the one-off $52 million tax refund from the UK tax authority in 2018, taxation decreased by 5 per cent due to higher non-taxable income.

Financial Review

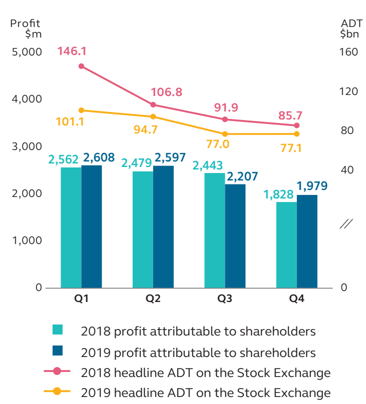
Analysis of Results by Quarter

Quarterly Results

	Q1 2019 $m	Q2 2019 $m	Q3 2019 $m	Q4 2019 $m	Total 2019 $m
Revenue and other income	4,288	4,290	3,987	3,746	16,311
Operating expenses	(970)	(983)	(949)	(1,146)	(4,048)
EBITDA	3,318	3,307	3,038	2,600	12,263
Depreciation and amortisation	(248)	(247)	(271)	(278)	(1,044)
Operating profit	3,070	3,060	2,767	2,322	11,219
Costs relating to proposed combination with LSEG	–	–	(130)	7	(123)
Finance costs	(44)	(42)	(43)	(48)	(177)
Share of profits less losses of joint ventures	3	3	11	15	32
Profit before taxation	3,029	3,021	2,605	2,296	10,951
Taxation	(422)	(425)	(400)	(314)	(1,561)
Profit for period/year	2,607	2,596	2,205	1,982	9,390
Loss/(profit) attributable to non-controlling interests	1	1	2	(3)	1
Profit attributable to shareholders	2,608	2,597	2,207	1,979	9,391

	Q1 2018 $m	Q2 2018 $m	Q3 2018 $m	Q4 2018 $m	Total 2018 $m
Profit attributable to shareholders	2,562	2,479	2,443	1,828	9,312

Analysis of Quarterly Results



2019 headline ADT was lower than 2018 headline ADT for all four quarters due to subdued market sentiment driven by trade tensions between China and the US, social unrest in Hong Kong, weakening economic outlook and uncertainties over Brexit. Despite this, HKEX still reported record high profit due to record income generated from Stock Connect and higher net interest income from Corporate Funds and Margin Funds, and an increase in net investment income from fair value gains on collective investment schemes.

As profit generally follows the level of ADT, Q1 was the most profitable quarter during the year. Q4 was the least profitable quarter in 2019 due to the low ADT and seasonal increase in operating costs towards the end of the year.

Changes to Key Items in Consolidated Statement of Financial Position

(A) Financial Assets and Financial Liabilities

	At 31 Dec 2019 $m	At 31 Dec 2018 $m	Change
Financial assets			
Cash and cash equivalents	**128,152**	121,196	6%
Financial assets measured at fair value through profit or loss	**57,401**	61,004	(6%)
Financial assets measured at fair value through other comprehensive income	**4,569**	3,755	22%
Financial assets measured at amortised cost	**40,672**	31,885	28%
Total	**230,794**	217,840	6%

The Group's financial assets comprised financial assets of Corporate Funds, Margin Funds, Clearing House Funds, base, ferrous, and precious metals derivatives contracts, and cash prepayments and collateral for A shares traded under Stock Connect, as follows:

	At 31 Dec 2019 $m	At 31 Dec 2018 $m	Change
Financial assets			
Corporate Funds[1]	**29,138**	24,833	17%
Margin Funds[2]	**137,012**	120,573	14%
Clearing House Funds	**15,176**	15,505	(2%)
Base, ferrous, and precious metals derivatives contracts cleared through LME Clear	**48,008**	53,915	(11%)
Cash prepayments and collateral for A shares	**1,460**	3,014	(52%)
Total	**230,794**	217,840	6%

1 Includes $818 million (31 December 2018: $724 million) solely used for supporting contributions to default funds and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund

2 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of $5,524 million (31 December 2018: $3,155 million), which are included in accounts receivable, prepayments and other deposits

	At 31 Dec 2019 $m	At 31 Dec 2018 $m	Change
Financial liabilities			
Base, ferrous, and precious metals derivatives contracts cleared through LME Clear	**48,008**	53,915	(11%)
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	**142,536**	123,728	15%
CPs' contributions to Clearing House Funds	**14,394**	14,787	(3%)
Total	**204,938**	192,430	7%

The increase in financial assets and financial liabilities of Margin Funds at 31 December 2019 against those at 31 December 2018 was mainly attributable to increased contributions from members of LME Clear due to an increase in open positions, and increased contributions from HKCC CPs due to higher surplus collateral posted by CPs.

Financial assets of Corporate Funds at 31 December 2019 increased by $4,305 million as compared to those at 31 December 2018 due to the retention of cash generated by the business over the past year partly offset by the cash paid for the 2018 second interim dividend and 2019 first interim dividend, and the increase in fair values of collective investment scheme investments.

A portion of the Corporate Funds is invested in collective investment schemes which are designed to enhance returns and mitigate portfolio volatility and asset class concentration risk. Further details of investments in collective investment schemes are included in note 53(a)(iv) to the Consolidated Financial Statements of this Annual Report.

(B) Fixed Assets, Intangible Assets, Right-of-use Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets rose by $323 million from $19,644 million at 31 December 2018 to $19,967 million at 31 December 2019. The increase was mainly due to additions of fixed and intangible assets of $1,068 million, and goodwill and intangible assets arising from the acquisition of BayConnect of $149 million, but was partly offset by depreciation and amortisation of $773 million, and exchange differences arising from depreciation of USD and RMB of $84 million. Additions during the year were mainly related to the development and upgrade of various trading and clearing systems.

As a result of the adoption of HKFRS 16, the Group's operating leases are recognised as right-of-use assets and lease liabilities in the consolidated statement of financial position. At 31 December 2019, right-of-use assets amounted to $2,366 million and were mainly related to leases of office premises.

The Group's capital expenditure[1] commitments at 31 December 2019, including those authorised by the Board but not yet contracted for, amounted to $1,217 million (31 December 2018: $935 million). These related mainly to the development and upgrade of IT systems including the cash, derivatives and commodities trading and clearing systems, and the set up of the new secondary data centre.

(C) Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

On 28 June 2019, the Group completed the acquisition of a 51 per cent equity interest of BayConnect for a total cash consideration of RMB233 million (HK$262 million) through capital injection into BayConnect. In addition, the Group subscribed for a minority equity interest in Fusion Bank Limited (formerly known as Infinium Limited) for a cash consideration of $50 million in 2019, and will further provide additional capital of $50 million to Fusion Bank Limited in 1H 2020.

In December 2019, the Group entered into a subscription agreement to become a minority shareholder in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao) for a total consideration of up to RMB100 million. In January 2020, the Group closed the first stage investment in TsingJiao.

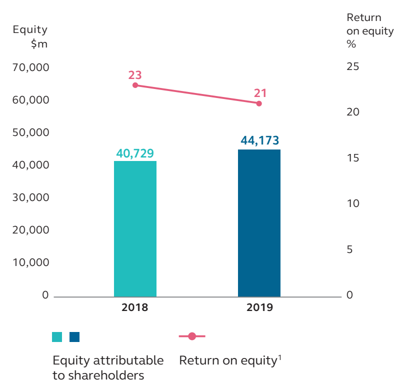
Save for those disclosed in this Annual Report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries during the year under review. Apart from those disclosed in this Annual Report, there were no material investments or additions of capital assets authorised by the Board at the date of this Annual Report.

1 Excludes right-of-use assets recognised due to the adoption of HKFRS 16: Leases

(D) Equity attributable to Shareholders and Return on Equity

Equity attributable to shareholders increased by $3,444 million to $44,173 million at 31 December 2019 (31 December 2018: $40,729 million). This arose principally from the $2,673 million of shares issued in lieu of cash dividends and an increase in retained earnings (excluding transfers to designated reserves) of $889 million mainly attributable to profit for the year less dividends declared or paid.

Equity attributable to Shareholders and Return on Equity



1 Based on equity attributable to shareholders at year-end

Return on equity dropped by 2 per cent due to an increase in equity attributable to shareholders from 31 December 2018 to 31 December 2019.

Liquidity, Financial Resources and Gearing

Working capital rose by $2,056 million to $24,258 million at 31 December 2019 (31 December 2018: $22,202 million). The increase was mainly due to profit attributable to shareholders of $9,391 million, partly offset by the payment of 2018 second interim dividend and 2019 first interim dividend (net of scrip dividends) of $5,825 million, net increase in fixed assets, intangible assets, and non-current financial assets of $1,315 million, and recognition of lease liabilities of $272 million under current liabilities following the adoption of HKFRS 16.

At 31 December 2019, the Group had the following outstanding borrowings:

	At 31 Dec 2019		At 31 Dec 2018	
	Carrying value $m	**Maturity**	Carrying value $m	Maturity
USD fixed rate notes with coupon of 2.85 per cent	**–**	**N/A**	753	Jan 2019
Written put options to non-controlling interests	**418**	**N/A**	413	N/A
	418		1,166	

At 31 December 2019, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 1 per cent (31 December 2018: 3 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2018: zero per cent). For this purpose, gross debt is defined as total borrowings (excluding lease liabilities) and net debt[2] is defined as total borrowings less cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds), and adjusted capital as all components of equity attributable to shareholders of HKEX other than designated reserves.

At 31 December 2019, the Group's total available banking facilities for its daily operations amounted to $21,246 million (31 December 2018: $20,024 million), which included $14,745 million (31 December 2018: $13,523 million) of committed banking facilities and $6,500 million (31 December 2018: $6,500 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2019, the total amount of the facilities was RMB21,500 million (31 December 2018: RMB21,500 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2018: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect.

At 31 December 2019, 74 per cent (31 December 2018: 83 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Pledges of Assets

Details of pledges of assets are included in note 51 to the Consolidated Financial Statements of this Annual Report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 53(a)(i) – Foreign exchange risk to the Consolidated Financial Statements of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 49 to the Consolidated Financial Statements of this Annual Report.

2 Net debt is zero when the amount of cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds) is higher than gross debt.

10-Year Financial Statistics

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Key Market Statistics										
Headline ADT traded on the Stock Exchange ($bn)	**87.2**	107.4	88.2	66.9	105.6	69.5	62.6	53.9	69.7	69.1
ADV of derivatives contracts traded on the Futures Exchange ('000 contracts)	**626**	687	441	464	394	275	284	260	269	222
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	**442**	517	428	298	374	302	249	228	303	246
Chargeable ADV of metals contracts traded on LME* ('000 lots)	**617**	627	599	618	670	700	676	634	N/A	N/A

* HKEX completed the acquisition of the LME Group on 6 December 2012.

Consolidated Income Statement ($m)	**2019**	2018	2017	2016	2015	2014	2013	2012	2011	2010
Revenue and other income	**16,311**	15,867	13,180	11,116	13,375	9,849	8,723	7,211	7,855	7,566
Operating expenses	**(4,048)**	(4,110)	(3,566)	(3,455)	(3,290)	(2,958)	(2,777)	(1,957)	(1,733)	(1,505)
EBITDA	**12,263**	11,757	9,614	7,661	10,085	6,891	5,946	5,254	6,122	6,061
Depreciation and amortisation	**(1,044)**	(762)	(858)	(771)	(684)	(647)	(507)	(158)	(90)	(107)
Costs relating to acquisition of LME Group	**–**	–	–	–	–	–	–	(138)	–	–
Costs relating to proposed combination with LSEG	**(123)**	–	–	–	–	–	–	–	–	–
Finance costs	**(177)**	(114)	(134)	(82)	(114)	(196)	(183)	(55)	–	–
Fair value loss on derivative component of convertible bonds	**–**	–	–	–	–	–	–	(55)	–	–
Share of profits/(losses) of joint ventures	**32**	2	(12)	(9)	(9)	(10)	(10)	(3)	–	–
Profit before taxation	**10,951**	10,883	8,610	6,799	9,278	6,038	5,246	4,845	6,032	5,954
Taxation	**(1,561)**	(1,592)	(1,255)	(1,058)	(1,347)	(900)	(700)	(761)	(939)	(917)
Profit for the year	**9,390**	9,291	7,355	5,741	7,931	5,138	4,546	4,084	5,093	5,037
Loss attributable to non-controlling interests	**1**	21	49	28	25	27	6	–	–	–
Profit attributable to shareholders	**9,391**	9,312	7,404	5,769	7,956	5,165	4,552	4,084	5,093	5,037
Dividend per share ($)	**6.71**	6.71	5.40	4.25	5.95	3.98	3.54	3.31	4.25	4.20
Basic earnings per share ($)	**7.49**	7.50	6.03	4.76	6.70	4.44	3.95	3.75	4.71	4.66

Consolidated Statement of Financial Position ($m)	**2019**	2018	2017	2016	2015	2014	2013	2012	2011	2010
Non-current assets	**23,856**	20,165	19,586	19,508	19,622	19,672	20,797	20,260	1,580	2,350
Current assets	**255,195**	235,783	298,018	227,810	218,571	232,188	65,146	60,577	52,448	45,534
Current liabilities	**(230,937)**	(213,581)	(278,566)	(210,688)	(203,976)	(222,564)	(57,538)	(55,337)	(44,809)	(39,160)
Net current assets	**24,258**	22,202	19,452	17,122	14,595	9,624	7,608	5,240	7,639	6,374
Total assets less current liabilities	**48,114**	42,367	39,038	36,630	34,217	29,296	28,405	25,500	9,219	8,724
Non-current liabilities	**(3,613)**	(1,464)	(1,663)	(4,246)	(4,255)	(7,937)	(7,887)	(7,736)	(60)	(47)
Total equity	**44,501**	40,903	37,375	32,384	29,962	21,359	20,518	17,764	9,159	8,677
Non-controlling interests	**(328)**	(174)	(102)	(118)	(146)	(86)	(113)	–	–	–
Equity attributable to HKEX's shareholders	**44,173**	40,729	37,273	32,266	29,816	21,273	20,405	17,764	9,159	8,677
Equity per share[1] ($)	**35.12**	32.65	30.14	26.42	24.74	18.26	17.59	15.48	8.50	8.06

Financial Ratios	**2019**	2018	2017	2016	2015	2014	2013	2012	2011	2010
Dividend payout ratio	**90%**	90%	90%	90%	90%	90%	90%	90%	90%	90%
Cost to income ratio[2]	**25%**	26%	27%	31%	25%	30%	32%	27%	22%	20%
Pre-tax profit margin[2]	**67%**	69%	65%	61%	69%	61%	60%	67%	77%	79%
Return on equity[3]	**21%**	23%	20%	18%	27%	24%	22%	23%	56%	58%
Current ratio	**1.1**	1.1	1.1	1.1	1.1	1.0	1.1	1.1	1.2	1.2

Notes:
1 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
2 For the purpose of computing cost (ie, operating expenses) to income ratio and pre-tax profit margin, income includes share of profits/losses of joint ventures.
3 Based on equity attributable to HKEX's shareholders at year end

MD&A

For the year ended 31 December 2020

Business Review

Overview

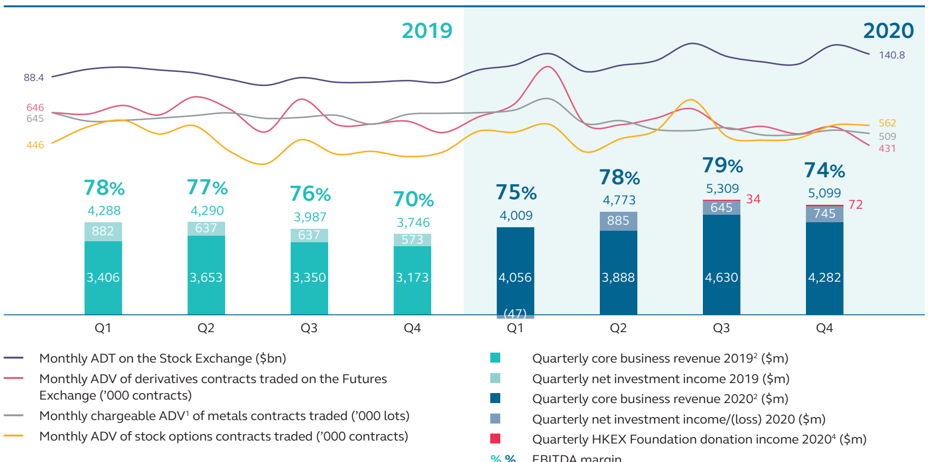


Fig. 1 – Market activity and Group's revenue and other income

2020 was a strong year for HKEX. Revenue and other income, and profit, reached record highs for the third consecutive year, despite the challenging geopolitical and macroeconomic backdrop and unprecedented impact caused by Covid-19. Headline ADT[3] reached a record high of $129.5 billion, 49 per cent above 2019, and 21 per cent above the previous high of 2018. Stock Connect trading volumes also saw record highs with Northbound and Southbound ADT being 119 per cent and 126 per cent higher than 2019 respectively. The Hong Kong IPO market continued to be buoyant, with HKEX ranked second globally by IPO funds raised in 2020, boosted by a number of sizable secondary listings of US-listed Chinese companies, as well as an influx of new economy and biotech companies to our markets.

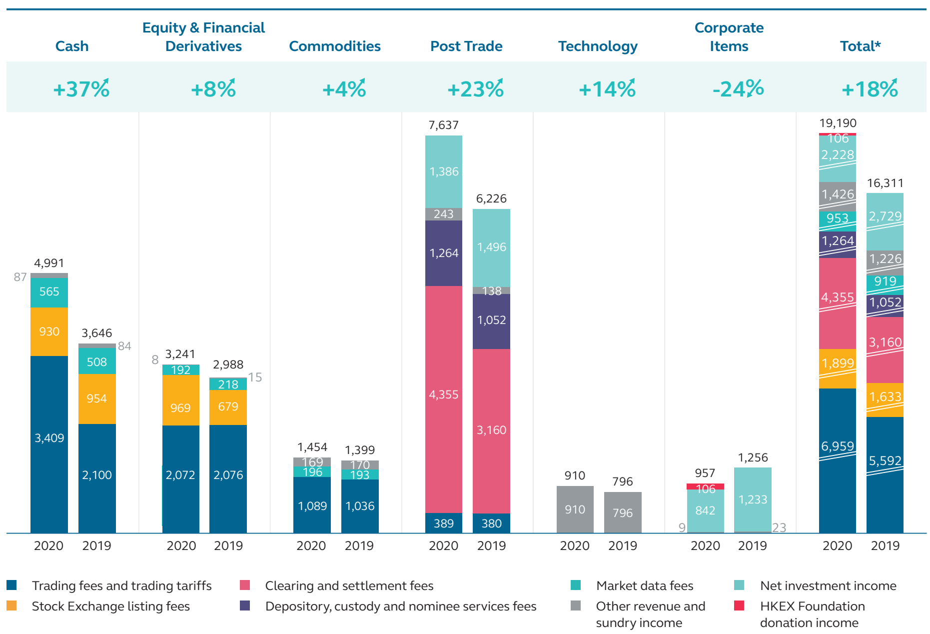
Revenue and other income reached a record high of $19.2 billion, up 18 per cent against 2019. The increase in trading and clearing fees was partly offset by lower net investment income, arising from lower interest income and lower fair value gains on collective investment schemes (2020: $487 million; 2019: record gains of $789 million). Operating expenses increased by 11 per cent compared with 2019. Excluding HKEX Foundation charitable donations[4] of $112 million, operating expenses were up 8 per cent, mainly due to higher staff costs from annual payroll adjustments and increased headcount arising from the acquisition of BayConnect in June 2019, higher IT and computer maintenance expenses for new IT systems and upgraded networks, and higher professional fees incurred for strategic projects and other business initiatives.

Looking ahead, there are positive signs of early economic recovery, especially in China, and this together with the roll-out of Covid-19 vaccinations globally and continued policy support by the world's major central banks provides cause for optimism. However uncertainty remains, and the road to full economic recovery will not be straightforward. The Group will continue its focus on executing and delivering upon its Strategic Plan 2019-2021, whilst adopting a prudent approach to cost control and risk management, seeking growth opportunities and ensuring the continued resilience and robustness of its markets.

1 Chargeable ADV excludes administrative trades (Admin Trades) and other non-chargeable trades. Admin Trades were introduced in 2017 to meet requirements resulting from MiFID II.
2 Revenue and other income, excluding net investment income and HKEX Foundation donation income
3 ADT of equity products, DWs, CBBCs and warrants traded on the Stock Exchange
4 HKEX Foundation was established to deepen HKEX's connectivity and long-standing commitment to our communities. From 2H 2020 onwards, the donation income from the Stock Code Balloting Charity Scheme were received by HKEX Foundation, and the amounts previously paid by the issuers directly to the Hong Kong Community Chest were paid by HKEX Foundation. As a result, HKEX recorded donation income of $106 million, under revenue and other income, and HKEX Foundation charitable donations of $112 million, under operating expenses in 2020.

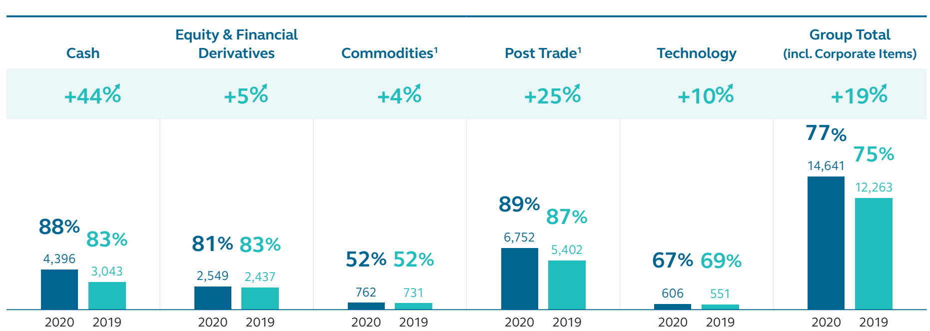
Business Update and Analysis of Results by Operating Segment

Analysis of Revenue and Other Income by Segment ($m)



* Total revenue and other income is not presented in the same scale as segmental results, but is proportionately resized.

Analysis of EBITDA and EBITDA Margin by Segment ($m)*



%% EBITDA margin = EBITDA divided by revenue and other income less transaction-related expenses

* Further details of the results by segment are set out in note 4 to the Consolidated Financial Statements of this Annual Report.

1 LME Clear EBITDA is reflected in the Post Trade segment

MD&A

2020 marked the second year of the Group's Strategic Plan 2019-2021. Our vision to be **the Global Markets Leader in the Asian Time Zone – Connecting China, Connecting the World** remains the central cornerstone of our strategy, focused on the three pillars of being China Anchored, Globally Connected, and Technology Empowered.

Progress made, up to the date of this Annual Report, is set out in the table below and further elaborated upon in the Business Update section in each of the operating segments:

China Anchored

- **Enhance Stock Connect** – Inclusion of biotech companies into Southbound eligible securities list; inclusion of eligible A shares listed on Shanghai's STAR Market and their corresponding H shares into Stock Connect; launch of the investor identification regime for Southbound Trading; new Master Special Segregated Account service to support Northbound Trading; announced the proposed launch of Synapse in Q1 2022 to automate and streamline post trade workflow for Northbound Stock Connect
- **Enhance Bond Connect** – Enhancements to settlement cycles (special settlement cycles and recycling settlement, longer settlement cycle available on Tradeweb and Bloomberg); extension of trading hours; access to defaulted bond market; fee reduction; increase in foreign exchange settlement banks; launch of electronic bond issuance system
- **Extend our onshore capabilities in the Mainland** – Launch of natural gas and cement products on the QME; HKEX is investing in a minority stake in the newly-established Guangzhou Futures Exchange Co. Ltd. (GFE), which provides HKEX with the opportunity to help build and promote the development of China's derivatives market

Technology Empowered

- **Modernise our systems** – Relocation of the secondary data centre to a Tier 3 data centre and kick-off of the hardware obsolescence replacement for various trading and clearing systems
- **Leverage new technology** – Continued deployment of new technologies across HKEX businesses, led by HKEX Innovation Lab including deployment of Artificial Intelligence (AI) to assist in annual report compliance review, scaling up of Robotics, proposed launch of Synapse, proposed deployment of intelligent technology for FINI, and proposed digital transformation to deliver paperless IPO applications and issuer disclosures

Globally Connected

- **Develop a listing and capital raising hub for major global and regional companies** – Listing of new economy and healthcare companies, including NetEase, JD.com and JD Health; homecoming listing of nine secondary listed companies
- **Enhance structure of our IPO regime** – New grandfather arrangements to enable qualifying issuers with corporate WVR to seek secondary listings in Hong Kong; shortening of the structured product listing cycle from five to three trading days; publication of the FINI concept paper for shortening of IPO settlement cycle; paperless listing & subscription regime to be effective in July 2021
- **Enhance our product ecosystem across asset classes** – Launch of MSCI Asia and Emerging Markets Index Futures, Hang Seng TECH Index Futures and Options, USD and CNH denominated Silver Futures in Hong Kong; official launch of STAGE with 34 sustainable-themed products displayed
- **Become the ETF issuance and trading hub for the Asia Pacific time zone** – New listing of the first Iron Ore Futures ETF, the first commodity-based L&I Product, the first active equity ETF, the first ETF under master-feeder structure, the first ESG China A shares ETF, the first batch of A share L&I Products, the first four Hang Seng TECH Index ETFs, the first two Hang Seng TECH Index L&I Products; introduction of a new spread table and continuous quoting market making obligations; waiver of stamp duty on stock transfers for ETP market makers; launch of the Hong Kong-Mainland ETF Cross-listing Scheme with the first two products listed on SZSE and HKEX respectively
- **Improve our market microstructure** – Enhancement to Volatility Control Mechanism (VCM) and Pre-Opening Session; enhancement to third party clearing arrangement; automation of Large Open Position (LOP) Reporting and roll out of a new surveillance system for LOP and Position Limit; enhancement to the buy-in exemption clauses and capital-based position limit policy; continued to implement new rules and disclosures to optimise the LME's warehouse network

Cash Segment

Key Market Indicators

	2020	2019	Change
ADT of equity products traded on the Stock Exchange [1,2] ($bn)	110.9 [4]	69.2	60%
ADT of Northbound Trading – Shanghai-Hong Kong Stock Connect [2] (RMBbn)	39.1 [4]	21.3	84%
ADT of Northbound Trading – Shenzhen-Hong Kong Stock Connect [2] (RMBbn)	52.2 [4]	20.4	156%
ADT of Southbound Trading – Shanghai-Hong Kong Stock Connect [1,2] ($bn)	13.1 [4]	6.8	93%
ADT of Southbound Trading – Shenzhen-Hong Kong Stock Connect [1,2] ($bn)	11.3 [4]	4.0	183%
ADT of Bond Connect (RMBbn)	19.8 [4]	10.7	85%
Average daily number of trades of equity products traded on the Stock Exchange [1,2] ('000)	1,618 [4]	1,157	40%
Number of newly listed companies on Main Board [3]	146	168	(13%)
Number of newly listed companies on GEM	8	15	(47%)
Number of companies listed on Main Board at 31 Dec	2,170	2,071	5%
Number of companies listed on GEM at 31 Dec	368	378	(3%)
Total	2,538	2,449	4%
Market capitalisation of companies listed on Main Board at 31 Dec ($bn)	47,392	38,058	25%
Market capitalisation of companies listed on GEM at 31 Dec ($bn)	131	107	22%

1 Excludes $18.6 billion (2019: $18.0 billion) of ADT of DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment) and includes ADT of Southbound Trading under Stock Connect
2 Includes buy and sell trades under Stock Connect
3 Includes 8 transfers from GEM (2019: 20)
4 New record highs in 2020

	2020 $bn	2019 $bn	Change
Total equity funds raised on Main Board			
– IPOs	399.6	313.2	28%
– Post-IPO	343.8	136.7	151%
Total equity funds raised on GEM			
– IPOs	0.6	1.0	(40%)
– Post-IPO	3.0	3.3	(9%)
Total	747.0	454.2	64%

Stock Connect – New Record Highs in 2020

	2020	2019	Change
Northbound Trading value (RMBbn)	21,089	9,757	116%
Southbound Trading value ($bn)	5,508	2,841	94%
Total revenue and other income [1] ($m)	1,926	1,009	91%

1 $1,485 million of which arose from trading and clearing activities (2019: $699 million)

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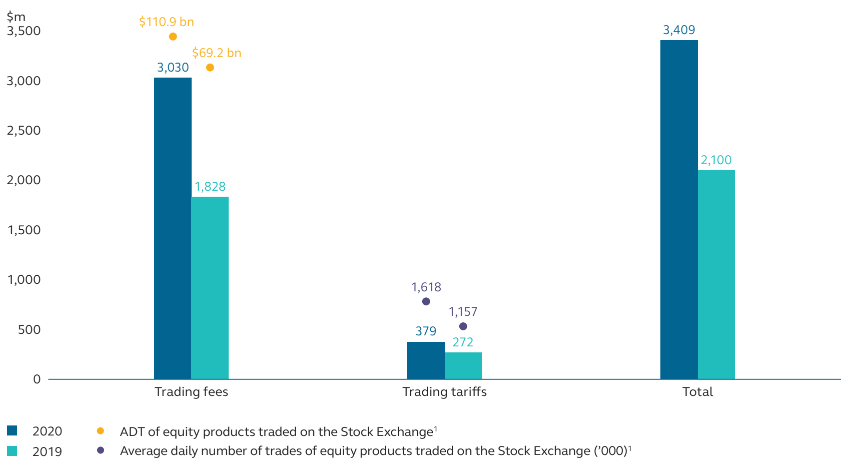
Analysis of Results

Summary

	2020 $m	2019 $m	Change
Trading fees and trading tariffs [1]	**3,409**	2,100	62%
Stock Exchange listing fees [1]	**930**	954	(3%)
Market data fees [1]	**565**	508	11%
Other revenue	**87**	84	4%
Total revenue	**4,991**	3,646	37%
Operating expenses [2]	**(595)**	(603)	(1%)
EBITDA	**4,396**	3,043	44%
EBITDA margin	**88%**	83%	5%

1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)
2 Includes Listing Division costs apportioned to equity products traded on the Stock Exchange

Trading Fees and Trading Tariffs



1 Excludes DWs, CBBCs and warrants (which are included under the Equity and Financial Derivatives segment)

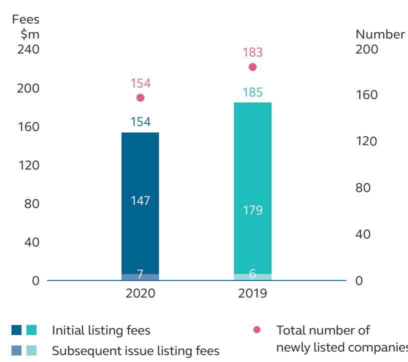
Trading fees increased by $1,202 million (66 per cent), more than the 60 per cent increase in equity products ADT. This was primarily due to record fees from Stock Connect Northbound Trading of $457 million (2019: $213 million). Trading tariffs increased by 39 per cent, in line with the increase in number of trades of equity products.

Stock Exchange Listing Fees

	2020 $m	2019 $m	Change
Annual listing fees	**768**	760	1%
Initial and subsequent issue listing fees	**154**	185	(17%)
Others	**8**	9	(11%)
Total	**930**	954	(3%)

Annual Listing Fees

Initial and Subsequent Issue Listing Fees



Annual listing fees increased by 1 per cent, less than the increase in total number of listed companies, as the average listing fee of the newly listed companies in 2020 were lower than that at 31 December 2019.

Initial and subsequent issue listing fees decreased by 17 per cent mainly due to a decrease in forfeitures.

EBITDA

Operating expenses decreased by 1 per cent due to lower allocated costs of the Listing Division to this segment. This reflects the decrease in listing fees from equities, compared with the increase in listing fees from DWs and CBBCs, which are under the Equity and Financial Derivatives segment. EBITDA margin rose from 83 per cent to 88 per cent due to the increase in revenue.

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Business Update

The Hong Kong Cash Market performed resiliently in 2020. On 31 December 2020, market capitalisation of listed companies on the market reached a record high of $47,523 billion. Trading activities were strong during the year with record headline ADT of $129.5 billion, up 49 per cent from 2019. On 11 November 2020, trading turnover reached the third record high at $268 billion.

Stock Connect

Stock Connect experienced strong flows in both Southbound and Northbound Trading in 2020. Northbound ADT reached a record high of RMB91.3 billion, 119 per cent higher than 2019, and Southbound ADT reached a record high of $24.4 billion, 126 per cent higher than 2019. In addition, daily record highs were set for Northbound Trading (RMB191.2 billion on 7 July 2020) and Southbound Trading ($60.2 billion on 6 July 2020). As a result, Stock Connect generated record high revenue and other income for the fourth consecutive year at $1,926 million in 2020, and accounted for 10 per cent of the Group's total revenue and other income.

Stock Connect was enhanced during the year, with expansion in the scope of eligible stocks for both Northbound and Southbound Trading. Subsequent to the inclusion of biotech stocks (listed under Chapter 18A of the Main Board Listing Rules with the "B" marker removed) into the Southbound eligible securities list, effective from September 2020, HKEX, SSE and SZSE further jointly announced on 27 November 2020 Stock Connect inclusion arrangements for pre-revenue biotech companies (listed under Chapter 18A with the "B" marker), effective on 28 December 2020, as well as for eligible A shares listed on the SSE's STAR Market and their corresponding H shares into Stock Connect, effective on 1 February 2021.

On 13 January 2020, the investor identification regime for Southbound Trading was successfully launched, facilitating enhanced market surveillance and orderly operation of Stock Connect.

Market Structure Development

HKEX continues to focus on enhancing its market microstructure for the benefit of all market participants. The VCM in the securities market was enhanced in two phases to further strengthen the stock level safeguards during extreme price volatility, and to reflect changes in international practice and regulatory guidance. The first phase, which includes further securities coverage expansion and tiered triggering thresholds, was successfully implemented on 11 May 2020. As of 31 December 2020, 19 VCM triggers were recorded and market operations to date have been smooth. The second phase, which further allows multiple triggers per VCM security in the Continuous Trading Session, is planned to be introduced in Q1 2021.

Effective 19 October 2020, the Pre-opening Session adopted a number of features from the Closing Auction Session, including a two-stage price limit, allowing short selling, allowing at-auction limit orders and random commencement of auction matching. These enhancements aim to increase the Hong Kong securities market's competitiveness by introducing a more robust and stable opening auction to improve price discovery and trading liquidity before the market opens.

Issuer Business

During 2020, HKEX welcomed 154 listed companies, raising a total of $400.2 billion, ranking second globally[5] by funds raised and fourth globally[5] by number of IPOs.

IPOs in 2020 featured new economy listings such as NetEase and JD.com; healthcare issuers such as JD Health; 14 biotech issuers listed under Chapter 18A; along with notable traditional economy companies such as Nongfu Spring. Furthermore, there was a growth in homecoming listings and HKEX attracted a total of nine secondary listed companies in 2020.

As of 31 December 2020, companies listed under the New Chapters of the Main Board Listing Rules (Chapters 8A, 18A and 19C) since their introduction in April 2018 have raised $376 billion. In 2020, IPOs under the New Chapters represented 41 per cent of total IPO funds raised of the year. The market capitalisation of these companies represented 23 per cent of the total market capitalisation of the Hong Kong Cash Market at 31 December 2020, and the trading turnover of these companies represented 16 per cent of the total turnover of equity products traded on the Stock Exchange in 2020. The Hong Kong market continues to be an attractive market for new economy listings due to its robust and established regulatory framework, its connectivity and its global investor base.

5 Source: Dealogic

In response to Covid-19 social distancing measures, HKEX provided virtual support to the IPO market by conducting a number of events and conferences online, providing remote communication and services to issuers, and conducting virtual listing ceremonies. In September 2020, HKEX organised its first ever online "HKEX Biotech Summit 2020" which gathered scientists, biotech entrepreneurs, investors, technology experts and policymakers to share industry insights and trends on the biotech industry and capital markets.

HKEX also focused on expanding its outreach and engagement overseas, particularly in Southeast Asia, including organising its first Southeast Asia Forum, conducted online. Looking forward, HKEX will continue to focus on enhancing Hong Kong's competitiveness as a premier listing location for companies across the globe.

ETF Market Development

ADT of ETPs, which includes ETFs and L&I Products, increased 28 per cent to $6.4 billion in 2020 (2019: $5.0 billion). In particular, L&I Products saw a strong uptick in investor interest, with ADT more than doubling from $0.6 billion in 2019 to $1.5 billion in 2020. On 22 May 2020, the turnover of L&I Products reached a daily record high of $5.1 billion.

Key initiatives of ETPs introduced during 2020

- HKEX expanded its product suite, welcoming the first Iron Ore Futures ETF, the first commodity-based L&I Product, the first active equity ETF, the first ETF under master-feeder structure, the first ESG China A shares ETF, the first batch of A share L&I Products, the first four Hang Seng TECH Index ETFs, and the first two Hang Seng TECH Index L&I Products. On 28 August 2020, the first Hang Seng TECH Index ETF achieved a record high first trading day ETF turnover of $3.0 billion
- On 1 June 2020, HKEX introduced a new spread table and continuous quoting market making obligations to enhance the liquidity of ETPs. In the first seven months following launch, the median spreads of ETPs listed in Hong Kong decreased by more than 30 per cent while the top 10 most actively traded ETPs saw their median spreads compressed by more than 50 per cent, significantly reducing the cost for investors to trade ETPs
- From 1 August 2020, the Government waived the stamp duty on stock transfers for ETP market makers when creating and redeeming ETP units. This lowers the transaction cost of ETP activities in the primary market and supports the liquidity growth in the ETF underlying Hong Kong stocks
- On 23 October 2020, the first two products under the Hong Kong-Mainland ETF Cross-listing Scheme were listed on SZSE and HKEX respectively. Through the new scheme, ETF issuers are able to list feeder funds that are built on master funds listed across the border. By the end of 2020, the four cross-listed ETFs accounted for $860 billion of assets under management (AUM)

Bond Connect

In 2020, Bond Connect continued to gain strong recognition from international investors, with robust growth in trading volume, net inflows, foreign holdings, as well as the number of new registered investors.

Chinese government bonds were included in the JPMorgan Government Bond Index-Emerging Markets indices on 28 February 2020, driving new overseas index trackers to Bond Connect. Furthermore, on 24 September 2020, FTSE Russell announced that Chinese government bonds would be included in the FTSE World Government Bond Index (WGBI), with inclusion scheduled to start with the October 2021 profiles. This will mark the third entry of Chinese bonds into a major global bond index.

ADT of Bond Connect has been setting record high every year since its launch in 2017, reaching RMB19.8 billion in 2020, up 85 per cent compared with 2019. Trading volume in November 2020 reached a monthly record high of RMB485 billion, while single-day trading volume recorded an all-time high of RMB36.9 billion on 16 December 2020. Net inflows amounted to RMB535 billion in 2020, with a monthly record high of RMB75.5 billion in July. As of 31 December 2020, the overall foreign investor holdings of domestic debt securities in the China Interbank Bond Market rose to RMB3,255 billion, up 49 per cent from RMB2,188 billion as of 31 December 2019.

Market participation in Bond Connect continued to grow steadily throughout 2020. As at 31 December 2020, a total of 2,352 institutional investors from 34 jurisdictions globally have been admitted to Bond Connect, up 47 per cent from 1,601 institutional investors as at 31 December 2019.

Key initiatives implemented in 2020 to enhance connectivity and market infrastructure

- On 30 March 2020, Bond Connect started to support special settlement cycles (settle T+4 and beyond) via paper submission and recycling settlement (settle failed trades within three business days). Starting from Q4 2020, Bond Connect investors were able to select settlement cycles up to T+10 via Tradeweb and Bloomberg, without the need for paper submission
- On 6 April 2020, trading and settlement services were expanded to support Bond Connect investors to access the defaulted bond market in China
- On 1 July 2020, Bond Connect service fee was reduced by 20 per cent and 33 per cent for bonds with short and long tenor respectively
- On 21 September 2020, Bond Connect trading hours were extended to 20:00 from 16:30 (China Standard Time) for transactions settling T+1 and beyond
- On 24 September 2020, Bond Connect investors were able to select up to three foreign exchange (FX) settlement banks to conduct their currency conversion and for FX risk management needs
- On 20 October 2020, ePrime, an international electronic bond issuance system for book building, pricing, and allocation of offshore securities, was launched. Subsequently, Agricultural Development Bank of China and China Development Bank completed their offshore RMB bond issuance via ePrime and successfully raised RMB5.7 billion and RMB6.5 billion in October and November 2020 respectively

Listed Bond Market Development

In 2020, there were 430 new listings of debt securities on the Stock Exchange, with a total issuance amount of $1,529 billion. Moreover, total turnover value of debt securities reached $66 billion (including $3 billion turnover of iBond), an increase of 8 per cent compared with 2019.

As part of the ongoing development of the bond market in Hong Kong, HKEX enhanced the listing regime for debt issues to professional investors in November 2020. The enhancement seeks to balance the need to safeguard investors whilst maintaining an effective listing platform, by promoting disclosure quality and consistency in the market.

Market Data Business

Regular seminars were hosted to provide a communication platform for market participants including EPs, information vendors and application software providers to learn more about the latest market data developments and share their ideas and feedback. Two live webinars were held on 24 November 2020, with registrants from over 200 companies.

Sustainable Finance

On 1 December 2020, HKEX announced the launch of the Sustainable and Green Exchange (STAGE). At launch a total of 34 sustainable-themed products from leading Asian corporates were displayed on STAGE including sustainability, green, and transition bonds from issuers across different sectors as well as ESG-related ETPs. The resources library on STAGE provides case studies, webcasts, videos, guidance materials, research papers and other publications aimed at helping market participants enrich their understanding of sustainable finance, green products, ESG integration and sustainable investing. HKEX is working closely with local, regional and international partners to further expand the contents on STAGE.

Listing Regulation

In 2020, the Stock Exchange issued various proposals and conclusions on Listing Rules amendments as set out in the following table. Details of the consultations and other main policy issues arising in 2020, as well as the proposals under review in 2021 and beyond, are set out in the 2020 Listing Committee Report.

Key Proposals and Conclusions in 2020

	Consultation paper [1]	Consultation conclusions [1]	Effective date of changes (if any)
• Codification of General Waivers and Principles relating to IPOs and Listed Issuers and Minor Rule Amendments	August 2019	August 2020	1 October 2020
• Review of Chapter 37 – Debt Issues to Professional Investors only	December 2019	August 2020	1 November 2020
• Corporate WVR Beneficiaries	January 2020	October 2020	30 October 2020 [2]
• Proposals to Introduce a Paperless Listing & Subscription Regime, Online Display of Documents and Reduction of the Types of Documents on Display	July 2020	December 2020	5 July 2021/ 4 October 2021 [3]
• Review of Listing Rules relating to Disciplinary Powers and Sanctions	August 2020	1H 2021 (tentative)	–
• The Main Board Profit Requirement	November 2020	1H 2021 (tentative)	–

1 All the consultation papers and conclusions are available under the News Centre (Market Consultations) section of the HKEX Market website.
2 The changes relate to an addition to grandfathering arrangements for issuers controlled by corporate WVR beneficiaries that seek a secondary listing under Chapter 19C of the Listing Rules and that are primary listed on certain exchanges on or before publication of the consultation conclusions.
3 Listing Rule amendments relating to the Paperless Listing and Subscription Regime will take effect on 5 July 2021 and Listing Rule amendments relating to the Online Display of Documents and the Reduction of Documents on Display will take effect on 4 October 2021.

Key Initiatives by the Stock Exchange to Promote Issuers' Self-compliance with the Listing Rules

- Issued joint statements with the SFC in relation to (i) listed issuers' results announcements and (ii) general meetings in light of the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation
- Issued series of listing decisions on interpretation of the Listing Rules, including (i) the minimum market capitalisation requirement under Main Board Listing Rule 8.09(2) after a proposed spin-off and (ii) guidance on why the Stock Exchange rejected and returned certain listing applications
- Published new guidance letters on (i) disclosure in listing documents for biotech companies; (ii) experience and qualification requirements of a company secretary; and (iii) guidance on continuing obligations of authorised collective investment schemes listed under Chapter 20 of the Main Board Listing Rules
- Published semi-annual (i) Listing Division Newsletter; (ii) Listed Issuer Regulation Newsletter; and (iii) Enforcement Bulletin
- Published (i) ESG guidance materials including an e-training course, a new guide for board and directors and the step-by-step ESG reporting guidance and (ii) corporate governance materials including Analysis of 2019 Corporate Governance Practice Disclosure and Making Inroads into Good Corporate Governance and ESG Management – Perspectives from Industry Practitioners
- Launched two e-Learning modules on (i) Connected Transaction Rules and (ii) Notifiable Transaction Rules as part of the new e-learning series on ongoing compliance requirements under the Listing Rules

IPO Processing, Compliance and Monitoring

The following tables illustrate the work of the Stock Exchange in processing new listings and monitoring issuers' compliance for the purposes of maintaining an orderly, informed, and fair market under Section 21 of the SFO.

Stock Exchange's IPO Work

	2020	2019
• Number of listing applications vetted [1]	357	467
• Number of applications brought to the Listing Committees (or their delegates) for decisions [2]	154	221
– within 120 calendar days	52	117
– between 121 to 180 calendar days	39	67
– after more than 180 calendar days	63	37
• Number of applications for which approval was granted in principle [3]	179	209
• Number of requests for guidance from listing applicants or their advisers seeking clarifications of listing matters	181	127
– Average response time (in business days)	10	10
• Number of listing applications for transfer of listing from GEM to Main Board accepted	12	27
• Applications listed [4]	181	197
• New listing applications rejected [5]	1	26
• New listing applications withdrawn	6	21
• New listing applications returned	–	4
• Application in process at year-end	92	126

1 Comprises 231 (2019: 300) new applications and 126 (2019: 167) existing applications brought forward from previous year
2 Refers to listing applications heard by the Listing Committees (or their delegates) for the first time and excludes Chapter 20 listing applications
3 At the end of 2020, 20 (2019: 33) approved applications had not yet been listed, and 4 (2019: 5) approved applications had lapsed during the year.
4 Includes 27 investment vehicles listed on Main Board and deemed new listings (2019: 14)
5 No rejection decision in 2020 (2019: 7) was subsequently reversed upon review.

Number of Compliance and Monitoring Actions

	2020	2019
• Announcements of issuers vetted	68,522	62,977
• Circulars of issuers vetted	2,696	2,350
• Share price and trading volume monitoring actions undertaken [1]	10,535	7,939
• Complaints handled	475	438
• Cases (including complaints) referred to Listing Enforcement Department for investigation	78	74

1 In 2020, monitoring actions undertaken included 360 enquiries (2019: 677) on unusual share price and trading volume movements, and the actions undertaken led to 19 resumption announcements (2019: 29) on trading suspensions.

Long Suspension

Status of Long Suspended Companies	Main Board 2020	Main Board 2019	GEM 2020	GEM 2019
Resumption of trading of securities during the year	12	22	3	4
Cancellation of listing after expiry of prescribed remedial periods during the year	15	7	7	2
Cancellation of listing under grandfathered provisions during the year (Main Board Rule 6.01A(2)(a) or (c) or GEM Rule 9.14A(2)(b))	8	6	1	4
Voluntary withdrawal of listing during the year	–	1	–	–
Companies suspended for 3 months or more at year-end	64	68	17	15

Updates of the work on listed companies' compliance, and insights and observations that may assist listed companies in compliance can be found in the semi-annual "Listed Issuer Regulation Newsletter".

Listing Enforcement

The enforcement statistics set out below represent a high level overview of the enforcement work undertaken in 2020 by the Stock Exchange.

Further details and information relating to enforcement work (including the Stock Exchange's general approach, disciplinary procedures and recent cases) can be found at the HKEX Market website and in the semi-annual "Enforcement Bulletin", and are set out in the 2020 Listing Committee Report.

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Enforcement Statistics

	2020	2019
Investigations [1,2,3]	128	112
Public sanctions [4]	13	13
Regulatory letters [5]	9	15

1 Figures cover all cases which were investigated in 2020 (both concluded cases and ongoing investigations at year-end).
2 At the end of 2020, there were 54 ongoing investigations (2019: 28).
3 In 2020, 4 enforcement cases (2019: 4) originating from complaints were subject to enforcement investigation.
4 The number of investigation cases that resulted in a public sanction. Actions taken at a lower level in the same case, eg, private reprimand, are not included.
5 The number of cases involving issuance of at least one regulatory letter (ie, a warning or guidance letter) where, following investigation, disciplinary proceedings before the Listing Committee were not considered appropriate against any party. These letters are recorded as part of the compliance history for the relevant party.

Costs of the Listing Function

The costs of the front line regulation of listed issuers, performed by the Listing Committee and the Listing Division, are absorbed by the Cash and Equity and Financial Derivatives segments in proportion to the listing fee income of the two segments.

Equity and Financial Derivatives Segment

Key Market Indicators

	2020	2019	Change
ADT of DWs, CBBCs and warrants traded on the Stock Exchange ($bn)	**18.6**	18.0	3%
Average daily number of trades of DWs, CBBCs and warrants traded on the Stock Exchange ('000)	**344**	296	16%
ADV of derivatives contracts traded on the Futures Exchange [1] ('000 contracts)	**606**	624	(3%)
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	**526** [2]	442	19%
Number of newly listed DWs	**12,128** [2]	8,939	36%
Number of newly listed CBBCs	**38,039** [2]	24,732	54%
Number of newly listed Inline Warrants	**780**	923	(15%)
ADV of contracts traded during After-Hours Trading [1] ('000 contracts)	**94** [2]	82	15%

	At 31 Dec 2020	At 31 Dec 2019	Change
Open interest of futures and options [1] ('000 contracts)	**11,260**	9,695	16%

1 Excludes London Metal Mini Futures, Gold Futures, Silver Futures and Iron Ore Futures contracts (which are included under the Commodities segment)
2 New record highs in 2020

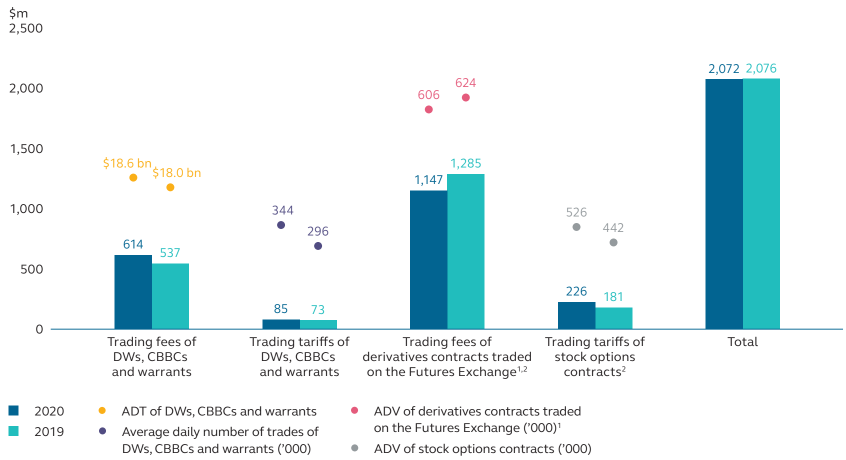
Analysis of Results

Summary

	2020 $m	2019 $m	Change
Trading fees and trading tariffs [1]	**2,072**	2,076	(0%)
Stock Exchange listing fees	**969**	679	43%
Market data fees [1]	**192**	218	(12%)
Other revenue	**8**	15	(47%)
Total revenue	**3,241**	2,988	8%
Less: Transaction-related expenses	**(85)**	(41)	107%
Total revenue less transaction-related expenses	**3,156**	2,947	7%
Operating expenses [2]	**(607)**	(510)	19%
EBITDA	**2,549**	2,437	5%
EBITDA margin [3]	**81%**	83%	(2%)

1 Excludes cash equities (which are included under the Cash segment)
2 Includes Listing Division costs apportioned to DWs, CBBCs and warrants traded on the Stock Exchange
3 EBITDA margin is calculated based on EBITDA divided by total revenue less transaction-related expenses.

Trading Fees and Trading Tariffs



1 Excludes London Metal Mini Futures, Gold Futures, Silver Futures and Iron Ore Futures contracts (which are included under the Commodities segment)
2 Excludes trading fees and trading tariffs allocated to the Post Trade segment (Derivatives contracts traded on the Futures Exchange – 2020: $303 million; 2019: $308 million; stock options contracts – 2020: $86 million; 2019: $72 million)

Trading fees and trading tariffs for the segment are generated from the trading of derivatives on the Stock Exchange (ie, DWs, CBBCs, warrants, and stock options) and trading of futures and options on the Futures Exchange. A portion of the trading fees and trading tariffs for futures and options contracts is allocated to the Post Trade segment as the trading and clearing fees of these products are bundled together in the form of trading fees and trading tariffs.

2020 saw record new issues of DWs and CBBCs, and a 16 per cent increase in the average daily number of trades. As a result, trading fees and trading tariffs from DWs, CBBCs and warrants increased by $89 million or 15 per cent to $699 million (2019: $610 million), higher than the 3 per cent increase in ADT due to higher trading fees.

Derivatives trading fees of the Futures Exchange decreased by $138 million, or 11 per cent, attributable to the decrease in number of derivatives contracts traded on the Futures Exchange, as investors took a "risk-off" approach during heightened volatility. The decrease in trading fees and trading tariffs was higher than the 3 per cent drop in ADV, due to a lower proportion of higher fee contracts, including HSI futures and options, being traded during 2020.

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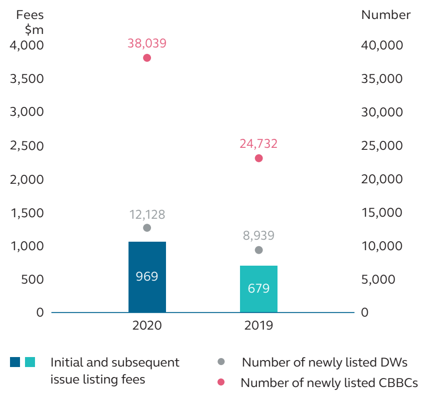
Stock Exchange Listing Fees



Stock Exchange listing fees are mainly derived from initial and subsequent issue listing fees for DWs and CBBCs. The fees increased by $290 million or 43 per cent, reflecting the record number of newly listed DWs and CBBCs in 2020.

EBITDA

Transaction-related expenses include licence fees and other costs which directly vary with trading transactions. The increase was partially driven by the licence fees for the new MSCI index futures contracts launched since July 2020.

Operating expenses increased by $97 million (19 per cent) due to higher allocated costs of the Listing Division, reflecting the increase in listing fees from DWs and CBBCs compared with the decrease in listing fees from equities, and increase in incentives relating to the new MSCI index futures contracts. EBITDA increased by 5 per cent year-on-year, though EBITDA margin decreased from 83 per cent to 81 per cent, reflecting the higher percentage increase in operating expenses compared to the percentage increase in revenue.

Business Update

The Hong Kong Derivatives Market demonstrated resilient growth in 2020. The total number of futures and options contracts traded in 2020 was 281,871,221[6], up 7 per cent on 2019. A number of key futures and options contracts reached new record highs (see below).

New Record Highs – Full Year Trading Volume

	2020 Number of contracts	Pre-2020 record Number of contracts	
Mini HSI Futures	**27,902,077**	24,664,381	(2018)
Mini HSI Options	**3,345,582**	3,343,429	(2019)
Weekly HSI Options	**1,191,533**	246,717	(2019)
Stock Futures	**1,141,729**	917,358	(2019)
Stock Options	**131,021,660**	127,279,101	(2018)

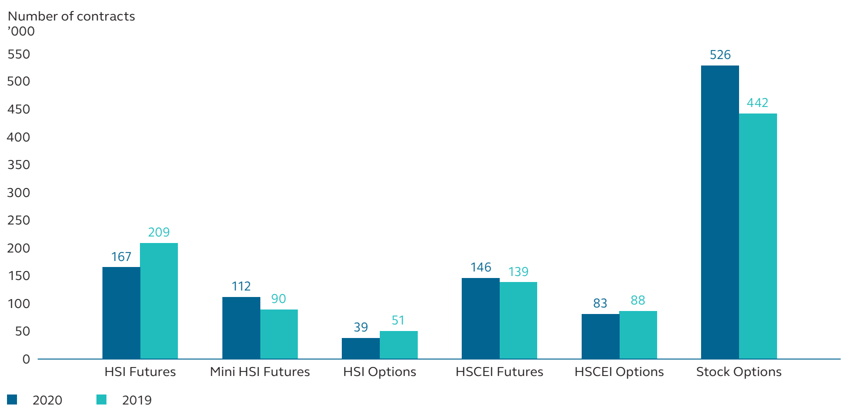
6 Excludes London Metal Mini Futures, Gold Futures, Silver Futures and Iron Ore Futures contracts (which are included under the Commodities segment)

New Record Highs – Single-day Trading Volume and Open Interest

	Single-day Trading Volume		Open interest	
	Date (2020)	Number of contracts	Date (2020)	Number of contracts
Mini HSI Futures	19 Mar	298,812	N/A	N/A
Weekly HSCEI Options	30 Jan	7,166	30 Dec	12,097
Weekly HSI Options	6 Feb	17,027	6 Nov	13,274
MSCI Taiwan Net Total Return (USD) Index Futures [1]	17 Sep	19,207	18 Sep	22,092
MSCI EM Asia Net Total Return (USD) Index Futures [1]	21 Oct	28,242	10 Nov	28,512
MSCI Taiwan (USD) Index Futures [1]	24 Nov	42,363	29 Oct	65,267
MSCI Indonesia Net Total Return (USD) Index Futures [1]	10 Dec	12,700	15 Dec	13,668
MSCI Japan Net Total Return (USD) Index Futures [1]	17 Dec	10,600	31 Dec	10,748
Stock Options	6 Jul	1,545,227	N/A	N/A

1 Launched in July 2020

Average Daily Volume of Major Futures and Options Contracts



Equity Futures and Options Market Development

Stock options were a major contributor to growth in 2020, with ADV reaching a record high of 526,191 contracts, a 19 per cent increase compared with 2019. In addition, a daily record high of 1,545,227 stock options contracts were traded on 6 July 2020. During 2020, 11 new stock option classes were introduced and 32 out of 106 option classes reached new daily volume record highs.

Trading volume in the After-Hours Trading (T+1) Session continued to grow, with ADV in 2020 reaching a historical high of 94,224 contracts, up 15 per cent from 2019. In addition, the number of equity index futures and options traded in the T+1 Session reached a daily record high of 303,482 contracts on 18 March 2020.

In 2020, HKEX successfully launched 38 new MSCI index futures contracts. The launch represents a major step forward in the expansion of HKEX's derivatives product portfolio and significantly adds to the breadth and depth of the Hong Kong markets. Among the newly introduced products, two are in Japanese Yen (JPY) and one is in Singapore Dollar (SGD), marking the first JPY and SGD derivatives contracts traded in the Hong Kong market. Moreover, a revision of opening hours and the introduction of pre-market opening period for the MSCI Taiwan (USD) Index Futures and MSCI Taiwan Net Total

MD&A

Return (USD) Index Futures became effective on 28 September 2020, facilitating investors' ability to react to market events and price movements over a longer period. In view of the increasing number of equity index futures with foreign market underlyings, HKEX plans to extend trading and clearing of the selected derivatives to cover Hong Kong public holidays, allowing investors to respond to the underlying market movement during those days.

As at 31 December 2020, the MSCI suite recorded a total of 704,050 contracts traded since launch, and 62,975 contracts in open interest. MSCI Taiwan (USD) Index Futures and MSCI Taiwan Net Total Return (USD) Index Futures were among the most active contracts out of the 38 MSCI index futures contracts launched.

HKEX introduced Hang Seng TECH Index Futures on 23 November 2020. The product has been well received with 49,122 contracts traded since launch and 4,721 contracts in open interest as at 31 December 2020. To provide investors a further option to manage their risk exposures to Hong Kong-listed technology companies, the Hang Seng TECH Index Options was launched in January 2021.

To allow broader investors to participate in the newly introduced MSCI and Hang Seng TECH products, HKEX filed applications to the US Commodity Futures Trading Commission (CFTC), with a total of 29 MSCI and the Hang Seng TECH futures contracts certified to be offered and sold to persons in the US.

Fixed Income and Currency (FIC) Development

The RMB currency derivatives market gained momentum in the second half of 2020 amid continued appreciation of the RMB since May. A total of 1,777,418 contracts of USD/CNH Futures and Options contracts were traded during 2020, while open interest amounted to 30,706 contracts as at 31 December 2020, up 24 per cent from 31 December 2019, as the contracts were increasingly utilised by investors to manage their currency risk exposures.

The INR/USD Futures contracts established new daily records multiple times during the year, including the latest daily record high of 5,035 contracts on 2 March 2020, and a total of 169,336 INR/USD Futures contracts were traded during 2020. To better facilitate management of risks in longer tenors, additional contract months were added to INR/USD Futures and INR/CNH Futures in June and July respectively.

The 7th annual HKEX RMB FIC Conference was hosted in September 2020, in a virtual format with over 1,600 market participants and professionals attending. Speakers and panelists from over 20 organisations shared their views on the FIC landscape, including future developments in the Chinese bond and derivatives markets and electronic bond market development.

Structured Products

Trading activities of structured products also experienced a strong year in 2020. ADT of CBBCs, DWs, and warrants was $18.6 billion, up 3 per cent from 2019 and accounted for 14 per cent of total market turnover. During 2020, a total of 50,947 structured products were listed, exceeding the previous record of 38,472 in 2018 by 32 per cent. HKEX has been working with market participants to simplify workflow and enhance market efficiency.

In July 2020, the listing cycle of structured products was shortened from five to three trading days, after the adoption of electronic submission of documents and other streamlined processes. The shorter cycle enhances market efficiency on product issuance, as more products are available in any given time frame.

HKEX has also been expanding the list of both local and overseas eligible underlying assets for structured product issuances in response to increasing market interest, with the S&P 500 and Hang Seng TECH Index becoming eligible underlying assets in September and November 2020 respectively. Such expansion further enhances the attractiveness of Hong Kong's structured products market.

Market Data Business

In 2020, HKEX continued its effort in promoting derivatives products globally. The Market Data Marketing Programme for New Derivatives Products was extended for another year to the end of 2021, continuing the subscriber fees waiver for information vendors where their clients are located in eight promoting regions, namely Mainland China, Korea, Taiwan, Malaysia, India, Thailand, Vietnam and Singapore.

Commodities Segment

Key Market Indicators

	2020	2019	Change
ADV of metals contracts traded on the LME ('000 lots)			
Aluminium	**237**	236	0%
Copper	**128**	131	(2%)
Zinc	**90**	109	(17%)
Nickel	**67**	89	(25%)
Lead	**42**	42	0%
Others	**7**	10	(30%)
Total chargeable ADV excluding Admin Trades [1]	**571**	617	(7%)
Chargeable Admin Trades [1]	**37**	46	(20%)
Non-chargeable Admin Trades[1] and other non-chargeable trades	**2**	34	(94%)
Total ADV	**610**	697	(12%)

1 Admin Trades were introduced in 2017 to meet requirements resulting from MiFID II. These trades were not chargeable prior to 1 May 2019, but became chargeable at US$0.04 per contract thereafter.

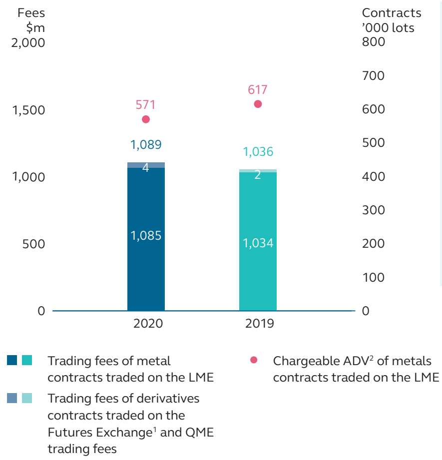
	At 31 Dec 2020	At 31 Dec 2019	Change
Total futures market open interest ('000 lots)	**2,044**	2,170	(6%)

Analysis of Results

Summary

	2020 $m	2019 $m	Change
Trading fees and trading tariffs	**1,089**	1,036	5%
Market data fees	**196**	193	2%
Other revenue:			
Commodities stock levies and warehouse listing fees	**67**	63	6%
Financial OTC booking fees	**49**	45	9%
Others	**53**	62	(15%)
Total revenue and other income	**1,454**	1,399	4%
Operating expenses	**(692)**	(668)	4%
EBITDA	**762**	731	4%
EBITDA margin	**52%**	52%	–

Trading Fees and Trading Tariffs



Chargeable ADV of metal contracts traded on the LME decreased by 7 per cent as financial users took a "risk-off" approach in response to Covid-19 uncertainty. LME trading fees, however, increased by $51 million (5 per cent) due to the fee increment effective from 1 January 2020 and higher proportion of trades conducted on the electronic trading platform due to the temporary closure of the Ring, which generated higher fees.

1 Includes London Metal Mini Futures, Gold Futures, Silver Futures and Iron Ore Futures contracts
2 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower trading fee rate of US$0.04 per contract) and other non-chargeable trades

EBITDA

Operating expenses rose by $24 million (4 per cent), mainly attributable to higher IT maintenance expenses and higher professional fees incurred for operational resilience and strategic projects. As the percentage increase in revenue was the same as the percentage increase in operating expenses, EBITDA margin remained stable at 52 per cent.

Business Update

LME

The LME demonstrated its resiliency and adaptability throughout the year. Due to Covid-19 and reflecting guidance from the British Government, the LME suspended trading activity on the Ring, and temporarily shifted to electronic pricing, with effect from 23 March 2020. Since then, the LME's metals prices have been generated on the basis of activity on the LME's electronic trading platform, supported by implied pricing functionality.

Business development initiatives have progressed well, with several of the cash-settled futures contracts launched in 2019 seeing active trading volumes in 2020. The LME will introduce new cash-settled contracts in 1H 2021, including a lithium contract to serve the needs of the growing battery materials sector, additional aluminium products, and additional steel contracts to complement the existing suites, subject to regulatory approval.

In March 2020, the LME launched a new incentive programme to encourage liquidity providing trades, and published a roadmap to an enhanced options market following a market wide discussion paper.

The LME has continued to invest in its global physical ecosystem throughout 2020, continuing with the implementation of enhanced warehousing rules and disclosures, the development of a new electronic warranting process, ongoing progress with responsible sourcing, and plans for electronic certificates of analysis via a new LMEpassport platform. The LME's physical network has continued to provide an effective storage mechanism under Covid-19 and during the current economic slowdown.

In August 2020, the LME issued two discussion papers. The first paper covered the LME's sustainability plans and laid out its proposed way forward to make metals a cornerstone of a sustainable future. These proposals included a platform to support voluntary transparency on sustainability criteria (LMEpassport), a spot trading platform for the pricing and trading of sustainable metal, and new contracts for the electric vehicle and recycled economies. The second paper described the LME's planned launch of LMEpassport, a digital credentials register. Both of these papers received broad market support and will be progressed into 2021.

Numerous regulatory initiatives were undertaken in 2020 in response to regulatory changes, including implementing new pre-trade transparency arrangements for the inter-office market, implementation of the Senior Managers Regime for benchmark administrators, and for Brexit.

Due for delivery in 2022, the LME will upgrade its electronic trading platform (LMEselect) to refresh its trading infrastructure and add an enhanced onscreen options market.

In January 2021, the LME issued a discussion paper on future market structure which covered four main topics:

- The Ring and reference prices – proposing to make a permanent shift to its electronic venue for pricing (away from the Ring), which is expected to benefit the market by broadening direct participation during the price discovery periods and increasing overall transparency.
- Enhancing liquidity in the market – incentivising electronic trading on the member-to-member market to bring greater liquidity to the central electronic venue.
- Margin methodology – considering a move to "realised variation margin" methodology commonly used by other futures exchanges, which will increase trading efficiency, provide greater standardisation and remove some barriers to entry to the LME's market.
- Market conduct – exploring the introduction of additional disclosures and policies to strengthen market conduct.

HKFE Commodities Product Development

In Hong Kong, USD and CNH denominated Silver Futures were successfully launched on 8 June to broaden HKEX's precious metal product suite and further address investors' trading, hedging and risk management needs in precious metals. In 2020, a total of 68,682 contracts of Gold Futures and 1,282 contracts of Silver Futures were traded, with 1,351 kilograms of gold and 8,850 kilograms of silver physically delivered against the contracts.

In addition, USD London Metal Mini Futures and Iron Ore Futures volumes continued to grow, with a total of 186,947 contracts and 97,048 contracts traded in 2020 respectively, 537 per cent and 73 per cent higher than 2019.

In July 2020, an online HKEX Commodities Forum was hosted. The three-day forum attracted participation from more than 1,000 industry players globally to share insights on metals markets as well as opportunities and challenges during the Covid-19 period.

QME

In 2020, QME's trading turnover was eight times that of 2019, a result of further improvements in trading models and continuous growth in QME's client base. Breakthroughs were made in new product offerings, including the launch of a natural gas contract in August, and a cement contract in December, on top of the base metals product suite including alumina and copper cathode contracts. QME became the third natural gas trading platform in Mainland China and the first marketplace to introduce cement trading on-exchange. QME's warehouse ecosystem has started to serve clients' financing need, and QME this year gained industry-wide recognition as one of the KPMG's China Fintech 50 companies.

MD&A

Post Trade Segment

Key Market Indicators

	2020	2019	Change
ADT on the Stock Exchange ($bn)	**129.5** [2]	87.2	49%
Average daily number of Stock Exchange trades ('000)	**1,962** [2]	1,453	35%
Average value per trade ($)	**65,984**	59,988	10%
Average daily value of Settlement Instructions (SIs) settled by CCASS ($bn)	**346.1**	238.4	45%
Average daily number of SIs ('000)	**115**	95	21%
Average value per SI ($)	**3,011,015**	2,510,576	20%
Chargeable ADV[1] of metals contracts traded on the LME ('000 lots)	**571**	617	(7%)

1 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower clearing fee rate of US$0.02 per contract) and other non-chargeable trades.
2 New record highs in 2020

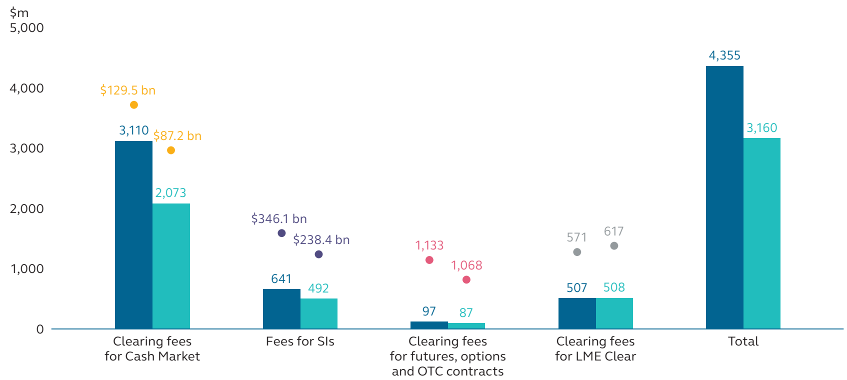
Analysis of Results

Summary

	2020 $m	2019 $m	Change
Clearing and settlement fees	**4,355**	3,160	38%
Depository, custody and nominee services fees	**1,264**	1,052	20%
Trading fees and trading tariffs – allocated from Equity and Financial Derivatives segment	**389**	380	2%
Other revenue and sundry income	**243**	138	76%
	6,251	4,730	32%
Net investment income	**1,386**	1,496	(7%)
Total revenue and other income	**7,637**	6,226	23%
Less: Transaction-related expenses	**(25)**	(10)	150%
Total revenue and other income less transaction-related expenses	**7,612**	6,216	22%
Operating expenses	**(860)**	(814)	6%
EBITDA	**6,752**	5,402	25%
EBITDA margin [1]	**89%**	87%	2%

1 EBITDA margin is calculated based on EBITDA divided by total revenue and other income less transaction-related expenses.

Clearing and Settlement Fees



1 Chargeable ADV excludes Admin Trades (which became chargeable from May 2019 at a lower clearing fee rate of US$0.02 per contract) and other non-chargeable trades.

Clearing and settlement fees for Cash Market and SIs increased by 50 per cent and 30 per cent respectively compared with 2019. The increases were primarily driven by a higher number of transactions, and record fees from Stock Connect Northbound Trading of $779 million (2019: $364 million).

Despite the 7 per cent decrease in chargeable ADV[1] of metals contracts traded on the LME, clearing fees for LME Clear were at the same level as 2019, due to the fee increment effective from 1 January 2020.

Depository, Custody and Nominee Services Fees

Depository, custody and nominee services fees do not directly vary with changes in market activity. They rose by $212 million or 20 per cent due to higher e-IPO service fees and Stock Connect portfolio fees, partly offset by lower scrip fees.

Trading Fees and Trading Tariffs

Trading fees and trading tariffs allocated from the Equity and Financial Derivatives segment for clearing derivatives products increased by 2 per cent, due to a 19 per cent increase in ADV of stock options traded, partly offset by a 3 per cent decrease in ADV of derivatives contracts traded on the Futures Exchange (see commentary in the Equity and Financial Derivatives segment).

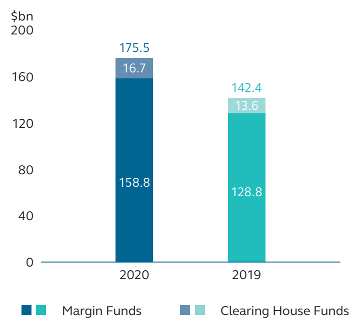
Other Revenue and Sundry Income

Other revenue increased by $105 million mainly due to an increase in accommodation income arising from HKCC CPs placing more Euro and Japanese Yen as collateral, and higher interest shortfall collected from LME Clear CPs on cash collateral, as USD investment return fell below the benchmark interest rate stipulated in the rules of LME Clear.

MD&A

Net Investment Income

Average fund size



The increase in the average size of Margin Funds during the year was attributable to higher average Margin Fund sizes of LME Clear, HKCC and SEOCH due to higher margin requirements per contract, reflecting heightened volatility.

The increase in the average size of Clearing House Funds during the year was attributable to higher average fund size of LME Clear due to changes in risk exposures.

The analysis of net investment income is as follows:

	2020			2019		
	Margin Funds $m	**Clearing House Funds $m**	**Total $m**	Margin Funds $m	Clearing House Funds $m	Total $m
Net investment income from:						
– Cash and bank deposits	**1,255**	**78**	**1,333**	1,296	109	1,405
– Debt securities	**56**	**–**	**56**	97	–	97
– Exchange losses	**(3)**	**–**	**(3)**	(6)	–	(6)
Total net investment income	**1,308**	**78**	**1,386**	1,387	109	1,496
Net investment return	**0.82%**	**0.47%**	**0.79%**	1.08%	0.80%	1.05%

Net investment income dropped by $110 million, mainly due to lower interest income from declining interest rates, partly offset by higher average fund sizes of Margin Funds and Clearing House Funds.

EBITDA

Operating expenses rose by $46 million (6 per cent), reflecting increases in staff costs due to annual payroll adjustments. EBITDA margin rose from 87 per cent in 2019 to 89 per cent in 2020, due to the 23 per cent increase in revenue and other income.

Business Update

Cash and Derivatives Clearing

Driven by the strong flows in both Northbound and Southbound Trading in 2020, there was a strong increase in the utilisation of Stock Connect clearing services:

(i) an 89 per cent increase in the average daily value of Northbound SIs in 2020 compared with 2019;

(ii) the number of Special Segregated Accounts increased by 22 per cent to 11,659 accounts as at 31 December 2020 compared with 9,564 as of 31 December 2019; and

(iii) both Northbound and Southbound portfolio values of Stock Connect reached record highs in December 2020, with Northbound portfolio value increased by 64 per cent to RMB2,339 billion as at 31 December 2020 (31 December 2019: RMB1,429 billion) and Southbound portfolio value increased by 84 per cent to $2,096 billion as at 31 December 2020 (31 December 2019: $1,138 billion).

On 20 April 2020, HKSCC further enhanced its third party clearing arrangement to allow a CCASS CP to continue to self-clear its Exchange Trades, while appointing a General Clearing Participant for clearing its China Connect Securities Trades.

HKEX launched the Master SPSA service on 10 July 2020 as an enhancement to the existing SPSA service to support Northbound Trading. This optional service allows pre-trade checking to be conducted at a fund manager, or aggregate level, helping to increase operational efficiencies whilst maintaining the same post trade settlement processes for consistency.

On 24 November 2020, HKEX announced the launch of Synapse, a settlement acceleration platform for Stock Connect targeting production, proposed for Q1 2022. HKEX Synapse will automate and streamline post trade workflow for Northbound Stock Connect using Digital Asset Modeling Language (DAML) smart contract technology. The improved connectivity and capacity to handle the growing volume of trades flowing through Stock Connect will enhance efficiency and transparency for market participants.

HKEX completed two initiatives in relation to Large Open Position (LOP) Reporting in September 2020. Leveraging the Secure File Transfer Protocol facility, the Large Open Position Report (LOPR) submission has been fully automated to further enhance client experience. In addition, HKEX rolled out a new surveillance system for LOP and Position Limit monitoring by leveraging new technology. The modernised surveillance system further strengthens HKEX's surveillance capacity and supports the growth of HKEX's derivatives products.

To facilitate the clearing of the newly introduced MSCI Singapore and Japan futures contracts, on 28 September 2020, HKCC appointed several settlement banks to support the money settlement of SGD and JPY domestically.

HKSCC enhanced its existing buy-in exemption clauses on 16 November 2020, including the expansion of the scope of contingency situations and removal of buy-in exemption clauses which are no longer applicable after various CCASS enhancements.

On 30 November 2020, HKSCC started using the HKD Real Time Gross Settlement (RTGS) account with the Hong Kong Monetary Authority for settling the HKD central counterparty related payment (ie, CNS related payment and risk management payment) with CPs. This arrangement improves CPs' liquidity for money settlement and aligns with international standards and practice (Principle 9 of PFMI) on managing credit and liquidity risk exposure.

FINI is one of the key initiatives under HKEX's Strategic Plan 2019-2021, as part of a broader range of market microstructure improvements and shortening of the IPO settlement cycle from T+5 to target, T+1. The initiative introduces a new web-based platform that enables IPO market participants, brokers, share registrars, advisers and regulators to interact digitally and seamlessly to complete the end-to-end IPO settlement process. HKEX has been working with different market stakeholders in platform design, market feedback collection and operational workflow reform over the past 18 months. More than 50 meetings with market stakeholders have been conducted and positive market support has been received. The first milestone was achieved on 16 November 2020 when the FINI concept paper was published for market feedback. The target delivery is estimated to be 2H 2022.

To enhance market transparency and capital efficiency across market participants and enable participants' risks to be managed in accordance with regulatory requirements, HKEX developed the Orion Risk Platform (previously known as NextGen Risk Management) for Cash Market - a new platform that adopts Value at Risk (VAR) methodology to calculate initial margin and default fund. The participants familiarisation program for the Orion Risk Platform started in January 2021.

HKCC and SEOCH enhanced their capital-based position limit (CBPL) policy effective 1 September 2020 to provide higher capital efficiency to the market. CPs meeting certain criteria and with appropriate business needs are allowed to increase their CBPL by one-third of their existing limits.

HKEX completed the 2020 Annual Attestation and Inspection Programme, with focus on three areas: (i) client margin requirements; (ii) risk management; and (iii) China Connect rules. The results and findings were announced to the market in February 2021.

OTC Clear

OTC Clear's Cross Currency Swaps (CCS) clearing volume remained strong during 2020, with notional amount cleared up by 8 per cent compared with 2019. However, the total notional amount cleared by OTC Clear in 2020 dropped 25 per cent, as the low interest rate environment led to a decline in Interest Rate Swaps (IRS) volume. In July 2020, the first IRS contract benchmarked to the HONIA was cleared through OTC Clear, supporting the market adoption of new risk-free reference rate in Hong Kong.

OTC Clear continues to strengthen its position in Asia and broaden its membership base with plans to on-board Japanese banks through the Sponsored Settlement Membership model. In addition, OTC Clear received its Recognised Clearing House (RCH) License from the Monetary Authority of Singapore (MAS) in November 2020, allowing it to offer clearing services to buy-side firms and inter-dealer brokers in Singapore.

Technology Segment

Analysis of Results

Summary

	2020 $m	2019 $m	Change
Network, terminal user, data line and software sub-license fees	610	575	6%
Hosting services fees	230	188	22%
BayConnect sales and service revenue and other income	70	33	112%
Total revenue and other income	910	796	14%
Operating expenses	(304)	(245)	24%
EBITDA	606	551	10%
EBITDA margin	67%	69%	(2%)

Network, Terminal User, Data Line and Software Sub-license Fees

Network fees rose by $35 million (6 per cent) due to increased throttle usage of the Orion Central Gateway and China Connect Central Gateway by EPs, partly offset by lower fees from sale of new throttles.

Hosting Services Fees

Hosting services fees increased due to organic growth from both new customer subscriptions and increased usage by existing customers, with nearly 40 racks newly subscribed in 2020. As at 31 December 2020, 105 EPs were using HKEX's Hosting Services and 292 racks were subscribed by EPs and other hosting services ecosystem participants. These EPs generated, in aggregate, approximately 51 per cent of the Cash Market turnover and 63 per cent of the trading volume of the Derivatives Market in 2020.

EBITDA

Operating expenses increased by $59 million (24 per cent) mainly due to inclusion of operating expenses of BayConnect, a 51 per cent subsidiary acquired in June 2019. EBITDA margin fell from 69 per cent in 2019 to 67 per cent in 2020; however overall EBITDA increased by 10 per cent year-on-year.

Business Update

Trading and Clearing Systems

During 2020, despite the market volatility and the challenges posed by Covid-19 on work arrangements, all of HKEX's major trading, clearing, settlement and market data dissemination systems for the Cash, Derivatives and Commodities Markets continued to perform robustly.

HKEX conducted a holistic review on the Hong Kong Futures Automated Trading System, following the half-day suspension of the Derivatives Market in 2019, and published a detailed report on 28 December 2020 on the incident. HKEX took into account recommendations from the SFC and an independent consultant, as well as feedback from EPs and other key stakeholders. This review has resulted in enhancement measures being put in place focusing in particular on incident prevention, detection and handling, mitigation of incident impact, and communication during incidents. These new measures will provide greater support to EPs, investors and other stakeholders in the event of future incidents, and will also help to enhance HKEX's decision-making process during market incidents. HKEX will continue to commit its resources to achieve its goal of operating a highly resilient, fair, informed and orderly market.

The project for hardware obsolescence replacement for various trading and clearing systems, together with the relocation of one of HKEX secondary data centre sites, which was kicked off in early 2020, has been progressing well. After project completion, estimated in Q3 2021, the existing secondary data centre will be relocated to a Tier 3 data centre with a higher level of resilience and lower operating costs.

Innovation Lab

The HKEX Innovation Lab was set up in 2018 to explore, incubate and apply new technologies to modernise HKEX's business and drive technological enhancements for our markets and our business. In 2020, the Innovation Lab successfully incubated FINI (refer to details in the Post Trade segment). It also continued to scale up HKEX's Robotic Process Automation programme, rolled out new data lake infrastructure and analytics tools for the business, and built an award-winning Artificial intelligence (AI) powered tool to facilitate the review of issuers' annual reports by the Listing Division. These initiatives continue to improve operational efficiency and reduce costs for our business.

Equity Investment

In 2020, HKEX acquired a minority stake in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao) for a total consideration of RMB100 million. TsingJiao specialises in the research and development of multi-party computation technologies, which allows collaborative data analysis without revealing private data during the computation and analysis process. HKEX believes that partnering with TsingJiao has the potential to be one of the building blocks for HKEX in developing its data strategy.

Corporate Items

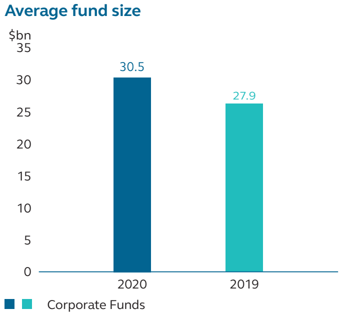
"Corporate Items" is not a business segment but comprises central income (including net investment income of the Corporate Funds and HKEX Foundation donation income), the costs of central support functions that provide services to all operating segments, HKEX Foundation charitable donations and other costs not directly related to any operating segments.

Summary

	2020 $m	2019 $m	Change
Net investment income	**842**	1,233	(32%)
HKEX Foundation donation income	**106**	–	N/A
Others	**9**	23	(61%)
Total revenue and other income	**957**	1,256	(24%)
Operating expenses:			
– HKEX Foundation charitable donations	**(112)**	–	N/A
– Others	**(1,269)**	(1,157)	10%
EBITDA	**(424)**	99	(528%)

Net Investment Income

Average fund size



Average fund size increased principally due to cash generated and retained by the business after payment of cash dividends and the increase in fair values of collective investment schemes.

The analysis of net investment income is as follows:

	2020 $m	2019 $m
Net investment income from:		
– Cash and bank deposits	**376**	437
– Collective investment schemes	**487**	789
– Debt securities	**8**	6
– Exchange (losses)/gains	**(29)**	1
Total net investment income	**842**	1,233
Net investment return	**2.76%**	4.42%

Net investment income of Corporate Funds decreased by $391 million compared with 2019 due to lower fair value gains on collective investment schemes and lower interest income from lower deposit rates.

The decrease in fair value gains on collective investment schemes was mainly due to lower fair value gains of the public equities asset class of $365 million (2020: $79 million; 2019: $444 million).

EBITDA

Excluding HKEX Foundation charitable donations of $112 million, operating expenses increased by 10 per cent against 2019, due to increased staff costs from annual payroll adjustments, higher recruitment costs and special gratuity payments, higher IT expenses for new IT systems, and higher professional fees incurred for strategic projects and other business initiatives.

Business Update

Equity Investment

Following an initial capital investment of $50 million for a minority equity interest in Fusion Bank Limited in 2019, HKEX made a further capital injection of $50 million in April 2020 to facilitate the business launch preparation.

On 21 December 2020, Fusion Bank announced its full public launch in Hong Kong, offering a variety of banking services including savings, time deposits, local fund transfers as well as foreign exchange in HKD, CNY and USD.

Corporate Social Responsibility

Throughout the year, HKEX has continued to innovate and play an active role in shaping the long-term sustainability of global financial markets, focusing on people, operations and communities. HKEX is committed to promoting good corporate governance and ESG stewardship through ongoing publication of training and guidance materials, industry knowledge sharing and leadership on best practices.

Promoting its commitment to Sustainable Finance, in 2020 HKEX launched a new green and sustainable finance platform, STAGE, as well as the LME's sustainability roadmap to further facilitate the low-carbon transition of financial markets, and society more widely.

Other new initiatives have been rolled out alongside the existing CSR and sustainability programmes including the launch of HKEX Foundation and its flagship Charity Partnership Programme, as well as the HKEX University Scholarship Programme. In response to Covid-19, HKEX supported the markets, its employees and the communities through a number of initiatives, such as relief measures for market participants, employees work from home and wellness support programmes and a $10 million Covid-19 Relief Fund in the communities.

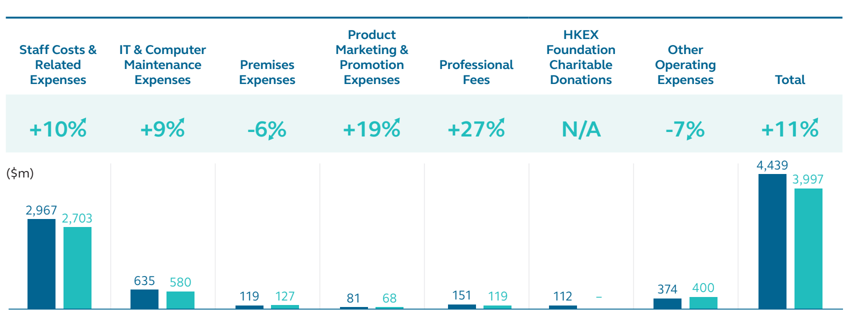
HKEX Foundation

HKEX Foundation (via HKEX Foundation Limited, a controlled structured entity of the Group) was established as HKEX's dedicated charitable channel, with the aim to drive and inspire change by supporting community projects that champion various social and environmental challenges, helping to address global issues at a local level. During 2020, HKEX Foundation funded a wide range of projects and charities, supporting those in need. Initiatives include a $20 million Charity Partnership Programme, which supported 10 community projects in the HKEX Foundation's four focus areas of financial literacy, diversity and inclusion, poverty relief and environmental sustainability.

From 2H 2020 onwards, the donation income from the Stock Code Balloting Charity Scheme were received by HKEX Foundation, and the amounts previously paid by the issuers directly to the Hong Kong Community Chest were paid by HKEX Foundation.

Expenses, Other Costs and Taxation

Operating Expenses



Staff costs and related expenses increased by $264 million (10 per cent) mainly due to annual payroll adjustments and increased headcount arising from the acquisition of BayConnect in June 2019.

IT and computer maintenance expenses consumed by the Group, excluding costs of services and goods directly consumed by participants of $84 million (2019: $93 million), were $551 million (2019: $487 million). The increase was mainly attributable to higher maintenance expenses for new IT systems and upgraded networks, as well as the inclusion of BayConnect.

Professional fees increased by $32 million (27 per cent) due to higher fees incurred for strategic projects and other business initiatives.

From July 2020 onwards, the donation income from the Stock Code Balloting Charity Scheme were received by HKEX Foundation, and the amounts previously paid by the issuers directly to the Hong Kong Community Chest were paid by HKEX Foundation. As a result, HKEX Foundation charitable donations of $112 million were recorded under operating expenses in 2020.

Depreciation and Amortisation

	2020 $m	2019 $m	Change
Depreciation and amortisation	1,197	1,044	15%

Depreciation and amortisation increased by $153 million (15 per cent), attributable to an increase in depreciation of right-of-use assets of $34 million from new and renewed office leases in 2020, and increase in depreciation and amortisation of new IT systems completed in 2H 2019 and 2020.

During 2020, the Group incurred capital expenditure of $1,388 million, an increase of 30 per cent from 2019.

Finance Costs

	2020 $m	2019 $m	Change
Finance costs	181	177	2%

Finance costs increased due to higher negative interest charges on deposits in Euro and Japanese Yen, collected from CPs as collateral.

Taxation

	2020 $m	2019 $m	Change
Taxation	1,845	1,561	18%

Taxation increased due to higher profit before taxation in 2020 and a one-off deferred tax charge of $61 million arising from the change of statutory UK tax rate from 17 per cent to 19 per cent, partly offset by higher non-taxable income.

Financial Review

Analysis of Results by Quarter

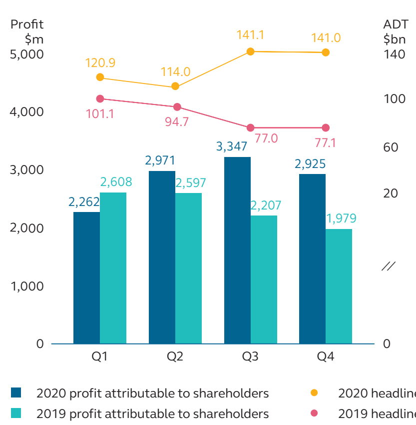
Quarterly Results

	Q1 2020 $m	Q2 2020 $m	Q3 2020 $m	Q4 2020 $m	Total 2020 $m
Revenue and other income	4,009	4,773	5,309	5,099	19,190
Less: Transaction-related expenses	(17)	(14)	(39)	(40)	(110)
Revenue and other income less transaction-related expenses	3,992	4,759	5,270	5,059	19,080
Operating expenses	(1,008)	(1,037)	(1,093)	(1,301)	(4,439)
EBITDA	2,984	3,722	4,177	3,758	14,641
Depreciation and amortisation	(274)	(271)	(282)	(370)	(1,197)
Operating profit	2,710	3,451	3,895	3,388	13,444
Finance costs	(49)	(47)	(43)	(42)	(181)
Share of profits less losses of joint ventures	19	20	15	15	69
Profit before taxation	2,680	3,424	3,867	3,361	13,332
Taxation	(422)	(448)	(528)	(447)	(1,845)
Profit for period/year	2,258	2,976	3,339	2,914	11,487
Loss/(profit) attributable to non-controlling interests	4	(5)	8	11	18
Profit attributable to shareholders	2,262	2,971	3,347	2,925	11,505

	Q1 2019 $m	Q2 2019 $m	Q3 2019 $m	Q4 2019 $m	Total 2019 $m
Profit attributable to shareholders	2,608	2,597	2,207	1,979	9,391

Note:
From Q4 2020 onwards, transaction-related expenses are presented under a separate line below Revenue and other income to more appropriately reflect the nature of such direct costs. The results from Q1 to Q3 2020 have been restated to conform with the revised presentation.

Analysis of Quarterly Results



Despite the challenging macroeconomic environment and uncertainty caused by Covid-19, 2020 headline ADT was higher than 2019 headline ADT for all four quarters, with Q3 being the highest quarter in 2020.

As profit generally follows the level of ADT, Q3 was the most profitable quarter during the year. Q1 was the least profitable quarter due to the $521 million of fair value losses of collective investment schemes. Profit in Q4 was lower than Q3 and Q2, due to fewer trading days, seasonal increase in scrip fees in Q2, and the seasonal increase in operating costs towards the end of the year.

Changes to Key Items in Consolidated Statement of Financial Position

(A) Significant Financial Assets and Financial Liabilities by Funds

	At 31 Dec 2020 $m	At 31 Dec 2019 $m	Change
Financial assets			
Cash and cash equivalents	157,996	128,152	23%
Financial assets measured at fair value through profit or loss	100,597	57,401	75%
Financial assets measured at fair value through other comprehensive income	7,942	4,569	74%
Financial assets measured at amortised cost	62,688	40,672	54%
Total	329,223	230,794	43%

The Group's financial assets comprised financial assets of Corporate Funds, Margin Funds, Clearing House Funds, base, ferrous, and precious metals derivatives contracts, and cash prepayments and collateral for A shares traded under Stock Connect, as follows:

	At 31 Dec 2020 $m	At 31 Dec 2019 $m	Change
Financial assets			
Corporate Funds[1]	33,747	29,138	16%
Margin Funds[2]	175,129	137,012	28%
Clearing House Funds	21,251	15,176	40%
Base, ferrous, and precious metals derivatives contracts cleared through LME Clear	92,884	48,008	93%
Cash prepayments and collateral for A shares	6,212	1,460	325%
Total	329,223	230,794	43%

1 Includes $1,241 million (31 December 2019: $818 million) solely used for supporting contributions to default funds and default fund credits for HKSCC Guarantee Fund, SEOCH Reserve Fund and HKCC Reserve Fund
2 Excludes Settlement Reserve Fund and Settlement Guarantee Fund paid to ChinaClear and margin receivable from CPs of $11,879 million (31 December 2019: $5,524 million), which are included in accounts receivable, prepayments and other deposits

	At 31 Dec 2020 $m	At 31 Dec 2019 $m	Change
Financial liabilities			
Base, ferrous, and precious metals derivatives contracts cleared through LME Clear	92,884	48,008	93%
Margin deposits, Mainland security and settlement deposits, and cash collateral from CPs	187,008	142,536	31%
CPs' contributions to Clearing House Funds	20,439	14,394	42%
Total	300,331	204,938	47%

MD&A

The increase in financial assets and financial liabilities of Margin Funds at 31 December 2020 compared with 31 December 2019 was mainly attributable to increased contributions required from members of LME Clear due to higher margin requirements from higher metal contract prices, increased contributions from HKSCC CPs due to higher market turnover and the increase in Mainland security and settlement deposits attributable to the increase in Stock Connect Northbound Trading, and higher contributions from HKCC and SEOCH CPs due to higher margin requirements and the increase in open positions.

The increase in financial assets and financial liabilities of Clearing House Funds at 31 December 2020 compared to 31 December 2019 was mainly attributable to higher contributions required from members of LME Clear and HKSCC CPs in response to changes in risk exposures.

Financial assets of Corporate Funds at 31 December 2020 increased by $4,609 million as compared to those at 31 December 2019 due to the retention of cash generated by the business over the past year partly offset by the cash paid for the 2019 second interim dividend and 2020 first interim dividend, and the increase in fair values of collective investment scheme investments.

A portion of the Corporate Funds is invested in collective investment schemes which are designed to enhance returns and mitigate portfolio volatility and asset class concentration risk. Further details of investments in collective investment schemes are included in note 53(a)(iv) to the Consolidated Financial Statements of this Annual Report.

(B) Fixed Assets, Intangible Assets, Right-of-use Assets and Capital Commitments

The total net book value of the Group's fixed assets and intangible assets rose by $427 million from $19,967 million at 31 December 2019 to $20,394 million at 31 December 2020. The increase was mainly due to additions of assets of $1,388 million, but was partly offset by depreciation and amortisation of $892 million, and exchange differences arising mainly from depreciation of USD of $68 million. Additions during the year were mainly related to the development and upgrade of various trading and clearing systems (notably the Next Generation Post Trade systems), and the relocation of secondary data centre.

In accordance with HKFRS 16, the Group's operating leases are recognised as right-of-use assets. At 31 December 2020, the carrying amounts of these assets amounted to $2,193 million (31 December 2019: $2,366 million) and were mainly related to leases of office premises.

The Group's capital expenditure[1] commitments at 31 December 2020, including those authorised by the Board but not yet contracted for, amounted to $890 million (31 December 2019: $1,217 million). These related mainly to the development and upgrade of IT systems including the cash, derivatives and commodities trading and clearing systems, and the set up of the new secondary data centre.

(C) Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

In 2020, HKEX acquired a minority stake in Huakong TsingJiao Information Science (Beijing) Limited (TsingJiao) for a total consideration of RMB100 million.

HKEX also made a further capital injection of $50 million in Fusion Bank Limited in April 2020, bringing the total investment in the bank to $100 million.

In November 2020, the Group entered into an agreement to acquire a minority stake in Guangzhou Futures Exchange Co. Ltd. (GFE), a newly established futures exchange in the Greater Bay Area, which will focus on serving the real economy and green development initiatives. At 31 December 2020, the total capital investment to be made by the Group was RMB210 million.

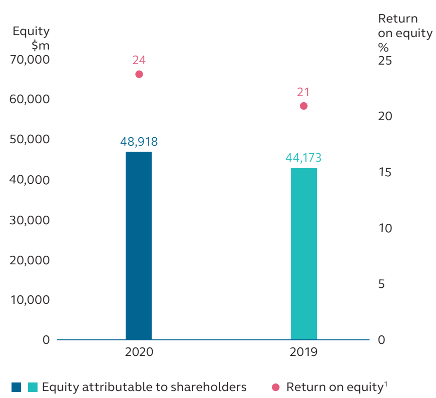
Save for those disclosed in this Annual Report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries during the year under review. Apart from those disclosed in this Annual Report, there were no material investments or additions of capital assets authorised by the Board at the date of this Annual Report.

1 Capital expenditure excludes right-of-use assets recognised under HKFRS 16: Leases.

(D) Equity attributable to Shareholders and Return on Equity

Equity attributable to shareholders increased by $4,745 million to $48,918 million at 31 December 2020 (31 December 2019: $44,173 million). This arose principally from the $1,428 million of shares issued in lieu of cash dividends and an increase in retained earnings (excluding transfers to designated reserves) of $3,051 million mainly attributable to profit for the year less dividends declared or paid.

Equity attributable to Shareholders and Return on Equity



1 Based on equity attributable to shareholders at year-end

Return on equity rose by 3 per cent due to record high profit attributable to shareholders in 2020.

Liquidity, Financial Resources and Gearing

Working capital rose by $5,101 million to $29,359 million at 31 December 2020 (31 December 2019: $24,258 million). The increase was mainly due to profit attributable to shareholders of $11,505 million and net decrease in non-current assets of $443 million, partly offset by the payment of 2019 second interim dividend and 2020 first interim dividend (net of scrip dividends) of $7,025 million.

At 31 December 2020, the Group had the following outstanding borrowings:

	At 31 Dec 2020		At 31 Dec 2019	
	Carrying value $m	Maturity	Carrying value $m	Maturity
Written put options to non-controlling interests	423	N/A	418	N/A

At 31 December 2020, the Group had a gross gearing ratio (ie, gross debt divided by adjusted capital) of 1 per cent (31 December 2019: 1 per cent), and a net gearing ratio (ie, net debt divided by adjusted capital) of zero per cent (31 December 2019: zero per cent). For this purpose, gross debt is defined as total borrowings (excluding lease liabilities) and net debt[2] is defined as gross debt less cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds), and adjusted capital as all components of equity attributable to shareholders of HKEX other than designated reserves.

At 31 December 2020, the Group's total available banking facilities for its daily operations amounted to $21,223 million (31 December 2019: $21,246 million), which included $14,722 million (31 December 2019: $14,745 million) of committed banking facilities and $6,500 million (31 December 2019: $6,500 million) of repurchase facilities.

The Group has also put in place foreign exchange facilities for its daily clearing operations and for the RMB Trading Support Facility to support the trading of RMB stocks listed on the Stock Exchange. At 31 December 2020, the total amount of the facilities was HK$30,244 million (31 December 2019: HK$24,052 million).

In addition, the Group has arranged contingency banking facilities amounting to RMB13,000 million (31 December 2019: RMB13,000 million) for settling payment obligations to ChinaClear should there be events that disrupt normal settlement arrangements for Stock Connect.

At 31 December 2020, 82 per cent (31 December 2019: 74 per cent) of the Group's cash and cash equivalents were denominated in HKD or USD.

Pledges of Assets

Details of pledges of assets are included in note 51 to the Consolidated Financial Statements of this Annual Report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 53(a)(i) – Foreign exchange risk to the Consolidated Financial Statements of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 49 to the Consolidated Financial Statements of this Annual Report.

2 Net debt is zero when the amount of cash and cash equivalents of Corporate Funds (excluding those reserved for supporting contributions to default funds and default fund credits for Clearing House Funds) is higher than gross debt.

10-Year Financial Statistics

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Key Market Statistics										
Headline ADT traded on the Stock Exchange ($bn)	**129.5**	87.2	107.4	88.2	66.9	105.6	69.5	62.6	53.9	69.7
ADV of derivatives contracts traded on the Futures Exchange ('000 contracts)	**607**	626	687	441	464	394	275	284	260	269
ADV of stock options contracts traded on the Stock Exchange ('000 contracts)	**526**	442	517	428	298	374	302	249	228	303
Chargeable ADV of metals contracts traded on LME* ('000 lots)	**571**	617	627	599	618	670	700	676	634	N/A

* HKEX completed the acquisition of the LME Group on 6 December 2012.

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Consolidated Income Statement										
($m)										
Revenue and other income	**19,190**	16,311	15,867	13,180	11,116	13,375	9,849	8,723	7,211	7,855
Less: transaction-related expenses	**(110)**	(51)	(54)	(40)	(39)	(36)	(27)	(27)	(24)	(27)
Revenue and other income less transaction-related expenses	**19,080**	16,260	15,813	13,140	11,077	13,339	9,822	8,696	7,187	7,828
Operating expenses	**(4,439)**	(3,997)	(4,056)	(3,526)	(3,416)	(3,254)	(2,931)	(2,750)	(1,933)	(1,706)
EBITDA	**14,641**	12,263	11,757	9,614	7,661	10,085	6,891	5,946	5,254	6,122
Depreciation and amortisation	**(1,197)**	(1,044)	(762)	(858)	(771)	(684)	(647)	(507)	(158)	(90)
Costs relating to acquisition of LME Group	**–**	–	–	–	–	–	–	–	(138)	–
Costs relating to proposed combination with LSEG	**–**	(123)	–	–	–	–	–	–	–	–
Finance costs	**(181)**	(177)	(114)	(134)	(82)	(114)	(196)	(183)	(55)	–
Fair value loss on derivative component of convertible bonds	**–**	–	–	–	–	–	–	–	(55)	–
Share of profits/(losses) of joint ventures	**69**	32	2	(12)	(9)	(9)	(10)	(10)	(3)	–
Profit before taxation	**13,332**	10,951	10,883	8,610	6,799	9,278	6,038	5,246	4,845	6,032
Taxation	**(1,845)**	(1,561)	(1,592)	(1,255)	(1,058)	(1,347)	(900)	(700)	(761)	(939)
Profit for the year	**11,487**	9,390	9,291	7,355	5,741	7,931	5,138	4,546	4,084	5,093
Loss attributable to non-controlling interests	**18**	1	21	49	28	25	27	6	–	–
Profit attributable to shareholders	**11,505**	9,391	9,312	7,404	5,769	7,956	5,165	4,552	4,084	5,093
Dividend per share ($)	**8.17**	6.71	6.71	5.40	4.25	5.95	3.98	3.54	3.31	4.25
Basic earnings per share ($)	**9.11**	7.49	7.50	6.03	4.76	6.70	4.44	3.95	3.75	4.71
Consolidated Statement of Financial Position										
($m)										
Non-current assets	**23,413**	23,856	20,165	19,586	19,508	19,622	19,672	20,797	20,260	1,580
Current assets	**375,693**	255,195	235,783	298,018	227,810	218,571	232,188	65,146	60,577	52,448
Current liabilities	**(346,334)**	(230,937)	(213,581)	(278,566)	(210,688)	(203,976)	(222,564)	(57,538)	(55,337)	(44,809)
Net current assets	**29,359**	24,258	22,202	19,452	17,122	14,595	9,624	7,608	5,240	7,639
Total assets less current liabilities	**52,772**	48,114	42,367	39,038	36,630	34,217	29,296	28,405	25,500	9,219
Non-current liabilities	**(3,536)**	(3,613)	(1,464)	(1,663)	(4,246)	(4,255)	(7,937)	(7,887)	(7,736)	(60)
Total equity	**49,236**	44,501	40,903	37,375	32,384	29,962	21,359	20,518	17,764	9,159
Non-controlling interests	**(318)**	(328)	(174)	(102)	(118)	(146)	(86)	(113)	–	–
Equity attributable to HKEX's shareholders	**48,918**	44,173	40,729	37,273	32,266	29,816	21,273	20,405	17,764	9,159
Equity per share [1] ($)	**38.64**	35.12	32.65	30.14	26.42	24.74	18.26	17.59	15.48	8.50
Financial Ratios										
Dividend payout ratio	**90%**	90%	90%	90%	90%	90%	90%	90%	90%	90%
Cost to income ratio [2]	**23%**	25%	26%	27%	31%	24%	30%	32%	27%	22%
Pre-tax profit margin [2]	**70%**	67%	69%	66%	61%	70%	62%	60%	67%	77%
Return on equity [3]	**24%**	21%	23%	20%	18%	27%	24%	22%	23%	56%
Current ratio	**1.1**	1.1	1.1	1.1	1.1	1.1	1.0	1.1	1.1	1.2

Notes:
1 Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December
2 For the purpose of computing cost (ie, operating expenses) to income ratio and pre-tax profit margin, income includes revenue and other income less transaction-related expenses and share of profits/losses of joint ventures.
3 Based on equity attributable to HKEX's shareholders at year end

中達集團控股有限公司
CENTRAL WEALTH GROUP HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 139)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "**SGM**") of Central Wealth Group Holdings Limited (the "**Company**") will be held at Unit 1801-2, 18/F, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong on Wednesday, 23 March 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the relevant transactions under a series of acquisitions of a total of 564,242,000 ordinary shares of China Shandong Hi-Speed Financial Group Limited (whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 412)) on the open market and through bought and sold notes at an aggregate consideration of approximately HK$208,889,000 (inclusive of transaction costs) by Central Wealth Infrastructure Investment Limited ("**CWII**") during November 2020 and the authorisation and empowerment of the directors (the "**Directors**") of the Company to determine, decide, execute and implement with full discretion all matters relating to such acquisitions and to do all such acts and things, including but not limited to execution of all documents which the Directors deem necessary, appropriate or desirable to implement and give full effect to such acquisitions and the transactions contemplated thereunder be and are hereby approved and/or ratified."

2. "**THAT** the relevant transactions under a series of acquisitions of a total of 1,329,200 ordinary shares of Hong Kong Exchanges and Clearing Limited (whose shares are listed on the Main Board of the Stock Exchange (stock code: 388)) on the open market at an aggregate consideration of approximately HK$556,278,956 (inclusive of transaction costs) by CWII during July 2020 to February 2021 and the authorisation and empowerment of the Directors to determine, decide, execute and implement with full discretion all matters relating to such acquisitions and to do all such acts and things, including but not limited to execution of all documents which the Directors deem necessary, appropriate or desirable to implement and give full effect to such acquisitions and the transactions contemplated thereunder be and are hereby approved and/or ratified."

3. "**THAT** the relevant transactions under a series of disposals of a total of the 3,459,775,829 then ordinary shares ("**CMBC Share(s)**") of CMBC Capital Holdings Limited (whose shares are listed on the Main Board of the Stock Exchange (stock code: 1141)) on the open market and through bought and sold notes at an aggregate consideration of approximately HK$426,634,154 (exclusive of transaction costs) by CWII and Desert Gold Limited during January 2020 to May 2021 and the authorisation and empowerment of the Directors to determine, decide, execute and implement with full discretion all matters relating to such disposals and to do all such acts and things, including but not limited to execution of all documents which the Directors deem necessary, appropriate or desirable to implement and give full effect to such disposals and the transactions contemplated thereunder be and are hereby approved and/or ratified."

4. "**THAT**

   (a) the possible disposal(s) (the "**Possible Disposal(s)**") by the Company and/or its subsidiaries (i) in the open market through the trading system of the Stock Exchange to independent third party(ies); and/or (ii) in the off-market through block trades by entering into placing agreement(s) with licensed corporation(s) which carry(ies) out Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as placing agent(s) who shall be independent third party(ies), of, in part or in whole, up to 8,460,250 consolidated CMBC Shares (the "**Approved Sale Shares**") to independent third party purchaser(s), during the period of 12 months from the date of passing of this resolution (the "**Mandate Period**") be and are hereby approved subject to the following conditions:

      (i) each Possible Disposal in the open market or in the off market shall be at market price of no more than 20% discount to the average closing price of the CMBC Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately before the date of each Possible Disposal during the Mandate Period; and

      (ii) the minimum selling price of the Possible Disposal(s) shall be no less than HK$2.33 per consolidated CMBC Share; and

(b) the Directors be and are hereby authorised and empowered to determine, decide, execute and implement with full discretion all matters relating to the Possible Disposals(s) from time to time during the Mandate Period, including but not limited to the number of batches of Possible Disposal(s), the number of the CMBC Shares to be sold in each Possible Disposal and the timing of each Possible Disposal and to do all such acts and things, including but not limited to, execution of all documents which the Directors deem necessary, appropriate or desirable to implement and give full effect to the Possible Disposal(s) and the transactions contemplated thereunder or in connection with the exercise of the Disposal Mandate.''

5. ''**THAT** the re-election of Mr. Wang Jun to serve as an executive Director with immediate effect be and is hereby approved, and the board of Directors be and is hereby authorised to fix his remuneration.''

6. ''**THAT** the re-election of Ms. Chen Jingxian to serve as an executive Director with immediate effect be and is hereby approved, and the board of Directors be and is hereby authorised to fix her remuneration.''

7. ''**THAT** the re-election of Ms. Song Caini to serve as an executive Director with immediate effect be and is hereby approved, and the board of Directors be and is hereby authorised to fix her remuneration.''

8. ''**THAT** the re-election of Mr. Chen Hongjin to serve as an executive Director with immediate effect be and is hereby approved, and the board of Directors be and is hereby authorised to fix his remuneration.''

By Order of the Board
Central Wealth Group Holdings Limited
Chen Xiaodong
Chairman

Hong Kong, 28 February 2022

Notes:

(a) Due to the recent development of the COVID-19 pandemic and in view of the latest Prevention and Control of Disease (Prohibition on Gathering) Regulation (Chapter 599G of the Laws of Hong Kong) and Prevention and Control of Disease (Requirements and Directions) (Business and Premises) Regulation (Chapter 599F of the Laws of Hong Kong), Shareholders are reminded to refer to section ''Special Arrangements For the SGM'' on page iii of the circular dated 28 February 2022 issued by the Company for details.

(b) In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM (i.e. not later than 10:00 a.m. on Monday, 21 March 2022) or any adjournment thereof (as the case may be). **The Company reminds the Shareholders who wish to exercise his/her/its voting rights that they must appoint the Chairman of the SGM as their proxy to vote on the relevant resolutions at the SGM.**

(c) For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Friday, 18 March 2022 to Wednesday, 23 March 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the SGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 17 March 2022.

(d) References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the board of Directors comprises the following Directors:

Executive Directors
Mr. Chen Xiaodong *(Chairman)*
Ms. Chen Jingxian *(Vice Chairman)*
Mr. Wang Jun *(Chief Executive Officer)*
Mr. Yu Qingrui
Ms. Song Caini
Mr. Chen Hongjin

Independent non-executive Directors
Mr. Kwok Chi Kwong
Mr. Wu Ming
Mr. Liu Hongwei