兴证国际
INDUSTRIAL SECURITIES INTERNATIONAL

# China Industrial Securities International Financial Group Limited
# 興證國際金融集團有限公司

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

**(Stock Code: 6058)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the "Board") of China Industrial Securities International Financial Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 together with the comparative figures as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2019*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2019**<br>***HK$***<br>**Unaudited** | 2018<br>*HK$*<br>Unaudited<br>*(Note)* |
| Commission and fee income from customers | *3* | **183,357,227** | 253,462,068 |
| Interest revenue | *3* | **143,013,021** | 197,382,074 |
| Net investment income and gains or losses | *3* | **325,535,288** | 109,462,675 |
| Revenue | *3* | **651,905,536** | 560,306,817 |
| Other income | *3* | **44,783,227** | 21,229,321 |
| Finance costs | | **(238,706,593)** | (185,230,055) |
| Commission and fee expenses | | **(36,462,791)** | (61,362,108) |
| Staff costs | *5* | **(90,336,866)** | (61,916,671) |
| Other operating expenses | | **(85,277,056)** | (74,709,398) |
| (Impairment losses)/reversal of impairment losses on financial assets | *5* | **(58,000,000)** | 2,811,255 |
| Other gains or losses | *5* | **(39,349,352)** | (97,854,413) |
| Profit before taxation | *5* | **148,556,105** | 103,274,748 |
| Taxation | *6* | **(17,073,793)** | (46,601,509) |
| Total comprehensive income for the period attributable to owners of the Company | | **131,482,312** | 56,673,239 |
| Earnings per share | | | |
| Basic *(expressed in HK$)* | *8* | **0.0329** | 0.0142 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2019*

| | *Note* | **As at 30 June 2019 *HK$* Unaudited** | As at 31 December 2018 *HK$* Audited *(Note)* |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | | **48,688,168** | 26,668,610 |
| Intangible assets | | **8,002,802** | 2,822,898 |
| Interest in a joint venture | | **39,534,262** | 39,534,262 |
| Financial assets at fair value through profit or loss | | **47,044,598** | 46,987,812 |
| Statutory deposits | | **12,523,851** | 11,132,259 |
| Deferred tax assets | | **3,025,843** | 3,896,066 |
| Deposits, other receivables and prepayments | | **13,538,432** | 13,546,949 |
| | | **172,357,956** | 144,588,856 |
| Current assets | | | |
| Accounts receivable | *10* | **7,338,358,997** | 6,907,207,392 |
| Loans receivable | *9* | **25,226,411** | 71,444,048 |
| Reverse repurchase agreements | | **734,600,038** | 334,317,392 |
| Financial assets at fair value through profit or loss | | **8,154,299,373** | 8,734,109,327 |
| Statutory deposits | | **19,977,373** | 11,859,727 |
| Deposits, other receivables and prepayments | | **259,793,074** | 394,214,270 |
| Tax receivable | | **43,178** | 43,178 |
| Bank balances — trust accounts | | **2,823,820,649** | 5,228,829,297 |
| Bank balances — general accounts and cash | | **7,683,583,033** | 1,517,226,830 |
| | | **27,039,702,126** | 23,199,251,461 |
| Current liabilities | | | |
| Accounts payable | *11* | **4,876,421,489** | 5,991,194,627 |
| Accruals and other payables | | **185,061,775** | 181,422,911 |
| Amount due to a related party | | **1,860,236** | 3,174,615 |
| Contract liabilities | | **110,400** | 126,000 |
| Other liabilities | | **551,391,365** | 399,729,979 |
| Tax payable | | **111,305,223** | 86,791,183 |
| Financial liabilities at fair value through profit or loss | | **449,819,373** | 288,701,100 |
| Repurchase agreements | | **2,298,774,778** | 1,542,080,825 |
| Bank borrowings | | **9,086,519,406** | 5,586,797,616 |
| Other borrowings | | **1,786,868,070** | 1,485,297,574 |
| Notes | | **62,715,921** | 62,850,751 |
| Lease liabilities | | **27,793,066** | – |
| | | **19,438,641,102** | 15,628,167,181 |
| Net current assets | | **7,601,061,024** | 7,571,084,280 |

| | Note | As at 30 June 2019 HK$ Unaudited | As at 31 December 2018 HK$ Audited (Note) |
|---|---|---|---|
| Non-current liabilities | | | |
| Accruals and other payables | | **–** | 785,704 |
| Bank borrowings | | **3,337,932,651** | 3,322,863,676 |
| Lease liabilities | | **1,662,229** | – |
| Deferred tax liabilities | | **840,425** | 950,184 |
| | | **3,340,435,305** | 3,324,599,564 |
| Net assets | | **4,432,983,675** | 4,391,073,572 |
| Capital and reserves | | | |
| Share capital | | **400,000,000** | 400,000,000 |
| Share premium | | **3,379,895,424** | 3,379,895,424 |
| Retained earnings | | **199,068,586** | 157,158,483 |
| Other reserve | | **11,577,844** | 11,577,844 |
| Capital reserve | | **442,441,821** | 442,441,821 |
| Equity attributable to owners of the Company | | **4,432,983,675** | 4,391,073,572 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

# NOTES TO INTERIM FINANCIAL INFORMATION

*For the six months ended 30 June 2019*

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 21 July 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange. The address of the Company's registered office is PO Box 1350, Clifton House, 75, Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of the Company's principal place of business in Hong Kong is 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in the provision of brokerage services, loans and financing services, corporate finance services, asset management services and financial products and investments. Its immediate holding company is Industrial Securities (Hong Kong) Financial Holdings Limited ("Industrial Securities (Hong Kong)"). Industrial Securities Company Limited ("Industrial Securities"), a company incorporated in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 2 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**HKFRS 16, *Leases***

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

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

***(a) Changes in the accounting policies***

*(i) New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

*(ii) Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property and equipment.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically office equipment. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

— right-of-use assets that meet the definition of investment property are carried at fair value;

— right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

— right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

***(b) Transitional impact***

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was approximately 3.72%. To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

| | *HK$* |
|---|---|
| Operating lease commitments at 31 December 2018 (audited) | **47,067,005** |
| Less: short term leases with remaining lease term ending on or before 31 December 2019 | **(569,382)** |
| Less: total future interest expenses | **(1,286,616)** |
| Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 | **45,211,007** |
| Analysed as | |
| Current | **32,294,847** |
| Non-current | **12,916,160** |
| | **45,211,007** |

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| | **Carrying amount at 31 December 2018** *HK$* **Audited** | Derecognition of accured rent under HKAS 17 *HK$* Unaudited | Capitalisation of operating lease contracts *HK$* Unaudited | Carrying amount at 1 January 2019 *HK$* Unaudited |
|---|---|---|---|---|
| **Line items in the condensed consolidated statement of financial position impacted by the adoption of HKFRS 16:** | | | | |
| Property and equipment | **26,668,610** | – | 44,042,009 | 70,710,619 |
| **Total non-current assets** | **144,588,856** | – | 44,042,009 | 188,630,865 |
| Accruals and other payable | **(181,422,911)** | 2,811,085 | – | (178,611,826) |
| Lease liabilities | **–** | – | (32,294,847) | (32,294,847) |
| **Total current liabilities** | **(15,628,167,181)** | 2,811,085 | (32,294,847) | (15,657,650,943) |
| **Net current assets** | **7,571,084,280** | 2,811,085 | (32,294,847) | 7,541,600,518 |
| Accruals and other payable (non-current) | **(785,704)** | 785,704 | – | – |
| Lease liabilities (non-current) | **–** | – | (12,916,160) | (12,916,160) |
| **Total non-current liabilities** | **(3,324,599,564)** | 785,704 | (12,916,160) | (3,336,730,020) |
| **Net assets** | **4,391,073,572** | 3,596,789 | (1,168,998) | 4,393,501,363 |

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

| | **As at 30 June 2019** *HK$* **Unaudited** | As at 1 January 2019 *HK$* Unaudited |
|---|---|---|
| Included in "property and equipment" | | |
| Other properties leased for own use, carried at depreciated cost | **28,442,605** | 44,042,009 |

*(c)* ***Lease liabilities***

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

| | **As at 30 June 2019** | | As at 1 January 2019 | |
|---|---|---|---|---|
| | **Present value of the minimum lease payments** *HK$* **Unaudited** | **Total minimum lease payments** *HK$* **Unaudited** | Present value of the minimum lease payments *HK$* Unaudited | Total minimum lease payments *HK$* Unaudited |
| Within 1 year | **27,793,066** | **28,291,179** | 32,294,847 | 32,948,724 |
| After 1 year but within 2 years | **1,662,229** | **1,732,082** | 12,916,160 | 13,548,899 |
| | **29,455,295** | **30,023,261** | 45,211,007 | 46,497,623 |
| **Less: total future interest expenses** | | **(567,966)** | | (1,286,616) |
| Present value of lease liabilities | | **29,455,295** | | 45,211,007 |

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's consolidated financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these condensed interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

| | **For the six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2019** | | | | 2018 |
| | **Amounts reported under HKFRS 16** *HK$* **Unaudited** | **HKFRS 16 depreciation and interest expense** *HK$* **Unaudited** | **Deduct: estimated amounts related to operating lease as if under HKAS 17** *HK$* **Unaudited** | **Hypothetical Amounts for 2019 as if under HKAS 17** *HK$* **Unaudited** | Compared to amounts reported for 2018 under HKAS 17 *HK$* Unaudited |
| **Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:** | | | | | |
| Finance costs | **(238,716,593)** | **718,650** | **–** | **(237,987,943)** | (185,230,055) |
| Other operating expenses | **(85,277,056)** | **15,599,405** | **(15,068,820)** | **(84,746,471)** | (74,709,398) |
| Profit before taxation | **148,556,105** | **16,318,055** | **(15,068,820)** | **149,805,340** | 103,274,748 |
| Profit for the period | **131,482,312** | **16,318,055** | **(15,068,820)** | **132,731,547** | 56,673,239 |

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | 2019 | | | 2018 |
| | Amounts reported under HKFRS 16 | Deduct: estimated amounts related to operating lease as if under HKAS 17 | Hypothetical Amounts for 2019 as if under HKAS 17 | Compared to amounts reported for 2018 under HKAS 17 |
| | *HK$* | *HK$* | *HK$* | *HK$* |
| | Unaudited | Unaudited | Unaudited | Unaudited |
| **Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:** | | | | |
| **Net cash generated from/(used in) operating activities** | **2,558,524,131** | **(16,474,362)** | **2,542,049,769** | (3,860,549,647) |
| **Net cash used in investing activities** | **(5,696,920)** | **–** | **(5,696,920)** | (7,271,780) |
| **Net cash generated from financing activities** | **3,613,528,992** | **16,474,362** | **3,630,003,354** | 4,533,301,919 |

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The unaudited condensed consolidated financial statements is presented in Hong Kong dollars. Hong Kong dollar is the Company's functional and the Group's presentation currency.

The measurement basis used in the preparation of the unaudited condensed consolidated financial statements is the historical cost basis.

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

## 3. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

**Revenue**

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$*** | *HK$* |
| | **Unaudited** | Unaudited |
| **Commission and fee income from customers** | | |
| Brokerage: | | |
| Commission and fee income from securities brokerage | **76,498,325** | 100,269,738 |
| Commission and fee income from futures and options brokerage | **11,128,155** | 11,824,181 |
| Insurance brokerage commission income | **3,199,466** | 1,206,619 |
| | **90,825,946** | 113,300,538 |
| Corporate finance: | | |
| Commission on placing, underwriting and sub-underwriting | | |
| — Debt securities | **35,123,891** | 70,319,235 |
| — Equity securities | **37,083,639** | 34,826,070 |
| Financial advisory fee income | **635,933** | 888,774 |
| Sponsor fee income | **5,800,000** | 3,270,000 |
| Arrangement fee | **4,864,907** | 20,024,193 |
| | **83,508,370** | 129,328,272 |
| Asset management: | | |
| Asset management fee income | **6,891,130** | 8,915,848 |
| Investment advisory fee income | **2,131,781** | 1,917,410 |
| | **9,022,911** | 10,833,258 |
| | **183,357,227** | 253,462,068 |
| **Interest revenue** | | |
| Loans and financing: | | |
| Interest income from margin financing | **141,440,181** | 194,481,337 |
| Interest income from money lending activities | **1,320,197** | 2,900,737 |
| | **142,760,378** | 197,382,074 |
| Financial products and investments: | | |
| Interest income from reverse repurchase agreements | **252,643** | – |
| | **143,013,021** | 197,382,074 |

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$*** | *HK$* |
| | **Unaudited** | Unaudited |
| **Net investment income and gains or losses** | | |
| Financial products and investments: | | |
| Interest income from financial assets at fair value through profit or loss | **220,303,905** | 213,912,688 |
| Dividend income from financial assets at fair value through profit or loss | **2,541,717** | 7,106,711 |
| Net realised gain/(loss) on financial assets at fair value through profit or loss | **30,975,754** | (24,567,668) |
| Net unrealised gain/(loss) on financial assets at fair value through profit or loss | **165,374,352** | (311,622,259) |
| Interest income from derivatives | **5,287,652** | 22,223,027 |
| Net realised (loss)/gain on derivatives | **(75,101,279)** | 7,258,279 |
| Net unrealised gain on derivatives | **24,686,364** | 147,980,430 |
| Net realised loss on financial liabilities at fair value through profit or loss | **(5,796,048)** | – |
| Net unrealised (loss)/gain on financial liabilities at fair value through profit or loss | **(42,737,129)** | 47,171,467 |
| | **325,535,288** | 109,462,675 |
| | **651,905,536** | 560,306,817 |

**Other income**

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$*** | *HK$* |
| | **Unaudited** | Unaudited |
| Interest income from financial institutions | **39,888,616** | 20,438,838 |
| Sundry income | **4,894,611** | 790,483 |
| | **44,783,227** | 21,229,321 |

## 4. SEGMENT REPORTING

Information reported to the Board of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group's operations are located in Hong Kong.

The Group's reportable and operating segments under HKFRS 8 are as follows:

Brokerage — provision of securities, futures and options, insurance brokerage and other services;

Loans and financing — provision of margin financing and secured or unsecured loans to customers;

Corporate finance (previously named as investment banking) — provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

Asset management — provision of fund management, discretionary account management and investment advisory services; and

Financial products and investments — proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

The accounting policies of the operating segments are the same as the Group's accounting policies. Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

**For the six months ended 30 June 2019 (unaudited)**

| | Brokerage | Loans and financing | Corporate finance | Asset management | Financial products and investments | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* | *HK$* |
| **Segment revenue and result** | | | | | | | |
| Revenue from external customers | 90,825,946 | 142,760,378 | 83,508,370 | 9,022,911 | – | – | 326,117,605 |
| Net gains on financial products and investments | – | – | – | – | 325,787,931 | – | 325,787,931 |
| Inter-segment revenue | 1,636,105 | – | – | 11,568,524 | – | (13,204,629) | – |
| Segment revenue and net gains on financial products and investments | 92,462,051 | 142,760,378 | 83,508,370 | 20,591,435 | 325,787,931 | (13,204,629) | 651,905,536 |
| Revenue presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 651,905,536 |
| Segment results | 46,816,731 | 1,832,596 | 52,606,774 | 9,569,145 | 51,610,021 | – | 162,435,267 |
| Unallocated expenses | | | | | | | (13,879,162) |
| Profit before taxation presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 148,556,105 |

**For the six months ended 30 June 2018 (unaudited)** *(Note)*

| | Brokerage HK$ | Loans and financing HK$ | Corporate finance HK$ | Asset management HK$ | Financial products and investments HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|---|
| **Segment revenue and result** | | | | | | | |
| Revenue from external customers | 113,300,538 | 197,382,074 | 129,328,272 | 10,833,258 | – | – | 450,844,142 |
| Net gains on financial products and investments | – | – | – | – | 109,462,675 | – | 109,462,675 |
| Inter-segment revenue | 2,424,480 | – | – | 9,048,700 | – | (11,473,180) | – |
| Segment revenue and net gains on financial products and investments | 115,725,018 | 197,382,074 | 129,328,272 | 19,881,958 | 109,462,675 | (11,473,180) | 560,306,817 |
| Revenue presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 560,306,817 |
| Segment results | 59,614,000 | 123,260,299 | 105,217,770 | 12,705,562 | (186,788,946) | – | 114,008,685 |
| Unallocated expenses | | | | | | | (10,733,937) |
| Profit before taxation presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 103,274,748 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

## 5. PROFIT BEFORE TAXATION

| | **For the six months ended 30 June 2019 HK$ Unaudited** | 2018 HK$ Unaudited *(Note)* |
|---|---|---|
| Profit before taxation has been arrived at after charging/(crediting): | | |
| Staff costs (including directors' remuneration) | **90,336,866** | 61,916,671 |
| Salaries and bonuses | **88,053,957** | 59,915,787 |
| Contribution to the Mandatory Provident Fund Scheme | **1,642,770** | 1,323,569 |
| Other staff costs | **640,139** | 677,315 |
| Legal and professional fee | **8,854,323** | 3,107,451 |
| Minimum operating lease payments | **145,453** | 11,547,792 |
| Amortisation of intangible assets | **504,855** | 222,345 |
| Depreciation | | |
| Owned property and equipment | **6,738,171** | 4,495,902 |
| Right-of-use assets | **15,599,405** | – |
| Maintenance fee | **9,535,392** | 7,532,308 |
| Impairment losses/(reversal of impairment losses) on financial assets | | |
| Secured margin loans | **58,000,000** | (2,811,255) |
| Other gains or losses | **39,349,352** | 97,854,413 |
| Exchange loss | **10,096,901** | 120,988,715 |
| Other loss/(gain) | **29,252,451** | (23,164,523) |
| Loss on disposal of property and equipment | **–** | 30,221 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

## 6. TAXATION

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$*** | *HK$* |
| | **Unaudited** | Unaudited |
| Hong Kong Profits Tax: | | |
| Current period | **16,313,329** | 45,994,252 |
| Deferred tax: | | |
| Current period | **760,464** | 607,257 |
| | **17,073,793** | 46,601,509 |

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019, except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For the Company, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

## 7. DIVIDENDS

A final dividend of HK$0.023 and HK$0.03 per share in respect of the year ended 31 December 2018 and 2017 respectively were declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$92,000,000 (2018: HK$120,000,000).

The Board did not declare the payment of interim dividend for the six months ended 30 June 2019 and 2018.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$*** | *HK$* |
| | **Unaudited** | Unaudited |
| Earnings *(HK$)* | | |
| Earnings for the purpose of basic earnings per share: | | |
| Profit for the period attributable to owners of the Company | **131,482,312** | 56,673,239 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **4,000,000,000** | 4,000,000,000 |

For each of the six months ended 30 June 2019 (unaudited) and 30 June 2018 (unaudited), there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

## 9. LOANS RECEIVABLE

| | As at 30 June 2019 *HK$* Unaudited | As at 31 December 2018 *HK$* Audited |
|---|---|---|
| Fixed-rate loans receivable | **25,396,411** | 71,614,048 |
| Less: impairment allowance | **(170,000)** | (170,000) |
| | **25,226,411** | 71,444,048 |

The credit quality of loans receivable are summarised as follows:

| | As at 30 June 2019 *HK$* Unaudited | As at 31 December 2018 *HK$* Audited |
|---|---|---|
| Neither past due nor credit-impaired | **25,396,411** | 71,614,048 |

The exposure of the Group's fixed-rate loans receivable to interest rate risks and their contractual maturity dates are as follows:

**Fixed-Rate Loans Receivable Denominated in HKD**

| | **Effective interest rate** | As at 30 June 2019 *HK$* Unaudited | As at 31 December 2018 *HK$* Audited |
|---|---|---|---|
| Within one year | (30 June 2019: 6.13% to 8.38% per annum 31 December 2018: 3.00% to 8.38% per annum) | **25,396,411** | 71,614,048 |

As at 30 June 2019, HK$22,396,411 (31 December 2018: HK$66,974,995) of the loans receivable are secured by listed securities from the borrowers and cash balance in their cash clients' accounts.

## 10. ACCOUNTS RECEIVABLE

| | **As at 30 June 2019** *HK$* **Unaudited** | As at 31 December 2018 *HK$* Audited |
|---|---|---|
| Accounts receivable arising from the business of dealing in securities: | | |
| Secured margin loans | **5,934,094,397** | 6,226,035,162 |
| Less: impairment allowance | **(381,921,857)** | (323,921,857) |
| | **5,552,172,540** | 5,902,113,305 |
| Clearing house | **456,123,505** | 366,488,173 |
| Cash clients | **392,102,307** | 85,689,554 |
| Brokers | **424,987,248** | 10,361,343 |
| Clients for subscription of new shares in IPO | **7,475** | 97,743 |
| Less: impairment allowance | **(560,000)** | (560,000) |
| | **1,272,660,535** | 462,076,813 |
| | **6,824,833,075** | 6,364,190,118 |
| Accounts receivable arising from the business of dealing in futures and options contracts: | | |
| Clearing house | **39,378,645** | 53,940,464 |
| Brokers | **159,653,834** | 169,970,214 |
| Less: impairment allowance | **(88,000)** | (88,000) |
| | **198,944,479** | 223,822,678 |
| Accounts receivable arising from the business of corporate finance | **46,923,006** | 20,526,889 |
| Accounts receivable arising from the business of asset management | **7,981,769** | 12,637,892 |
| Less: impairment allowance | **(512,867)** | (512,867) |
| | **7,468,902** | 12,125,025 |
| Accounts receivable arising from the business of financial products and investments: | | |
| Brokers | **260,189,535** | 286,542,682 |
| | **7,338,358,997** | 6,907,207,392 |

**Secured margin loans**

For secured margin loans at 30 June 2019 and 31 December 2018, the loans are repayable on demand subsequent to settlement date.

**Accounts receivable (except for secured margin loans)**

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts receivable with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business corporate finance and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided.

Normal settlement terms of accounts receivable arising from brokers arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date.

In view of the nature of business of dealing in securities, futures and options contracts and financial products and investments, no aging analysis on those accounts receivable is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

The following is an aging analysis of gross accounts receivable arising from the business of corporate finance and asset management based on date of invoice/revenue recognition date at the reporting date:

***Corporate finance clients***

| | **As at 30 June 2019** *HK$* **Unaudited** | As at 31 December 2018 *HK$* Audited |
|---|---|---|
| Less than 31 days | **35,063,049** | 6,855,259 |
| 31–60 days | **–** | 4,775,135 |
| 61–90 days | **281,322** | 1,004,012 |
| 91–180 days | **3,829,105** | 5,723,815 |
| Over 180 days | **7,749,530** | 2,168,668 |
| | **46,923,006** | 20,526,889 |

*Asset management clients*

| | As at 30 June 2019 HK$ Unaudited | As at 31 December 2018 HK$ Audited |
|---|---|---|
| Less than 31 days | **1,367,389** | 1,489,528 |
| 31–60 days | **1,369,148** | 1,852,007 |
| 61–90 days | **1,098,657** | 1,683,734 |
| 91–180 days | **1,464,843** | 3,567,853 |
| Over 180 days | **2,681,732** | 4,044,770 |
| | **7,981,769** | 12,637,892 |

During the six months ended 30 June 2019 and the year ended 31 December 2018, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously.

## 11. ACCOUNTS PAYABLE

| | As at 30 June 2019 HK$ Unaudited | As at 31 December 2018 HK$ Audited |
|---|---|---|
| Accounts payable arising from the business of dealing in securities: | | |
| Clearing house | **8,410,922** | 26,949,086 |
| Brokers | **1,325,929** | 9,925,735 |
| Clients | **3,726,995,346** | 5,582,040,242 |
| | **3,736,732,197** | 5,618,915,063 |
| Accounts payable arising from the business of dealing in futures and options contracts: | | |
| Clients | **432,894,890** | 350,780,379 |
| Accounts payable arising from the business of financial products and investments: | | |
| Brokers | **706,794,402** | 21,499,185 |
| | **4,876,421,489** | 5,991,194,627 |

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of financial products and investments, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

For secured margin loans from a broker, the loans are repayable on demand (except certain balances arising from trades pending settlement or margin deposits) and are interest-bearing at the prevailing market interest rate. Only the amounts in excess of the required margin deposits are repayable on demand.

The Group has accounts payable arising from the business of dealing in securities of HK$46,318,922 due to the immediate holding company as at 30 June 2019 (31 December 2018: HK$53,006,312).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results and Overview

The Group recorded operating revenue of HK$651.91 million (2018: HK$560.31 million) for the six months ended 30 June 2019, representing a year-on-year increase of 16.35%, and profit after taxation of HK$131.48 million (2018: HK$56.67 million), representing a year-on-year increase of 132.00%.

During the six months ended 30 June 2019, challenged by factors such as the decrease in overall turnover of the Hong Kong stock market, the Group's operating income from brokerage services, corporate finance services, asset management services, loans and financing services decreased by 19.84%, 35.43%, 16.71% and 27.67% year-on-year respectively. Thanks to the recovery of the secondary market for offshore US dollars-denominated bonds issued by Chinese enterprises, the Group's operating income from financial products and investments increased by 197.62% year-on-year.

### Analysis on Principal Businesses

#### (1) Policy Review

According to the Statement on Security Token Offerings, issued by The Securities and Futures Commission of Hong Kong on 28 March 2019, in Hong Kong, Security Tokens are likely to be "securities" under the Securities and Futures Ordinance and so subject to the securities laws of Hong Kong.

On 4 April 2019, The Securities and Futures Commission of Hong Kong issued consultation conclusions on the proposed Guidelines for Securities Margin Financing Activities. According to the guidelines, the maximum total margin loans-to-capital multiple that brokers can adopt will be set at five times to avoid excessive leverage. Brokers are also advised to control the concentration risks posed by the holding of individual or related securities as collateral and by significant exposure to margin customers. In addition, brokers should set prudent triggers for margin call and strictly enforce the margin call policies. The guidelines were gazetted on 4 April 2019 and will come into effect on 4 October 2019.

## (2) Macro Environment

During the first half of 2019, the weakening international trade and investment, shrinking growth of manufacturing sector and the return of fluctuation across financial markets have dampened the momentum for global economic recovery. The slowdown of the major economies was beyond expectation and the OECD's Composite Leading Indicators has been slacking for several consecutive months. The World Bank's Global Economic Prospects issued in June predicts that global economic growth will decrease to a lower than expected 2.6% in 2019 before inching up to 2.7% in 2020.

The overall economy of China has remained stable and maintained a reasonable momentum while the economic structure has been continuously enhanced and transformed. According to preliminary estimates, China's GDP for the first half of 2019 was RMB45,093.3 billion, 6.3% higher than the same period of last year at comparable price. The growth rate dropped by 0.5 percentage points as compared to same period of the previous year and by 0.3 percentage points over the previous year as a whole.

In accordance with the preliminary statistics, the overall gross domestic products of Hong Kong for the first quarter of 2019 increased by 0.6% in real terms over the same period of the previous year, compared with an increase of 1.2% in the fourth quarter of 2018. In view of the slowdown in global economic growth and increasingly unfavorable external environment, the Hong Kong Government expects that the GDP of Hong Kong would increase by 2–3% in real terms in 2019.

## (3) Markets

In the first half of 2019, the Shanghai Composite Index and the Shenzhen Composite Index experienced an increase of 19.4% and 23.2% respectively as compared to the beginning of the year. On the other hand, the US Dow Jones Index, the S&P 500 Index and the Nasdaq Index rose by 14.0%, 17.3%, and 20.7% respectively from the beginning of the year.

In the first half of 2019, Hong Kong Hang Seng Index closed at 28,543, representing an increase of 10.4% as compared to the beginning of the year. In respect of the trading volume of the Hong Kong stock market, the average daily turnover by value in the first half of 2019 was HK$97.9 billion, representing a decline of 22.7% compared with HK$126.6 billion for the same period in 2018, which is attributable to the unfavorable market sentiment brought by Sino-US trade friction.

In the first half of 2019, an amount of HK$69.5 billion was raised through the initial public offering in the Hong Kong stock market, representing an increase of 34.7% over HK$51.6 billion for the same period of the year of 2018. During the first half of 2019, an aggregate of HK$145.2 billion was raised through initial public offering, the secondary market placement and so on, representing a decrease of 24.6% over HK$192.7 billion for the corresponding period in 2018. There were 84 companies newly listed on the Stock Exchange in the first half of 2019, representing a drop of 22.2% over 108 companies in the same period in 2018, taking into account of the number of listed companies transferred to the Main Board from GEM.

## (4) Business Review

The Group's operating revenue derives from (i) brokerage; (ii) corporate finance; (iii) asset management; (iv) loans and financing; and (v) financial products and investments.

*Brokerage*

Impaired by factors such as the decline in overall trading volume of the Hong Kong stock market, the commission and fee income from the Group's brokerage services decreased by 19.84% year-on-year to HK$90.83 million (2018: HK$113.30 million) for the six months ended 30 June 2019.

In future, the Group will endeavor to advance the transformation of brokerage business into a wealth management model, and to enhance various customer services such as trading services and asset allocation services to meet the demand from customers, while continuing to optimize the development of online securities systems and boost up the number of online customers through online marketing programs, which also serves an additional online customer service that optimizes the overall customer services.

For the six months ended 30 June 2019, the Group's income from institutional business exceeded HK$40 million, representing a year-on-year increase of approximately 80% and contributing more than 20% of the Group's total operating revenue growth. In the future, the Group will expand its institutional business by offering more institutions a variety of the Group's products and services and targeting the mutual funds, private funds, listed companies and corporate customers with overseas investment and financing needs. In addition, the Group would strengthen the access to institutional clients and accelerate the matching and consummation of projects with our excellent research services, products and projects.

*Corporate Finance*

Revenue from the corporate finance business of the Group for the six months ended 30 June 2019 decreased by 35.43% year-on-year to HK$83.51 million (2018: HK$129.33 million).

For the six months ended 30 June 2019, the Group's commission income from placing, underwriting and sub-underwriting of equity securities amounted to HK$37.08 million (2018: HK$34.83 million), representing a slight increase of approximately 6.48% on year-on-year basis. For the six months ended 30 June 2019, the Group submitted 1 application for the initial public offering in the capacity of sponsor, newly signed 1 project for acting as compliance/financial/independent financial advisor, and completed 9 underwriting projects of initial public offering as well as 8 placing projects, raising HK$1.349 billion for clients.

The Group's business of issuance and underwriting of debt securities was adversely affected by the falling market rates of issue cost. The Group's commission income from placing, underwriting and sub-underwriting of debt securities amounted to HK$35.12 million (2018: HK$70.32 million) for the six months ended 30 June 2019. In accordance with information provided by Bloomberg, for the six months ended 30 June 2019, the Group completed 26 issuance and underwriting projects of public offering or private placement of bonds (including preferred stock) and raised approximately US$1.42 billion for clients. In addition, the Group's fixed-income structured products issuance business generated arrangement fee income amounting to HK$4.86 million.

In the future, the Group will further gather up a team full of outstanding business professionals so as to enhance its professional capabilities of soliciting, undertaking and underwriting in respect of equity security financing projects. In respect of the issuance and underwriting of debt securities, the Group will be actively in engaged in more projects and upgrade its overall services by having more interaction with the sales teams.

*Asset management*

For the six months ended 30 June 2019, the Group's income from asset management business recorded HK$9.02 million (2018: HK$10.83 million), representing a year-on-year decrease of 16.71%.

The Group's first public offering fund under the "core-asset" concept has been reviewed and approved by The Securities and Futures Commission of Hong Kong during the first half of 2019. As such, the Group will take proactive action to promote the issuance and sales of public offering funds, while expanding and perfecting sales channels, and simultaneously consolidating and diversifying the product line of the asset management business.

*Loans and financing*

Affected by the sluggish sentiment in the Hong Kong stock market, the Group's scale of margin financing business declined slightly. Revenue from the loans and financing business recorded HK$142.76 million (2018: HK$197.38 million) for the six months ended 30 June 2019, representing a year-on-year decrease of 27.67%.

In line with the regulatory trend, the Group will further strengthen its control over risk management on margin financing and contain the scale of margin financing business, while adjusting and optimizing its relevant portfolio structure.

*Financial products and investments*

For the six months ended 30 June 2019, the Group's income from financial products and investments recorded HK$325.79 million (2018: HK$109.46 million), representing a substantial increase of 197.62%.

The financial products and investments business of the Group mainly includes investments in US dollar-denominated bonds and other fixed-income products, together with a few equity investment-based funds, as well as securities and financial derivatives mainly for hedging purposes.

The Group's financial products and investment income significantly increased in the first half of 2019 thanks to the continuing sluggish trend in the US Treasury Yields. Due to the generally high valuation of the US dollar-denominated bonds in the secondary market currently, coupled with the increased expectation on the US Federal Reserve to cut interest rates and the uncertainties over the Sino-US trade negotiations, the Group would adopt a relatively cautious investment strategies and strictly control credit risk while keeping a close eye on the risk of market retreat.

**Financial position**

As at 30 June 2019, the total assets of the Group increased by 16.57% to HK$27,212.06 million (31 December 2018: HK$23,343.84 million). As at 30 June 2019, the total liabilities of the Group increased by 20.19% to HK$22,779.08 million (31 December 2018: HK$18,952.77 million).

**Liquidity, Financial Resources and Capital Structures**

As at 30 June 2019, the net current assets of the Group increased by 0.40% to HK$7,601.06 million (31 December 2018: HK$7,571.08 million). As at 30 June 2019, the current ratio of the Group (defined as current assets to current liabilities as at the end of the respective financial year/period) was 1.4 times (31 December 2018: 1.5 times)

For the six months ended 30 June 2019, the net cash inflows of the Group were HK$6,166.36 million (2018: HK$665.48 million). As at 30 June 2019, the bank balances of the Group were HK$7,683.58 million (31 December 2018: HK$1,517.23 million).

As at 30 June 2019, the Group's bank and other borrowings in aggregate increased by 36.71% to HK$14,211.32 million (31 December 2018: HK$10,394.96 million). As at 30 June 2019, the notes outstanding of the Group amounted to HK$62.72 million. As at 30 June 2019, the gearing ratio of the Group (defined as bank and other borrowings and notes outstanding divided by total equity) increased by 35.20% to 3.220 (31 December 2018: 2.382).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company increased by 0.95% to HK$4,432.98 million as at 30 June 2019 (31 December 2018: HK$4,391.07 million).

**Prospects and Future Plan**

In the second half of the year, the Group will keep striving to achieve organic growth and breakthroughs in businesses such as brokerage, corporate finance, asset management business, so as to increase the proportion of revenue from fee-based businesses. The Group would also continue to prudently develop capital-based businesses and strike a balance between risks and gains. As China's emerging industries further demonstrate their viability and potential, economic development continues to optimize and transform, internationalization of its capital market keeps forging ahead and construction of the Guangdong-Hong Kong-Macao Greater Bay Area keeps progressing, the Group will seize growth opportunities in a timely manner and strive to maximize its shareholder's returns.

## MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions or disposals of subsidiaries and associated companies by the Group during the six months ended 30 June 2019.

## CHARGES ON GROUP ASSETS

For the six months ended 30 June 2019, the Group's asset pledged was mainly debt securities pledged as collaterals for other borrowings or margin loans from a broker.

## EMPLOYEE INFORMATION

As at 30 June 2019, the Group had 212 full-time employees (30 June 2018: 178 full-time employees), including the Directors. Total remuneration for the six months ended 30 June 2019 was HK$90.34 million (2018: HK$61.92 million).

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities for the six months ended 30 June 2019 and as of the date of this announcement.

## EVENT AFTER THE REPORTING PERIOD

Up to the date of this announcement, the Directors were not aware of any significant event relevant to the business or financial performance of the Group after the reporting period.

## RISK MANAGEMENT

The Group has in place the risk management structure and implemented the compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures for control of exposure to credit, liquidity, market and operational risks during the course of business activities.

### Credit risks

The Group has established the risk management committee responsible for reviewing and monitoring the implementation of risk management policies for principal business units, identifying risks, approving trading limit and credit limit, and updating the risk management policies in response to changes;

We have implemented "know-your-client" procedures and credit check to ascertain the background of potential clients. We also perform credit assessment on potential clients especially for our loans and financing business, and require futures brokerage clients and loans and financing clients to provide margin deposit or acceptable collateral (as the case may be) to minimise exposure;

The Group closely monitors the margin ratio and loan-to-value ratio of the loans and financing clients and takes appropriate action to recover or minimise loss where it foresees that the client may default in his or her obligation; and the senior management and head of business units of the Group regularly review the balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, in particular during adverse market movements. We have also established credit policy with respect to the trading limit, credit line and credit period granted to brokerage and loans and financing clients, and we review and revise such policy on an ongoing basis; we conduct regular review in respect of outstanding margin loans to assess exposure to credit risks.

**Liquidity risks**

The Group has formulated liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain our liquidity and financial resources requirements as specified under applicable laws and regulations, such as Financial Resources Rules;

The Group has established a multi-tiers authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. We set authorisation limits for any commitment or fund outflow, such as procurement, investments, loans, etc., and assess the impact of those transactions on the capital level;

The Group meets its funding requirements primarily through bank borrowings from multiple banks. We have also adopted stringent liquidity management measures to ensure we satisfy capital requirements under the applicable laws; and

For margin loans and money lending loans, we have established limits and controls on aggregate and individual loan basis.

**Compliance and Legal Risks**

The Group has implemented "know your clients" procedures in different business segments. For instance, the executive teams of the corporate finance business perform due diligence on each transaction, which includes reviewing due diligence materials, paying site visits, attending meetings, and having interviews with issuers or listing applicants and their respective directors, senior management and employees;

The Group's compliance department will closely monitor the operations of the Group's licensed business and ensure that the operations comply with relevant regulatory requirements and are arranged for renewal of licenses before expiration. The compliance department is required to notify regulatory bodies in accordance with the Code of Conduct and/or other applicable laws, rules, regulations and guidelines. The compliance department from time to time arranges continuous professional training on topics, such as combating money laundering, for the employees of the Group and ensures that the Group's business activities comply with various regulations including those about anti-money laundering; and

The Group's compliance department and professional talents closely work with external legal consultants in order to ensure that the Group could avert and handle legal risks such as those arising from complaints lodged by clients against the Group's regulated activities in a timely manner.

**Market risks**

The Group has established policy and procedures to monitor and control the price risk in the ordinary and usual course of business;

Our staff with professional qualification and industry experience in the business units discusses and evaluates the underlying market risks prior to engaging in any such new transaction or launching of any such new business;

The Group reviews market risk limits for certain business lines such as the asset management and financial products and investments business to manage risk and periodically review and adjust our market strategies in response to changes in business performance, risk tolerance levels and market conditions;

In terms of the financial products and investments business, the Group has different selection criteria for bonds and other fixed income products, limits the investment in industries and enterprises with excess capacity and negative news, and tracks and monitors the trends of macro economy and investment concentration ratio to optimise our investment strategies; we diversify the fixed income investment portfolios, limit the size of investment in relation to any single product, client or type of investment and continually track the changes in the operation, credit rating and solvency of the issuers; and

The Group also assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and profitability of different types of bonds and controls the investment horizon of debt securities investment. The Group monitors investments on a timely basis, including trading positions, unrealised profit or loss, risk exposure and trading activities and establishes mechanism for stopping profit or loss on overall or individual bonds at pre-determined points.

**Foreign currency risks**

The Group's exposure to foreign currency risks is primarily related to transactions denominated in a currency other than Hong Kong dollars. The Group's financial products and investments business primarily comprises investments in bonds and other fixed income products denominated in US dollars. The Group conducts trading of securities through "Shanghai — Hong Kong Stock Connect" and "Shenzhen — Hong Kong Stock Connect" on behalf of its clients. The Group has been closely monitoring the exchange rate and takes hedging measures as appropriate in due course to avoid significant foreign exchange risks arising from non-Hong Kong dollar (e.g. US dollars and Renminbi) denominated monetary items.

### Interest rate risks

The interest rate risks of the Group mainly arise from fixed-rate loans receivable and fixed-rate debt securities. For debt securities included in financial assets, the fair value measurement is subject to market interest rate. The Group has adopted the US Treasury Bond futures and other instruments to hedge against interest rate risks.

The Group may also expose to cash flow interest rate risks primarily arising from bank balances, secured margin loans and bank borrowings which carry interest at prevailing market interest rates.

The management of the Group closely monitors exposure related to interest rate risks and ensures it is maintained at an acceptable level. The Group's exposure to cash flow interest rate risks is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's financial instruments denominated in Hong Kong dollars and US dollars.

### Operational risks

The Group has responsible officers in charge of overseeing the day-to-day operations, controlling and monitoring compliance issues and solving dealing problems; and also formulates and updates the operational manual for each business function based on regulatory and industrial requirements to standardise our operational procedures and reduce human errors.

The Group sets authorisation hierarchy and procedures for its daily operations, and has surveillance systems to monitor the trading activities of our business units and staff on a real-time basis.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

## COMPETING INTERESTS

Save for the continuing connected transactions as disclosed in the section headed "Relationship with the controlling shareholders" and "Connected transactions" in the prospectus of the Company dated 30 September 2016, none of the Directors or the controlling shareholders of the Company nor their respective close associates as defined in the Listing Rules had any interest in business that competes or might compete with business of the Group during the six months ended 30 June 2019.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2019.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2019.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established with written terms of reference in compliance with the Listing Rules and code provisions under the CG Code. The Audit Committee currently comprises a non-executive Director and two independent non-executive Directors, namely Mr. Huang Yilin, Ms. Hong Ying and Mr. Tian Li. The chairlady of the Audit Committee is Ms. Hong Ying.

The Group's unaudited condensed consolidated results for the six months ended 30 June 2019 have been reviewed by the Audit Committee, which was of the opinion that such results have complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

By Order of the Board
**China Industrial Securities International Financial Group Limited**
**Yang Huahui**
*Chairman*

Hong Kong, 2 August 2019

*As at the date of this announcement, the Board comprises two non-executive Directors, namely Mr. Yang Huahui (Chairman) and Mr. Huang Yilin, four executive Directors, namely Mr. Huang Jinguang, Mr. Wang Xiang, Ms. Zeng Yanxia and Ms. Zhang Chunjuan, and three independent non-executive Directors, namely Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo.*