



Nanhua USA LLC

(d/b/a Nanhua USA Futures LLC)

Financial Statements and Independent Auditor's Report

December 31, 2020

Nanhua USA LLC
(d/b/a Nanhua USA Futures LLC)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Management of
Nanhua USA LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Nanhua USA LLC d/b/a Nanhua USA Futures LLC (the “Company”) as of December 31, 2020, and the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

FGMK, LLC

We have served as the Company’s auditor since 2016.

Chicago, Illinois
February 17, 2021

Nanhua USA LLC
(d/b/a Nanhua USA Futures LLC)
Statement of Financial Condition
As of December 31, 2020

ASSETS

Cash	\$ 3,754,248
Restricted cash	97,820
Cash segregated at bank	5,177,847
Cash and cash equivalents segregated with exchanges	86,057,194
Guaranty fund with exchanges	3,203,440
Intangible assets	1,373,600
Securities owned, at cost	828,444
Right of use asset	612,933
Property and equipment, net	52,241
Other receivables	9,232
Other assets	47,985
TOTAL ASSETS	\$ 101,214,984

LIABILITIES AND EQUITY

Liabilities	
Customer payable	\$ 9,192,711
Customer and non-customer related party payable	71,442,804
Accounts payable, accrued expenses and other liabilities	449,693
Lease liability	629,895
TOTAL LIABILITIES	81,715,103
Member's equity	19,499,881
TOTAL LIABILITIES AND EQUITY	\$ 101,214,984

The accompanying notes are an integral part of these financial statements.

Nanhua USA LLC
(d/b/a Nanhua USA Futures LLC)
Notes to Financial Statement
December 31, 2020

1. COMPANY BACKGROUND INFORMATION

Nanhua USA LLC (d/b/a Nanhua USA Futures LLC) (the “Company”) was organized on August 5, 2013 in the State of Delaware. Nanhua USA LLC is a single member limited liability company wholly-owned by Nanhua USA Holding LLC (the “Parent”). Nanhua USA Holding LLC is controlled and a majority-owned subsidiary of HGNH International Financial Company Limited. The Company’s principal business activity is clearing exchange traded futures and options contracts for affiliates. The Company is a member of the National Futures Association (“NFA”) and registered as a Futures Commission Merchant (“FCM”) with the Commodity Futures Trading Commission (“CFTC”). The Company is a clearing member of the Chicago Mercantile Exchange (“CME”), the Chicago Board of Trade (“CBOT”), the New York Mercantile Exchange (“NYMEX”), the Commodity Exchange (“COMEX”), the Intercontinental Exchange, Inc. (“ICE”) and the Dubai Mercantile Exchange (“DME”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(1) Basis of Presentation: The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and are presented in U.S. dollars and reflect all adjustments which are, in the opinion of management, necessary consistent reporting of the financial position, results of operations and cash flows for the periods presented.

(2) Use of Estimates: The preparation of the financial statements in conformity with U.S. GAAP, requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(3) Cash and Cash Equivalents: The Company considers marketable securities with original

maturities of ninety days or less to be cash equivalents. Cash equivalents include cash funds segregated or in separate accounts as required by the Commodity Exchange Act (“CEAct”).

(4) Restricted Cash: Restricted cash represents \$97,820 the Company has restricted to the extent that it serves as collateral for a letter of credit required by the Company’s office lease agreement.

(5) Revenue Recognition: Futures and options transactions and the related commission revenue and expenses are recognized on trade date. Dividend income and expenses are recognized on the ex-dividend date. Interest income and expenses are recognized on an accrual basis.

Significant Judgments

Revenue from contracts with customers includes commission income. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company’s progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

Commissions

Brokerage commissions. The Company buys and sells futures and options contracts on behalf of its customers. Each time a customer executes a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

(6) Translation of Foreign Currencies: Assets and liabilities denominated in foreign currencies are translated to U.S dollars at year-end exchange rates, while income and expense items are translated at average rates of exchange for the year. The Company does not isolate the portion of the results of operations resulting from changes in foreign exchange rates in investments from fluctuations in market prices of any securities held.

(7) Property and Equipment: Furniture and equipment are depreciated over the estimated useful lives of the assets using straight-line methods. Leasehold improvements are amortized over the term of the associated lease.

(8) Intangible assets: Intangible assets consist of memberships in exchanges of CME Group Inc. that represent the right to conduct business on the exchanges as well as clearing privileges. The exchange memberships are carried at cost and are evaluated periodically for impairment. These assets are level 2 assets on the fair value hierarchy as values are calculated based on quoted sales prices for similar assets in active markets.

(9) Securities Owned: Securities owned consist of shares in the Intercontinental Exchange, Inc. (“ICE”) and are required to be held for membership and clearing privileges. The shares are measured at cost and evaluated for impairment. For the year ended December 31, 2020, there was no impairment.

(10) Receivable from and Payable to Customers: Receivable from and payable to customers arise primarily from futures and options on futures transactions and include gains and losses on open trades. Securities, primarily U.S. Government obligations, owned by customers and held by the Company as collateral or as margin and the fair value of customers’ options positions are not reflected in the statement of financial condition.

(11) Due to/from brokers: Receivables from and payables to clearing organizations consist of cash accounts or amounts borrowed under short-term financing arrangements.

(12) Income Taxes: The Company is a single member LLC which has elected to be taxed as a corporation. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit, or portion thereof will not be realized. As of December 31, 2020, there are no material deferred tax assets or liabilities.

The Company recognizes and measures its unrecognized tax benefits or liabilities in accordance

with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, Income Taxes. Under this guidance the Company estimates the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances, and information available at the end of each period. The level of unrecognized tax benefits or liabilities is adjusted when there is more information available, or when an event occurs that requires a change. The Company applied this accounting policy to the tax positions for all open years. The Company did not have any unrecognized tax positions as of December 31, 2020.

Deferred income taxes are recorded to reflect the future tax consequences of difference between the carrying value of assets and liabilities for income tax and financial reporting purposes, and for the benefit of tax credit and loss carryforwards. The amounts of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be fully realized.

The Company’s federal and state tax rate is approximately 30%. The Company’s effective income tax rate generally varies from the statutory tax rate due to certain expenses which are nondeductible in the calculation of taxable income, statutory alternative minimum tax requirements, and differences in estimates from actual expenses used to calculate the tax provision within a specific year.

(13) Fair Value Measurements: Fair value accounting guidance defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements for both financial and non-financial assets. It also provides a fair value hierarchy gives the highest prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

Fair Value Hierarchy

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There were no material assets or liabilities measured at fair value on a recurring basis as of December 31, 2020.

Non-financial assets and liabilities measured at fair value on a nonrecurring basis.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances such as when there is a business acquisition or evidence of impairment. No material fair value adjustments or fair value measurements were required for non-financial assets or liabilities during the year ended December 31, 2020.

3. SEGREGATION REQUIREMENTS

Pursuant to requirements of the CEAct, funds deposited by customers relating to futures contracts in regulated commodities must be carried in separate bank accounts which are designated as segregated customers' accounts. Funds deposited by customers and other assets which have been segregated as of December 31, 2020, are shown as follows:

Reconciliation of Segregated Funds with Clearing Organizations on Segregated Statements and Statement of Financial Condition

As of December 31, 2020

Segregation Requirement	Segregated	30.7 Secured	Total
Cash segregated	\$ 63,658,537	\$ 66,609	\$ 63,725,146
Open Trade Equity - SEG	16,808,418	-	16,808,418
Exchange traded options	12,803,874	-	12,803,874
Amount required to be segregated	93,270,829	66,609	93,337,438
Funds in Segregated Accounts			
Cash segregated at bank	4,760,112	417,735	5,177,847
Cash equivalents segregated with exchange	2,999,842	-	2,999,842
Cash margins with exchanges / foreign FCM	81,945,641	13	81,945,654
Net settlement from (to) exchanges	1,111,711	-	1,111,711
Subtotal - cash margins and settlement	90,817,306	417,748	91,235,054
Exchange traded options	12,803,874	-	12,803,874
Amount in segregation	103,621,180	417,748	104,038,928
Excess funds in segregation	\$ 10,350,351	\$ 351,139	\$ 10,701,490

Reconciliation of Cash Segregated at Bank per Statement of Financial Condition and Segregated Statement

Segregated Statement	Segregated cash at bank	\$ 4,760,112
Secured 30.7 Statement	Secured cash at bank	417,735
Statement of Financial Condition	Cash segregated at bank	\$ 5,177,847

Reconciliation of Cash Segregated with Exchanges per Statement of Financial Condition and Segregated Statement

Segregated Statement	Margins on deposit with exchanges	\$ 81,945,641
Segregated Statement	Net settlement from (to) exchanges	1,111,711
Statement of Financial Condition	Cash equivalents with exchanges	2,999,842
Statement of Financial Condition	Cash segregated with exchanges	\$ 86,057,194

4. DEPOSITS WITH EXCHANGE CLEARING ORGANIZATIONS

The statement of financial condition as of December 31, 2020, includes deposits with exchange clearings organizations that represent cash, cash equivalent and guaranty fund deposits.

5. GUARANTEES AND INDEMNIFICATIONS

FASB ASC 460, Guarantees, requires the Company to disclose its obligations under certain guarantee arrangements. FASB ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The Company is a member of exchanges that trade and clear futures contracts. Associated with its memberships, the Company may be required to pay a proportionate share of the financial

obligations of another member who may default on its obligations to the exchange. Although the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the financial statements for these agreements and management believes that any potential requirement to make payments under these agreements is remote.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2020:

Electronic equipment	\$ 53,861
Furniture	81,477
Leasehold improvements	59,162
Subtotal	<u>194,500</u>
Accumulated depreciation and amortization	<u>(142,259)</u>
Property and equipment	<u><u>\$ 52,241</u></u>

7. NET CAPITAL REQUIREMENT

As a registered futures commission merchant, Nanhua USA LLC is subject to the net capital requirements under the NFA and CFTC Regulation 1.17 and is required to maintain adjusted net capital equivalent to the greater of \$1,000,000 or the sum of 8% of customer and 8% of non-customer risk maintenance margin requirement on all positions, as these terms are defined. As of December 31, 2020, the Company was required to maintain minimum net capital, as defined, of \$1,000,000. At December 31, 2020, the Company had adjusted net capital and excess net capital of \$17,080,847 and \$13,027,471 respectively. The minimum requirements may effectively restrict the payment of equity withdrawals.

8. FINANCIAL INSTRUMENTS

FASB ASC 815, Derivatives and Hedging requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit risk related contingent features in derivative agreements. The disclosure requirements of FASB ASC 815 distinguish between derivatives, which are accounted for as “hedges” and those that do not qualify for such accounting. The Company reflects derivatives at fair value and recognizes changes in fair value through the statement of operations, and such do not qualify for FASB ASC 815 hedge accounting treatment. The Company does not engage in the proprietary trading of derivatives.

The Company engages in futures clearing activities in which counterparties will primarily include clearing organizations, other futures commission merchants, and other brokers. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company’s policy to review, as necessary, the credit standing of each counterparty.

Concentration of Credit Risk: As of December 31, 2020, a significant credit concentration a company-owned bank account exceeded the Federal Deposit Insurance Corporation (“FDIC”) limit by \$3,461,591. The Company attempts to mitigate consisted of cash deposited in one bank. The balance in this risk by maintaining deposits with high quality financial institutions. In the event of the insolvency of the financial institution, the recovery of the Company’s funds may be limited to its pro-rata share of funds available. Management believes the Company does not have significant exposure to any credit risk on cash.

Customer Activities: The Company executes and clears customer transactions in the purchase and sale of commodity futures contracts (including options on futures contracts), substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions expose the Company to significant off-balance-sheet risk in the event the margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell futures contracts at prevailing market prices in order to fulfill the customer’s obligations. The Company controls this risk by monitoring margin collateral levels on a daily basis, on an account-by-account basis, for compliance with regulatory and internal guidelines and requires additional collateral when necessary. The Company requires a customer to deposit additional margin collateral, or reduce positions, if it is determined that customer’s activities may be subject to above normal

market risks. As of December 31, 2020, 89% of customer margin was from three omnibus accounts, which are affiliates of the Company.

9. RELATED PARTY TRANSACTIONS

The Company, Nanhua USA Investment LLC, and Chicago Institute of Investment, related parties, are respectively responsible for and bear one-third, one-third and one-third of the business costs of the office space, including rent, utilities, office equipment and supplies, office devices, internet and communication service, postage and printing, and other expenses the CEO approves in advance. As of December 31, 2020, an amount of \$0 was receivable from Chicago Institute of Investment and Nanhua USA Investment LLC respectively and an amount of \$71,442,804 was payable to customer and non-customer related parties.

10. COMMITMENTS

Office Rental: The Company conducts its operations in leased office facilities under noncancelable leases that expire at various dates through November 30, 2026. The leases are subject to escalation clauses based on the operating expenses of the lessors. For the year ending December 31, 2020, rent expense was \$120,314.

The Company recognizes and measures its leases in accordance with FASB ASC 842, Leases. The Company is a lessee in two non-cancelable operating leases, for office space. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right of use (“ROU”) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of the leases are not readily determinable and accordingly, the Company uses its incremental borrowing rate based on the information available at the commencement date for all leases. The Company’s incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of

the remeasured lease liability (i.e., present value of the remaining lease payments), any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term. The Company has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement. The Company recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

The Company has obligations as a lessee for office space with initial non-cancelable terms in excess of one year. The Company classifies these leases as operating leases. The Company's leases do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus, for one of the Company's leases, variable payments. The Company's office space leases require it to make variable payments for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

Amounts reported in the Statement of Financial Condition as of December 31, 2020 were as follows:

Right of use assets	\$ 612,933
Lease liabilities	\$ 629,895

Other information related to office leases as of December 31, 2020 was as follows:

Reductions to ROU assets resulting from reductions to lease obligations:

Office leases	\$ 100,653
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Weighted average remaining lease term:

Office leases	5.92 years
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Weighted average discount rate:

Operating leases	3.5%
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Amounts disclosed for ROU assets obtained in exchange for lease obligations and reductions to ROU assets resulting from reductions to lease obligations include amounts added to or reduced from the carrying amount of ROU assets resulting from new leases, lease modifications or reassessments.

Maturities of lease liabilities under non-cancelable operating leases as of December 31, 2020 are as follows:

2021	111,833
2022	113,822
2023	116,668
2024	119,585
2025	122,574
Thereafter	115,083
Subtotal	699,565
Less imputed interest	69,670
Total lease liabilities	<u>\$ 629,895</u>

The Company has a certificate of deposit for securing a letter of credit in the amount of \$97,820, which has been delivered in connection with an office lease. The letter of credit expires March 31, 2027. The letter of credit is collateralized by the restricted cash.

11. SUBSEQUENT EVENTS

The Company's management evaluated events and transactions from December 31, 2020 through the date of this report and did not note any material events requiring disclosure in the Company's financial statements.