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中國通海國際金融有限公司

CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 952)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the “Board” or “Directors”) of China Tonghai International Financial Limited (the “Company”) presents the unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2021, together with the comparative figures, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
	<i>Notes</i>		
Fee and commission income	4	120,611	119,835
Interest income	4		
— Calculated using the effective interest method		213,720	201,396
— Calculated using other method		97,214	128,711
Net investment gain/(loss)	4	71,413	<u>(177,669)</u>
Total revenue	4	502,958	272,273

		Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Other income/(loss)	5	1,544	4,410
Direct cost		(72,352)	(86,019)
Staff cost	6	(98,601)	(123,737)
Depreciation and amortisation	6	(23,537)	(23,094)
Expected Credit Loss (“E.C.L.”) provisions		(234,444)	(121,255)
Finance cost			
— Interest on borrowings		(31,811)	(59,337)
— Interest on lease liabilities		(1,525)	(2,151)
Other operating expenses	7	(25,717)	(25,630)
Share of results of an associate		(170)	(32)
Share of results of joint ventures		(428)	498
		<hr/>	<hr/>
Profit/(loss) before tax	6	15,917	(164,074)
Tax (expense)/credit	8	(2,016)	2,455
		<hr/>	<hr/>
Profit/(loss) attributable to equity holders of the Company		13,901	(161,619)
		<hr/> <hr/>	<hr/> <hr/>
		HK cent(s)	HK cent(s)
Earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company			
— Basic and diluted	9	0.226	(2.630)
Dividend per share	10	Nil	Nil

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Profit/(loss) attributable to equity holders of the Company	<u>13,901</u>	<u>(161,619)</u>
Other comprehensive income, including reclassification adjustments		
Item that may be reclassified subsequently to profit or loss		
— Exchange gain/(loss) on translation of financial statements of foreign operations	<u>546</u>	<u>(649)</u>
Other comprehensive income, including reclassification adjustments and net of tax	<u>546</u>	<u>(649)</u>
Total comprehensive income attributable to equity holders of the Company	<u><u>14,447</u></u>	<u><u>(162,268)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2021			As at 31 December 2020			
	Current	Non-current	Total	Current	Non-current	Total	
	Notes HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)	
ASSETS							
Cash and cash equivalents		328,184	—	328,184	214,461	—	214,461
Bank balances held on behalf of clients		1,320,904	—	1,320,904	1,448,532	—	1,448,532
Financial assets held for trading and market making activities		1,091,668	105,671	1,197,339	1,956,168	113,039	2,069,207
Financial assets not held for trading and market making activities		700,692	8,050	708,742	117,494	8,050	125,544
Derivative financial instruments		37,151	—	37,151	94,899	—	94,899
Loans to margin clients	11	1,565,083	—	1,565,083	1,371,861	—	1,371,861
Advances to customers for merger and acquisition activities	12	194,408	—	194,408	189,448	—	189,448
Other loans	13	3,246,680	83,828	3,330,508	3,190,070	148,830	3,338,900
Reverse repurchase agreements	14	4,027	—	4,027	163,849	—	163,849
Accounts receivable	15	552,794	—	552,794	545,225	—	545,225
Prepayments, deposits and other receivables		73,231	—	73,231	118,614	—	118,614
Interest in an associate		—	1,734	1,734	—	1,904	1,904
Interests in joint ventures		—	39,224	39,224	—	39,118	39,118
Goodwill and other intangible assets		—	20,292	20,292	—	17,782	17,782
Other assets		—	21,959	21,959	—	24,068	24,068
Investment property		—	—	—	—	9,600	9,600
Property and equipment		—	89,661	89,661	—	99,120	99,120
Deferred tax assets		—	86,146	86,146	—	64,790	64,790
TOTAL ASSETS		9,114,822	456,565	9,571,387	9,410,621	526,301	9,936,922
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable	16	1,721,310	—	1,721,310	1,954,531	—	1,954,531
Obligations under repurchase agreements		—	—	—	1,965	—	1,965
Bank and other borrowings		1,782,521	—	1,782,521	1,872,838	—	1,872,838
Contract liabilities		10,726	—	10,726	5,864	—	5,864
Lease liabilities		34,365	29,056	63,421	35,196	44,814	80,010
Accruals and other payables		88,525	—	88,525	110,094	—	110,094
Tax payables		30,205	—	30,205	20,403	—	20,403
TOTAL LIABILITIES		3,667,652	29,056	3,696,708	4,000,891	44,814	4,045,705
Equity							
Share capital				20,657			20,657
Reserves				5,854,022			5,870,560
TOTAL EQUITY				5,874,679			5,891,217
TOTAL LIABILITIES AND EQUITY				9,571,387			9,936,922
<i>Net current assets</i>				5,447,170			5,409,730

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation that have been used in the preparation of the Interim Financial Statements are consistent with those applied in the preparation of the Group’s annual financial statements for the year ended 31 December 2020, except for the adoption of new and amended Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations.

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group. The adoption of these new or amended HKFRSs does not have significant impact on the Group’s Interim Financial Statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SEGMENT INFORMATION

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

Six months ended 30 June 2021 (Unaudited)

	Corporate finance HK\$’000	Asset management HK\$’000	Brokerage HK\$’000	Interest income HK\$’000	Investments HK\$’000	Others HK\$’000	Total HK\$’000
Reportable segment revenue							
Fee and commission income	20,462	14,673	80,411	—	—	5,065	120,611
Interest income	—	—	82,785	204,276	23,873	—	310,934
Net investment gain/(loss)	—	—	(9,543)	—	80,956	—	71,413
Segment revenue from external customers	20,462	14,673	153,653	204,276	104,829	5,065	502,958
Inter-segment revenue	1,050	2,617	261	—	—	916	4,844
Reportable segment revenue	21,512	17,290	153,914	204,276	104,829	5,981	507,802
Reportable segment result	5,289	2,433	14,302	(71,963)	72,419	(3,011)	19,469

Six months ended 30 June 2020 (Unaudited)

	Corporate finance HK\$'000	Asset management HK\$'000	Brokerage HK\$'000 (restated)	Interest income HK\$'000 (restated)	Investments HK\$'000 (restated)	Others HK\$'000	Total HK\$'000
Reportable segment revenue							
Fee and commission income	8,279	21,546	85,844	—	—	4,166	119,835
Interest income	—	—	96,746	192,054	41,307	—	330,107
Net investment loss	—	—	(74,903)	—	(102,766)	—	(177,669)
Segment revenue from external customers	8,279	21,546	107,687	192,054	(61,459)	4,166	272,273
Inter-segment revenue	800	1,471	2	—	—	508	2,781
Reportable segment revenue	<u>9,079</u>	<u>23,017</u>	<u>107,689</u>	<u>192,054</u>	<u>(61,459)</u>	<u>4,674</u>	<u>275,054</u>
Reportable segment result	<u>(7,613)</u>	<u>4,998</u>	<u>(99,245)</u>	<u>24,031</u>	<u>(82,998)</u>	<u>(791)</u>	<u>(161,618)</u>

The total of the Group's reportable segment result is reconciled to the Group's profit/(loss) before tax as follows:

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Reportable segment result	19,469	(161,618)
Share of results of an associate	(170)	(32)
Share of results of joint ventures	(428)	498
Unallocated corporate expenses	(2,954)	(2,922)
Profit/(loss) before tax	<u>15,917</u>	<u>(164,074)</u>

4. REVENUE

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Corporate finance business		
<i>Fee and commission income:</i>		
— Placing and underwriting commission income	6,441	6,388
— Financial and compliance advisory services fee income	14,021	1,891
	<u>20,462</u>	<u>8,279</u>
Asset management business		
<i>Fee and commission income:</i>		
— Management fee income	7,453	7,869
— Performance fee income	7,220	13,677
	<u>14,673</u>	<u>21,546</u>
Brokerage business		
<i>Fee and commission income:</i>		
— Commission on dealings in securities		
— Hong Kong securities	37,088	28,851
— Other than Hong Kong securities	4,241	3,496
— Commission on dealings in futures and options contracts	27,775	43,916
— Handling, custodian and other service fee income	11,307	9,581
	<u>80,411</u>	<u>85,844</u>
Interest income business		
<i>Interest income calculated using the effective interest method:</i>		
— Interest income from other loans	179,963	172,272
— Interest income from cash clients receivables	1,458	853
— Interest income from trust bank deposits	1,611	7,833
— Interest income from initial public offering loans	1,342	541
— Interest income from house money bank deposits and others	29,346	19,897
<i>Interest income calculated using other method:</i>		
— Interest income from loans to margin clients	73,329	87,404
— Interest income from bonds measured at fair value through profit or loss and others	23,885	41,307
	<u>310,934</u>	<u>330,107</u>
Investments and others business		
<i>Fee and commission income:</i>		
— Financial media service fee income	5,065	4,166
<i>Net investment gain/(loss):</i>		
— Net realised and unrealised gain/(loss) on financial assets measured at fair value through profit or loss	61,058	(183,100)
— Dividend income from financial assets measured at fair value through profit or loss	10,355	5,431
	<u>76,478</u>	<u>(173,503)</u>
Total revenue	<u><u>502,958</u></u>	<u><u>272,273</u></u>

5. OTHER INCOME/(LOSS)

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Changes in net asset value attributable to other holders of consolidated investment funds	(2,558)	2,379
Exchange gain/(loss), net	2,786	(936)
Government subsidies	467	2,209
Sundry income	849	758
	<u>1,544</u>	<u>4,410</u>

6. PROFIT/(LOSS) BEFORE TAX

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Profit/(loss) before tax is arrived at after charging:		
Staff cost		
— Fees, salaries, allowances, bonuses and benefits in kind	92,541	119,603
— Employee sales commission	2,949	1,640
— Retirement benefits scheme contributions	2,846	2,291
— Other staff benefits	265	203
	98,601	123,737
Depreciation and amortisation		
— Other intangible assets	1,290	909
— Property and equipment	22,247	22,185
	23,537	23,094

7. OTHER OPERATING EXPENSES

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Advertising and promotion expenses	4,376	2,694
Auditors' remuneration	1,757	1,952
Bank charges	1,033	1,063
Entertainments	561	524
General office expenses	2,698	2,412
Insurance	1,418	1,675
Legal and professional fee	5,430	6,446
Repairs and maintenance	2,394	1,485
Short-term leases, rates and building management fee	3,468	4,122
Staff recruitment cost	236	788
Travelling and transportation expenses	549	760
Others	1,797	1,709
	<u>25,717</u>	<u>25,630</u>

8. TAX EXPENSE/(CREDIT)

The provision for Hong Kong profits tax is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the six months ended 30 June 2021, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong profits tax for this subsidiary was calculated at the same basis in 2020.

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

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Current tax — Hong Kong profits tax		
— Current period	23,372	21,478
Deferred tax	<u>(21,356)</u>	<u>(23,933)</u>
Total tax expense/(credit)	<u>2,016</u>	<u>(2,455)</u>

9. EARNINGS/(LOSS) PER SHARE

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

Earnings/(loss)

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
For purpose of basic and diluted earnings/(loss) per share	<u><u>13,901</u></u>	<u><u>(161,619)</u></u>

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

	Six months ended 30 June 2021 (Unaudited)	Six months ended 30 June 2020 (Unaudited)
For purpose of basic and diluted earnings/(loss) per share	<u><u>6,145,877,218</u></u>	<u><u>6,145,877,218</u></u>

Earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company

	Six months ended 30 June 2021 HK cents (Unaudited)	Six months ended 30 June 2020 HK cents (Unaudited)
Basic and diluted	<u><u>0.226</u></u>	<u><u>(2.630)</u></u>

10. DIVIDENDS

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (30 June 2020: Nil).

11. LOANS TO MARGIN CLIENTS

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Loans to margin clients		
— Measured at fair value through profit and loss	<u>1,565,083</u>	<u>1,371,861</u>

Note:

Margin clients are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a comprehensive analysis including but not limited to loan-to-market and loan-to-marginable value ratios (“lending ratios”), concentration risk, illiquid collaterals and overall availability of funds. The Group exercises continuous monitoring on outstanding margin loans to see if the actual lending ratios have exceeded the pre-determined levels as a credit risk control mechanism. Any excess in the lending ratios will trigger a margin call which the clients have to make good the shortfall. As at 30 June 2021, the market value of securities pledged by margin clients to the Group as collateral was HK\$8,967,191,000 (31 December 2020: HK\$8,701,907,000) and the Group is permitted to sell collaterals provided by clients if they fail to fulfil in margin calls. Loans to margin clients are repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

12. ADVANCES TO CUSTOMERS FOR MERGER AND ACQUISITION ACTIVITIES

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Financial assets measured at amortised cost	207,275	202,177
Less: E.C.L. provisions	<u>(12,867)</u>	<u>(12,729)</u>
	<u>194,408</u>	<u>189,448</u>

13. OTHER LOANS

		As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Other loans			
— Unsecured	(a)	3,687,440	3,295,230
— Secured	(a), (b)	<u>217,602</u>	<u>562,285</u>
		3,905,042	3,857,515
Less: E.C.L. provisions		<u>(574,534)</u>	<u>(518,615)</u>
		<u>3,330,508</u>	<u>3,338,900</u>
Analysis of the net amount into current and non-current portions:			
Current		3,246,680	3,190,070
Non-current		<u>83,828</u>	<u>148,830</u>
		<u>3,330,508</u>	<u>3,338,900</u>

Notes:

- (a) The loans bear interest at fixed rates ranging from 6% to 15% (31 December 2020: 6.5% to 15%) per annum. HK\$2,276,911,000 (31 December 2020: HK\$1,890,260,000) of the carrying amounts of the loans are from fellow subsidiaries.
- (b) As at 30 June 2021 and 31 December 2020, the collaterals held by the Group for the secured loans mainly included shares of listed companies, shares and assets of private companies.

14. REVERSE REPURCHASE AGREEMENTS

		As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Analysed by collateral type:			
Bonds		4,089	164,762
Less: E.C.L. provisions		<u>(62)</u>	<u>(913)</u>
		<u>4,027</u>	<u>163,849</u>

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

As at 30 June 2021, the fair value of the collaterals was HK\$10,582,000 (31 December 2020: HK\$245,386,000).

15. ACCOUNTS RECEIVABLE

		As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
	<i>Notes</i>		
<i>Accounts receivable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing houses	(a)	511,919	513,742
— Cash clients	(a)	34,869	15,580
— Clients for subscription of securities	(a)	3,882	7,515
Less: E.C.L. provisions		<u>(9,465)</u>	<u>(8,794)</u>
		541,205	528,043
<i>Accounts receivable from asset management, corporate finance and other businesses</i>			
— Clients	(a)	20,956	27,120
Less: E.C.L. provisions		<u>(9,367)</u>	<u>(9,938)</u>
		11,589	17,182
Net accounts receivable	(b)	<u>552,794</u>	<u>545,225</u>

Notes:

- (a) Amounts due from brokers, clearing houses and cash clients for the dealings in securities are required to be settled on the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) and the amounts due from clients for subscription of securities are required to be settled upon the allotment of the securities subscribed. Amounts due from brokers and clearing houses for the dealings in futures and options contracts are repayable on demand (except for the required margin deposits for the trading of futures and options contracts). There are no credit terms granted to clients for its asset management, corporate finance and other businesses. The amounts due from cash clients after the settlement dates bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread) and the amounts due from clients for subscription of securities as at 30 June 2021 bear interest at a fixed rate of 3.5% (31 December 2020: 4.5%) per annum.

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

	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
Current (not past due)	6,268	10,426
1–30 days	526,004	533,043
31–90 days	17,989	951
Over 90 days	<u>2,533</u>	<u>805</u>
Net accounts receivable	<u><u>552,794</u></u>	<u><u>545,225</u></u>

16. ACCOUNTS PAYABLE

	Notes	As at 30 June 2021 HK\$'000 (Unaudited)	As at 31 December 2020 HK\$'000 (Audited)
<i>Accounts payable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing houses	(a)	9,486	41,465
— Cash and margin clients	(a)	1,688,218	1,907,475
<i>Accounts payable from other businesses</i>			
— Clients		<u>23,606</u>	<u>5,591</u>
	(b)	<u><u>1,721,310</u></u>	<u><u>1,954,531</u></u>

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO ENVIRONMENT

Supportive government policies and joint efforts by central banks around the world have effectively restoring a large part of the global economy. Certain major stock indices have even surpassed the pre-pandemic level. Companies are busy forming new business plans to cope with the “new normal”. That said, the situation remains fragile. Economic recovery to this point has been uneven and incomplete, with sectors hardest hit by the pandemic continuing to be relatively weak. Despite the expansion of vaccine programs and ongoing economic policy support, many uncertainties are still in play and it will likely be some time before we see a sustainable economic activity and market confidence.

HONG KONG STOCK MARKET

Despite the challenges in both regional and global economies, the capital market in Hong Kong was an exception. The average daily turnover in Hong Kong securities market amounted to HK\$188.2 billion in the first half of 2021, increased by 60% year-on-year. Hong Kong’s IPO market remained buoyant in the first half of 2021, welcoming a total of 46 new issuers, with notable listings such as Kuaishou Technology (1024.HK) and JD Logistics (2618.HK), and a range of innovative new biotechnology companies. Total funds raised by these IPOs stood at HK\$211.7 billion, an increase of 128% year over year, making Hong Kong the third largest IPO market in the first half of 2021.

RESULTS AND OVERVIEW

For the six months ended 30 June 2021, the Group recorded net profit of HK\$13.9 million (interim 2020: net loss of HK\$161.6 million). The Group’s reported revenue increased by approximately 85% to HK\$503 million in interim 2021 (interim 2020: HK\$272 million). The significant increase in revenue mainly arose from net investment gain of HK\$71 million in interim 2021 as opposed to a loss of HK\$178 million in interim 2020. As disclosed in the notes of revenue in the financial statements, there are five main business streams of our Group. Excluding the revenue stream of investment and others business of HK\$76 million (interim 2020: loss of HK\$174 million), income from other four business streams in interim 2021 would be HK\$427 million, which is similar to HK\$446 million in interim 2020 calculated on the same basis.

BUSINESS REVIEW

Our Hong Kong securities commission income benefitted from the increase in turnover in the Hong Kong securities market and increased by about 28% over the same period last year, but our market share in the secondary stock market of Hong Kong decreased slightly year-on-year. However, our overall brokerage business revenue declined compared with interim 2020 owing to a significant drop in commission on dealings in futures and options contracts as we tightened our internal credit control for the trading of these products. In interim 2021, the Group signed 7 financial advisor/independent financial

advisor mandates, 1 compliance advisor mandate and were underwriters in 7 initial public offerings and other fund raising exercises. As at 30 June 2021, our assets under management (“AUM”) reached US\$376 million, representing an increase of 45% from the same period in 2020 and an increase of 9% from the end of 2020, mainly due to the Group’s new asset management products introduced after interim 2020. Total loans amounted to HK\$5,090 million, representing an increase of 4% from HK\$4,900 million as at 31 December 2020.

FINANCIAL REVIEW

As revenue from investments and others business is subject to market volatility, here is an analysis of our other four businesses for readers to comprehend our financial performance:

Revenue	Interim 2021		Interim 2020		Change
	HK\$ million	Proportion	HK\$ million	Proportion	
Corporate finance business	21	5%	8	2%	163%
Asset management business	15	3%	22	5%	(32%)
Brokerage business	80	19%	86	19%	(7%)
Interest income business	311	73%	330	74%	(6%)
Total revenue (excluding revenue from investments and others business)	<u>427</u>	<u>100%</u>	<u>446</u>	<u>100%</u>	<u>(4%)</u>

From the above table, revenue from corporate finance business increased while revenue from the other three businesses dropped. Therefore, the proportion of revenue from corporate finance business increased from 2% in interim 2020 to 5% in interim 2021. The proportion of revenue from asset management business and interest income business decreased from 5% and 74% in interim 2020 to 3% and 73% in interim 2021, respectively. The proportion of revenue from brokerage business remained unchanged at around 19%.

Corporate Finance Business

The Group’s corporate finance business comprises sponsorship for listing, financial advisory, financing consultation service, equity capital market and debt capital market. Revenue from corporate finance business has increased roughly 147% from HK\$8.3 million in interim 2020 to HK\$20.5 million in interim 2021. It was mainly due to higher sponsorship fee recorded in interim 2021 compared to interim 2020.

Asset Management Business

Revenue from asset management business has dropped 32% from HK\$21.6 million in interim 2020 to HK\$14.7 million in interim 2021. Out of which, management fee income has dropped 5% from HK\$7.9 million in interim 2020 to HK\$7.5 million in interim 2021; performance fee income has dropped 47% from HK\$13.7 million in interim 2020 to HK\$7.2 million in interim 2021 due to significant drop in performance fee from discretionary accounts.

Brokerage Business

Revenue from brokerage business has slightly decreased by approximately 6% from HK\$85.8 million in interim 2020 to HK\$80.4 million in interim 2021, mainly due to the decrease in the commission income from global futures product. Commission income from dealing in Hong Kong securities increased by 28% from HK\$28.9 million in interim 2020 to HK\$37.1 million in interim 2021, thanks to the overall increased secondary market turnover in Hong Kong securities market year-on-year. Handling, custodian and other service fee income have also increased by 18% from HK\$9.6 million in interim 2020 to HK\$11.3 million in interim 2021, mainly due to more one-off charges on different projects.

Interest Income Business

Interest income recorded for interim 2021 was HK\$311 million, a drop of roughly 6% as compared to HK\$330 million for interim 2020. The interest income from loans to margin clients has dropped by 16% from HK\$87.4 million in interim 2020 to HK\$73.3 million in interim 2021 mainly due to a drop in average outstanding margin loan to clients. The interest income from bonds measured at fair value through profit or loss has dropped by 42% from HK\$41.3 million in interim 2020 to HK\$23.9 million in interim 2021.

Investments and Others Business

Income from investments and others business has recorded HK\$76 million gain in interim 2021 as compared to HK\$174 million loss in interim 2020. It mainly comprised of gain on investments of approximately HK\$71 million (interim 2020: HK\$108 million loss), offset by fair value losses of loans to margin clients of approximately HK\$10 million (interim 2020: HK\$75 million loss).

Expenses

Direct cost has dropped by 16% from HK\$86 million in interim 2020 to HK\$72 million in interim 2021. The trend is similar to the decrease in income from our brokerage business, especially with global futures product. Staff cost has decreased by 20% from HK\$124 million in interim 2020 to HK\$99 million in interim 2021, which was mainly due to the decrease in bonus accruals as compared to the corresponding periods.

Impairment loss (E.C.L. provisions) mainly made on amortised loans and bonds has increased about 93% from HK\$121 million in interim 2020 to HK\$234 million in interim 2021. Due to the factual information about our parent company, we have applied a much higher provision rate compared to interim 2020 to our loans and bonds made under continuing connected transactions (“CCT”). Most of the impairment loss in interim 2021 comes from CCT loans and bonds.

Finance cost has decreased by approximately 46% from HK\$61.5 million in interim 2020 to HK\$33.3 million in interim 2021, which arises from three main reasons: i) reduction of non-bank borrowings as we have paid off significantly some of the outstanding notes, which typically carries a much higher interest rate than bank borrowings; ii) we have repaid significantly the loan from China Minsheng Bank Corporation Ltd. Hong Kong Branch from HK\$820 million in interim 2020 to HK\$430 million in interim 2021 and iii) the continuing drop of short tenor HIBOR rate where most of our interest expenses from margin loans from banks are based on.

PROSPECTS

Although the world is recovering from COVID-19, the rest of 2021 is still presented with a lot of uncertainties and challenges, including the recent slump in the Hang Seng Index and the events in Afghanistan. Against this backdrop, we will maintain a cautious approach in our business, focusing our resources on developing our brokerage, corporate finance and asset management businesses, and improve our system efficiency and service quality. We will continue to broaden our range of products for distribution, including third party funds, E.L.N., insurance products, and structured notes, as well as arranging private equity investments. We shall closely monitor our credit exposure in non-margin loan to clients and has commenced to reduce our financing continuing connected transactions.

In addition, we will maintain a relatively higher liquidity level and reduce our overall leverage. We will put more time and resources to monitor our cash flow.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow as well as through the utilisation of banking facilities and short-term loans and notes from independent third parties. From time to time, the Company may raise capital by issuing new shares or issuing debt instruments. The Group’s cash on hand as at 30 June 2021 stood at around HK\$328 million (31 December 2020: HK\$214 million).

As at 30 June 2021, the Group’s total borrowings was HK\$1,783 million, showing a drop of 5% from HK\$1,875 million as at 31 December 2020. Borrowings mainly consisted of three components.

- The first component was bank borrowings of around HK\$1,469 million (31 December 2020: HK\$1,503 million), of which the Group had available aggregate banking facilities of around HK\$2,620 million (31 December 2020: HK\$3,849 million), and most were secured by the legal charge on certain securities owned by the margin clients of the Group.
- The second component was borrowings from non-bank entities of HK\$314 million as at 30 June 2021 (31 December 2020: HK\$370 million).
- The third component was borrowing from REPO arrangement which was Nil as at 30 June 2021 (31 December 2020: HK\$2 million)

As at 30 June 2021, the Group's gearing ratio (leverage) was 30% (31 December 2020: 32%), being calculated as total borrowings divided by net assets. The management has applied prudent risk and credit management on our borrowings. In addition, the Group is required to strictly follow regulatory re-pledging ratios and prudent bank borrowing benchmarks that govern the extent of bank borrowings in our SFC licensed subsidiary.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

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

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2021, assets of HK\$1,119 million (31 December 2020: HK\$1,409 million) were charged to banks and other lenders for facilities.

EMPLOYEES AND REMUNERATION POLICIES

On 30 June 2021, the Group had 239 full time employees (31 December 2020: 249) in Hong Kong and 35 full time employees (31 December 2020: 33) in Mainland China. In addition, the Group has 86 self-employed sales representatives (31 December 2020: 76). Competitive total remuneration packages are offered to employees by reference to industry remuneration research reports, prevailing market practices and standards and individual merit. Salaries are reviewed annually, and bonuses are paid with reference to individual performance appraisals, prevailing market conditions and the Group's financial performance. Other benefits offered by the Group include a mandatory provident fund scheme and medical and health insurance.

RISK MANAGEMENT

The Group's business is closely related to the economy and market fluctuation of Hong Kong and China, and indirectly affected by other overseas financial markets. To cope with the unpredictable market fluctuation and minimise risks, the Group takes preventive

measures and establishes a risk management system with defined segregation of duties between business departments on the front line and internal control units such as the Internal Audit Department, Risk Management Department and Compliance Department. The Risk Management Department of the Group is responsible for overseeing all risk management functions. These functions include risk identification, risk limits setting, measurement and monitoring of risk limits, analysis of risk scenarios, and producing timely reports to the senior management. The Risk Management team also performs pre- and post-risk assessments on both asset and liability items.

Credit Risk

Credit risk is the risk in respect of loss arising from incompetence of a borrower, counterparty or issuer of financial instruments to meet its obligation, or potential deterioration of credit ratings. The Group has Credit Risk Approving Policy and Post Lending Monitoring Policy in place to dictate procedures and approving authorities required for all credit applications relating to increases in credit risk. The credit risks of the Group mainly arise from five business areas: corporate finance business, asset management business, brokerage business, interest income business and propriety investment business. The Group's senior management and other executives have also set up different Business Assessment Committees to review and approve credit risky products/transactions for different business lines. Advance IT systems are also utilised by the Group to conduct daily monitoring on credit and concentration risk limits.

Market Risk

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

Liquidity Risk

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

Operational Risk

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

Regulatory Compliance Risk

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

INTERIM DIVIDEND

The Board of the Company resolved not to declare an interim dividend in respect of the six months ended 30 June 2021 (2020: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

In response to special enquiry, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the six months ended 30 June 2021.

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has applied the principles and complied with the code provisions set out in Appendix 14 of the Listing Rules, titled “Corporate Governance Code and Corporate Governance Report”, throughout the six months ended 30 June 2021 and subsequent period up to the date of this announcement, save for the deviations from code provision A.5.1 which stipulates that a Nomination Committee should be established. In view of the stage of business growth, the existing size of the Board and business operation of the Group, it is considered more beneficial and effective to have the relevant function performed by the Board itself rather than through the establishment of such committee.

AUDIT COMMITTEE REVIEW

The audit committee of the Company comprises five independent non-executive Directors. The audit committee has reviewed the unaudited condensed consolidated financial results of the Company for the six months ended 30 June 2021 and discussed with the management of the Company the accounting principles and practices adopted by the Group, internal control and financial reporting matters.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The announcement of unaudited interim results for the six months ended 30 June 2021 of the Group is published on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.tonghaifinancial.com respectively. The 2021 Interim Report of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

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

Hong Kong, 26 August 2021

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

Executive Directors:

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

Independent Non-executive Directors:

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

Non-executive Directors:

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