



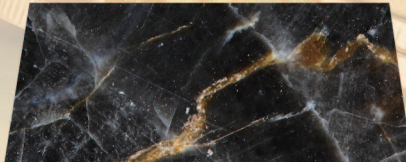
興證國際金融集團有限公司

**China Industrial Securities International Financial Group Limited**

(Incorporated in the Cayman Islands with limited liability)  
Stock code : 8407

**2018**

INTERIM REPORT



## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the "Directors") of China Industrial Securities International Financial Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Non-executive Directors

Mr. Yang Huahui (*Chairman*)  
Mr. Huang Yilin

### Executive Directors

Mr. Huang Jinguang (*Chief Executive Officer*)  
Mr. Wang Xiang  
Ms. Zeng Yanxia

### Independent Non-executive Directors

Ms. Hong Ying  
Mr. Tian Li  
Mr. Qin Shuo

## BOARD COMMITTEES

### Audit Committee

Ms. Hong Ying (*Chairlady*)  
Mr. Huang Yilin  
Mr. Tian Li

### Remuneration Committee

Mr. Tian Li (*Chairman*)  
Mr. Yang Huahui  
Mr. Qin Shuo

### Nomination Committee

Mr. Yang Huahui (*Chairman*)  
Mr. Tian Li  
Mr. Qin Shuo

## COMPANY SECRETARY

Mr. Cho Ka Wai

## COMPLIANCE OFFICER

Ms. Zeng Yanxia

## AUTHORISED REPRESENTATIVES

Ms. Zeng Yanxia  
Mr. Cho Ka Wai

## AUDITOR

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

## COMPLIANCE ADVISER

Haitong International Capital Limited

## REGISTERED OFFICE

PO Box 1350, Clifton House  
75 Fort Street  
Grand Cayman KY1-1108  
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32/F, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited  
P.O. Box 10008  
Willow House  
Cricket Square  
Grand Cayman KY1-1001  
Cayman Islands

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
Industrial Bank Co., Ltd., Hong Kong Branch  
Wing Lung Bank Limited  
Fubon Bank (Hong Kong) Limited  
China Citic Bank International Limited  
Shanghai Pudong Development Bank Co., Ltd.,  
Hong Kong Branch  
China Everbright Bank Co., Ltd., Hong Kong Branch  
Chiyu Banking Corporation Limited  
China Construction Bank (Asia) Corporation Limited  
China Minsheng Bank Corp., Ltd., Hong Kong Branch

## WEBSITE

[www.xyqz.com.hk](http://www.xyqz.com.hk)

## STOCK CODE

8407

The board of Directors (the "Board") 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 2018 together with the comparative figures as follows:

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

	Note	For the six months ended 30 June	
		2018 HK\$ Unaudited	2017 HK\$ Unaudited
Revenue	3	<b>560,306,817</b>	358,380,046
Other income	3	<b>21,229,321</b>	7,822,277
Finance costs		<b>(185,230,055)</b>	(65,831,965)
Commission and fee expenses		<b>(61,362,108)</b>	(39,709,373)
Staff costs	5	<b>(61,916,671)</b>	(78,886,571)
Other operating expenses		<b>(74,709,398)</b>	(56,677,555)
Reversal of provision/(provision) for impairment loss on accounts receivable	12	<b>2,811,255</b>	(107,347,146)
Other gains or losses	5	<b>(97,854,413)</b>	52,457,903
Profit before taxation	5	<b>103,274,748</b>	70,207,616
Taxation	6	<b>(46,601,509)</b>	(10,587,601)
Profit for the period		<b>56,673,239</b>	59,620,015
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Changes in fair value of available-for-sale financial assets		–	(1,957,598)
Disposal of available-for-sale financial assets		–	22,201,045
Other comprehensive income for the period		–	20,243,447
Total comprehensive income for the period attributable to owners of the Company		<b>56,673,239</b>	79,863,462
Earnings per share			
Basic (expressed in HK\$)	8	<b>0.0142</b>	0.0149

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
<b>Non-current assets</b>			
Property and equipment		<b>23,015,318</b>	20,583,936
Intangible assets		<b>1,768,913</b>	1,616,541
Available-for-sale financial assets	10	–	11,423,329
Loans receivable	11	–	3,000,000
Statutory deposits		<b>32,473,863</b>	13,361,721
Deposits, other receivables and prepayments		<b>11,832,242</b>	11,666,181
		<b>69,090,336</b>	61,651,708
<b>Current assets</b>			
Accounts receivable	12	<b>7,271,287,300</b>	5,007,801,784
Loans receivable	11	<b>70,400,000</b>	109,900,000
Available-for-sale financial assets	10	–	1,872,333,774
Financial assets at fair value through profit or loss	9	<b>11,477,401,798</b>	5,106,108,484
Financial assets held under repurchase agreements		<b>101,013,315</b>	–
Statutory deposits		<b>18,021,596</b>	15,977,608
Deposits, other receivables and prepayments		<b>416,458,570</b>	302,695,425
Tax receivable		<b>7,993,806</b>	5,943,628
Bank balances – trust accounts		<b>3,946,913,247</b>	3,389,991,675
Bank balances – general accounts and cash		<b>1,846,851,422</b>	1,181,370,930
		<b>25,156,341,054</b>	16,992,123,308
<b>Current liabilities</b>			
Accounts payable	14	<b>6,027,053,540</b>	4,203,671,739
Accruals and other payables		<b>177,665,860</b>	175,425,279
Amounts due to a related party		<b>1,130,506</b>	2,957,147
Other liabilities	23	<b>402,519,439</b>	278,866,324
Tax payable		<b>83,238,611</b>	40,347,249
Financial liabilities at fair value through profit or loss	13	<b>938,093,616</b>	161,958,014
Financial assets sold under repurchase agreements		<b>1,803,013,910</b>	1,094,855,904
Bank borrowings	15	<b>9,965,590,836</b>	5,404,592,664
Other borrowings	16	<b>1,432,290,839</b>	1,203,876,281
Notes	17	<b>62,786,400</b>	62,549,900
		<b>20,893,383,557</b>	12,629,100,501
<b>Net current assets</b>		<b>4,262,957,497</b>	4,363,022,807

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
<b>Non-current liabilities</b>			
Accruals and other payables		<b>3,191,281</b>	3,234,406
Financial liabilities at fair value through profit or loss	13	<b>23,411,636</b>	23,282,776
Deferred tax liabilities		<b>1,498,776</b>	891,519
		<b>28,101,693</b>	27,408,701
<b>Net assets</b>			
		<b>4,303,946,140</b>	4,397,265,814
<b>Capital and reserves</b>			
Share capital	18	<b>400,000,000</b>	400,000,000
Share premium		<b>3,379,895,424</b>	3,379,895,424
Retained earnings		<b>70,031,051</b>	171,346,158
Investments revaluation reserve		–	(7,995,433)
Other reserves		<b>11,577,844</b>	11,577,844
Capital reserve		<b>442,441,821</b>	442,441,821
<b>Equity attributable to owners of the Company</b>			
		<b>4,303,946,140</b>	4,397,265,814

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Equity attributable to owners of the Company						
	Share capital HK\$	Share premium HK\$	Capital reserve HK\$	Investments revaluation reserve HK\$	Other reserves HK\$	Retained earnings HK\$	Total equity HK\$
At 1 January 2018 (audited)	400,000,000	3,379,895,424	442,441,821	(7,995,433)	11,577,844	171,346,158	4,397,265,814
HKFRS 9 adjustment on retained earnings	-	-	-	7,995,433	-	(37,988,346)	(29,992,913)
At 1 January 2018 (after adjustment)	400,000,000	3,379,895,424	442,441,821	-	11,577,844	133,357,812	4,367,272,901
Dividends recognised as distribution	-	-	-	-	-	(120,000,000)	(120,000,000)
Profit for the period	-	-	-	-	-	56,673,239	56,673,239
Total comprehensive income for the period	-	-	-	-	-	56,673,239	56,673,239
At 30 June 2018 (unaudited)	400,000,000	3,379,895,424	442,441,821	-	11,577,844	70,031,051	4,303,946,140

For the six months ended 30 June 2017

	Equity attributable to owners of the Company						
	Share capital HK\$	Share premium HK\$	Capital reserve HK\$	Investments revaluation reserve HK\$	Other reserves HK\$	Retained earnings HK\$	Total equity HK\$
At 1 January 2017 (audited)	400,000,000	3,379,895,424	442,441,821	(38,104,605)	11,577,844	98,514,317	4,294,324,801
Dividends recognised as distribution	-	-	-	-	-	(80,000,000)	(80,000,000)
Profit for the period	-	-	-	-	-	59,620,015	59,620,015
Other comprehensive income for the period	-	-	-	20,243,447	-	-	20,243,447
Total comprehensive income for the period	-	-	-	20,243,447	-	59,620,015	79,863,462
At 30 June 2017 (unaudited)	400,000,000	3,379,895,424	442,441,821	(17,861,158)	11,577,844	78,134,332	4,294,188,263



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Note	2018 HK\$ Unaudited	2017 HK\$ Unaudited
NET CASH USED IN OPERATING ACTIVITIES		<b>(3,860,549,647)</b>	(96,372,354)
INVESTING ACTIVITIES			
Purchase of property and equipment		<b>(6,897,063)</b>	(918,935)
Acquisition of intangible assets		<b>(374,717)</b>	–
Cash inflow from acquisition of a consolidated structured entity	22	–	50,481,196
Proceeds from disposal of available-for-sale financial assets		–	3,997,657,699
Purchase of available-for-sale financial assets		–	(4,546,028,546)
NET CASH USED IN INVESTING ACTIVITIES		<b>(7,271,780)</b>	(498,808,586)
FINANCING ACTIVITIES			
Interest paid		<b>(136,347,311)</b>	(62,917,900)
Bank borrowings raised		<b>29,062,306,120</b>	14,417,544,828
Repayments of bank borrowings		<b>(24,501,307,948)</b>	(13,821,744,909)
Other borrowings raised		<b>255,564,092</b>	1,683,156,878
Repayments of other borrowings		<b>(27,149,534)</b>	(1,092,226,369)
Issuance of notes		<b>62,786,400</b>	–
Redemption of notes		<b>(62,549,900)</b>	–
Dividends paid	7	<b>(120,000,000)</b>	(80,000,000)
NET CASH GENERATED FROM FINANCING ACTIVITIES		<b>4,533,301,919</b>	1,043,812,528
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>665,480,492</b>	448,631,588
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF THE PERIOD		<b>1,181,370,930</b>	972,889,752
CASH AND CASH EQUIVALENTS AS AT END OF THE PERIOD		<b>1,846,851,422</b>	1,421,521,340
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS REPRESENTED BY			
Bank balances – general accounts and cash		<b>1,846,851,422</b>	1,421,521,340
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		<b>340,703,871</b>	216,456,855
Dividend received		<b>9,622,382</b>	1,718,781

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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 since 20 October 2016. 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, investment banking services, asset management services and financial products and investments. Its immediate holding company is China Industrial Securities International Holdings Limited ("CISI Holdings") and CISI Holdings is 100% owned by Industrial Securities (Hong Kong) Financial Holdings Limited ("Industrial Securities (Hong Kong)"), the intermediate holding company of the Company. 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

The consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The unaudited condensed consolidated financial statements also comply with the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements except for the adoption of the standards, amendments and interpretation issued by the HKICPA mandatory for the annual periods beginning on 1 January 2018. Details of major changes in accounting policies are set out below:

### HKFRS 9

As permitted by the transitional provisions of HKFRS 9, the Group was elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### HKFRS 9 *(Continued)*

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies:

#### (i) **Classification of financial assets and financial liabilities**

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVTPL"). The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in part (iii).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### HKFRS 9 *(Continued)*

#### (ii) Impairment under Expected Credit Loss (“ECL”) model

The Group recognises a loss allowance for ECL on financial assets, including accounts receivable, loans receivable, other receivables and bank balances, which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

#### *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### HKFRS 9 *(Continued)*

#### (ii) Impairment under Expected Credit Loss (“ECL”) model *(Continued)*

##### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Part (iii).

#### (iii) Summary of effects arising from initial application of HKFRS 9

The table below illustrates major changes and impacts on the classification and measurement (including impairment) of financial assets and financial liabilities under HKFRS 9 at the date of initial application, 1 January 2018.

	Note	Available for sale — debt instruments and unlisted investment funds HK\$	Accounts receivable (Note b) HK\$	Financial liabilities at FVTPL — unlisted structured products (Note c) HK\$	Financial assets at FVTPL HK\$	Investment revaluation reserve HK\$	Retained earnings HK\$
Closing balance at 31 December 2017							
— HKAS 39		1,883,757,103	5,007,801,784	176,671,697	5,106,108,484	(7,995,433)	171,346,158
Reclassification from available for sale	(a)	(1,883,757,103)	–	–	1,883,757,103	7,995,433	(7,995,433)
Remeasurement of impairment under ECL model	(e)	–	(29,992,913)	–	–	–	(29,992,913)
Opening balance at 1 January 2018		–	4,977,808,871	176,671,697	6,989,865,587	–	133,357,812

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### HKFRS 9 (Continued)

#### (iii) Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

- (a) Debt instruments and unlisted investment fund classified as available-for-sale ("AFS") under HKAS39 did not meet the criteria to be classified either as at FVOCI or at amortised cost and have been reclassified to financial assets at FVTPL. Related net fair value loss of HK\$7,995,433 has been transferred from the investments revaluation reserve to retained earnings on 1 January 2018.
- (b) Accounts receivable was held within a business model whose objective is to collect the contractual cash flows that were solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets continue to be subsequently measured at amortised cost upon the application of HKFRS 9 and effect on relevant ECL are summarized per note (e) below.
- (c) Unlisted structured products issued by the Group qualified for designation as measured at FVTPL under HKFRS 9, however, the amount of change in the fair value of these financial liabilities that was attributable to changes in the credit risk of those liabilities were recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. This was different from the HKAS39 under which the entire change in fair value of the financial liabilities was recognised in profit or loss. The change in fair value attributed to a change in credit risk of these financial liabilities was not significant and did not have significant impact in other comprehensive income when HKFRS 9 applied.
- (d) All other financial assets and financial liabilities were measured on the same bases that were measured under HKAS 39.
- (e) Loss allowances for financial assets at amortised cost, which mainly comprise of accounts receivable, loans receivable, other receivables and bank balances, were measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition. As at 1 January 2018, the additional credit loss allowance of HK\$29,992,913 has been recognised against retained profits. The additional loss allowance is mainly charged against accounts receivable while impact to other financial assets are not significant. All loss allowances for financial assets as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	<b>Accounts receivable — Loss allowance</b>
	HK\$
Loss allowance at 31 December 2017 under HKAS 39	290,394,561
Impairment under ECL model	29,992,913
Loss allowance at 1 January 2018 under HKFRS 9	320,387,474

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

### Revenue

	For the six months ended 30 June	
	2018 HK\$ Unaudited	2017 HK\$ Unaudited
Brokerage:		
Commission and fee income from securities brokerage	<b>100,269,738</b>	67,219,495
Commission and fee income from futures and options brokerage	<b>11,824,181</b>	7,841,264
Insurance brokerage commission income	<b>1,206,619</b>	1,683,497
Handling and other service fee income	<b>–</b>	6,189,551
	<b>113,300,538</b>	82,933,807
Loans and financing:		
Interest income from margin financing	<b>194,481,337</b>	141,506,725
Interest income from money lending activities	<b>2,900,737</b>	2,428,811
	<b>197,382,074</b>	143,935,536
Investment banking:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	<b>70,319,235</b>	4,936,113
– Equity securities	<b>34,826,070</b>	11,748,646
Financial advisory fee income	<b>888,774</b>	300,000
Sponsor fee income	<b>3,270,000</b>	2,500,000
Arrangement fee	<b>20,024,193</b>	–
	<b>129,328,272</b>	19,484,759
Asset management:		
Asset management fee income	<b>8,915,848</b>	4,677,019
Investment advisory fee income	<b>1,917,410</b>	1,620,962
	<b>10,833,258</b>	6,297,981

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. REVENUE AND OTHER INCOME (Continued)

### Revenue (Continued)

	For the six months ended 30 June	
	2018 HK\$ Unaudited	2017 HK\$ Unaudited
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	<b>213,912,688</b>	62,814,931
Dividend income from financial assets at fair value through profit or loss	<b>7,106,711</b>	1,718,781
Net realised (loss)/gain on financial assets at fair value through profit or loss	<b>(24,567,668)</b>	1,784,539
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	<b>(311,622,259)</b>	832,982
Interest income from available-for-sale financial assets	–	69,785,642
Net realised loss on available-for-sale financial assets	–	(22,201,045)
Interest income from derivatives	<b>22,223,027</b>	–
Net realised gain/(loss) on derivatives	<b>7,258,279</b>	(12,139,414)
Net unrealised gain on derivatives	<b>147,980,430</b>	2,939,547
Net unrealised gain on financial liabilities at fair value through profit or loss	<b>47,171,467</b>	192,000
	<b>109,462,675</b>	105,727,963
	<b>560,306,817</b>	358,380,046

### Other Income

	For the six months ended 30 June	
	2018 HK\$ Unaudited	2017 HK\$ Unaudited
Interest income from financial institutions	<b>20,438,838</b>	7,723,346
Sundry income	<b>790,483</b>	98,931
	<b>21,229,321</b>	7,822,277



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. SEGMENT REPORTING

Information reported to the Board of Directors 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 follow:

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;

Investment banking — provision of financial advisory, sponsor, placing and underwriting services of debt and equity securities;

Asset management — provision of fund management, discretionary account management (previously named wealth management) and investment advisory services;

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. SEGMENT REPORTING (Continued)

For the six months ended 30 June 2018 (unaudited)

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Asset management HK\$	Financial products and investments HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>							
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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. SEGMENT REPORTING (Continued)

**For the six months ended 30 June 2017 (unaudited)**

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Asset management HK\$	Financial products and investments HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>							
Revenue from external customers	82,933,807	143,935,536	19,484,759	6,297,981	-	-	252,652,083
Net gains on financial products and investments	-	-	-	-	105,727,963	-	105,727,963
Inter-segment revenue	478,757	-	-	625,000	-	(1,103,757)	-
Segment revenue and net gains on financial products and investments	83,412,564	143,935,536	19,484,759	6,922,981	105,727,963	(1,103,757)	358,380,046
Revenue presented in the condensed consolidated statement of profit or loss and other comprehensive income							358,380,046
Segment results	29,589,259	(16,778,170)	5,809,612	141,443	60,837,677	-	79,599,821
Unallocated expenses							(9,392,205)
Profit before taxation presented in the condensed consolidated statement of profit or loss and other comprehensive income							70,207,616

### Information about Major Customers

No single customer contributes 10% or more to the Group's revenue from external customers for both six months ended 30 June 2018 and 2017.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 5. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2018 HK\$ Unaudited	2017 HK\$ Unaudited
Profit before taxation has been arrived at after charging (crediting):		
Staff costs (including directors' remuneration)	<b>61,916,671</b>	78,886,571
Salaries and bonuses	<b>59,915,787</b>	77,430,749
Contribution to the MPF Scheme	<b>1,323,569</b>	1,063,357
Other staff costs	<b>677,315</b>	392,465
Legal and professional fee	<b>3,107,451</b>	2,616,388
Minimum operating lease payments	<b>11,547,792</b>	15,409,716
Amortisation of intangible assets	<b>222,345</b>	523,889
Depreciation of property and equipment	<b>4,495,902</b>	3,330,005
Maintenance fee	<b>7,532,308</b>	5,389,020
Other gains or losses	<b>97,854,413</b>	(52,457,903)
Exchange loss/(gain)	<b>120,988,715</b>	(50,888,077)
Other gain	<b>(23,164,523)</b>	(1,570,910)
Loss on disposal of property and equipment	<b>30,221</b>	1,084

## 6. TAXATION

	For the six months ended 30 June	
	2018 HK\$ Unaudited	2017 HK\$ Unaudited
Hong Kong Profits Tax:		
Current period	<b>45,994,252</b>	10,965,737
Deferred tax:		
Current period	<b>607,257</b>	(378,136)
	<b>46,601,509</b>	10,587,601

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits throughout the relevant periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 7. DIVIDEND

For the six months ended 30 June 2018, a final dividend of HK\$0.03 per share in respect of the year ended 31 December 2017 (2017: HK\$0.02) was 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\$120,000,000 (2017: HK\$80,000,000).

The Board did not declare the payment of interim dividend for the six months ended 30 June 2018 (2017: Nil).

## 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	
	2018 HK\$ Unaudited	2017 HK\$ Unaudited
Earnings (HK\$)		
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to owners of the Company	<b>56,673,239</b>	59,620,015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>4,000,000,000</b>	4,000,000,000

For each of the six months ended 30 June 2018 (unaudited) and 30 June 2017 (unaudited), there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
<b>Held for trading</b>		
Equity securities		
– Listed in Hong Kong	<b>198,072,397</b>	194,579,762
– Listed outside Hong Kong	<b>156,238,401</b>	65,132,742
– Unlisted	<b>353,098,976</b>	–
Debt securities ( <i>note a</i> )		
– Listed in Hong Kong	<b>2,465,807,632</b>	2,903,831,104
– Listed outside Hong Kong	<b>2,237,329,863</b>	463,239,548
– Unlisted	<b>5,403,910,688</b>	718,618,170
Credit derivative ( <i>note b</i> )	<b>2,738,456</b>	3,193,943
Foreign currency forward contract ( <i>note c</i> )	<b>129,003,945</b>	–
	<b>10,946,200,358</b>	4,348,595,269
<b>Designated at fair value through profit or loss</b>		
Convertible bonds		
– Listed in Hong Kong	<b>16,634,271</b>	32,240,418
– Listed outside Hong Kong	<b>109,128,388</b>	–
Unlisted collateralised loan obligation	<b>39,830,123</b>	40,066,225
Unlisted investment funds	<b>306,131,729</b>	375,621,692
Unlisted credit-linked notes ( <i>note d</i> )	<b>59,476,929</b>	67,233,080
Unlisted preference share linked note ( <i>note e</i> )	–	242,351,800
	<b>531,201,440</b>	757,513,215
	<b>11,477,401,798</b>	5,106,108,484

### Notes:

- (a) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK\$1,695,817,498 (31 December 2017: HK\$970,278,494) at 30 June 2018, to non-bank financial institutions and entered into total return swap contract, whereby the Group received cash flow arising from transferred debt securities and receives the debt securities upon maturity of the contracts, during the period ended 30 June 2018. The transferred debt securities were not derecognized and are continued to be recognised on the unaudited condensed consolidated statement of financial position at 30 June 2018 as the Group retains significant risks and rewards of the transferred debt securities.
- (b) As at 30 June 2018 and 31 December 2017, the Group held a credit derivative contract with a notional amount of US\$100,000,000 with a non bank financial institution.
- (c) As at 30 June 2018, the Group held certain foreign currency forward contracts with notional amounts of US\$45,000,000 and EUR261,000,000 with non bank financial institutions.
- (d) As at 30 June 2018 and 31 December 2017, the Group held an unlisted credit-linked notes issued by a non-bank financial institution. The return of the credit-linked notes are linked to the fair value of the underlying assets which are listed preference shares.
- (e) As at 31 December 2017, the Group held preference share linked note issued by a special purpose entity. The return of the preference share linked note is linked to the return of the underlying asset which is preference shares.

Details of disclosure for fair value measurement are set out in note 20.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
Measured at fair value:		
Debt securities ( <i>note</i> )		
– Listed in Hong Kong	–	813,720,566
– Listed outside Hong Kong	–	659,784,232
– Unlisted	–	398,828,976
Unlisted investment funds	–	11,423,329
	–	1,883,757,103
Analyses as:		
Current	–	1,872,333,774
Non-current	–	11,423,329
	–	1,883,757,103

*Note:* Included in the portfolio of debt securities, the Group transferred debt securities, with a fair value of HK\$1,034,914,911 at 31 December 2017, to non bank financial institutions and entered into total return swap contract, whereby the Group receives cash flow arising from the transferred debt securities and receives the debt securities upon maturity of the contracts, during the years. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2017 as the Group retains significant risks and rewards of the transferred debt securities.

Details of disclosure for fair value measurement are set out in note 20.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 11. LOANS RECEIVABLE

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
Fixed-rate loans receivable	<b>70,400,000</b>	112,900,000
Analyses as:		
Current	<b>70,400,000</b>	109,900,000
Non-current	–	3,000,000
	<b>70,400,000</b>	112,900,000

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

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
	<b>Effective interest rate</b>	
Within one year	(30 June 2018: 3.00% to 8.25% per annum 31 December 2017: 3.00% to 8.25% per annum)	109,900,000
In more than one year but not more than two years	(31 December 2017: 6.00% per annum)	3,000,000
	<b>70,400,000</b>	112,900,000

Majority of the loans receivable are secured by listed securities from the borrowers and cash balance in their cash clients' accounts.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 12. ACCOUNTS RECEIVABLE

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
Accounts receivable arising from the business of dealing in securities:		
Clearing house	<b>545,161,800</b>	268,876,197
Cash clients	<b>105,851,312</b>	61,117,959
Secured margin loans	<b>5,724,412,854</b>	4,692,352,438
Brokers	<b>136,463,210</b>	11,106,841
Clients for subscription of new shares in IPO	<b>208,764,450</b>	682,984
	<b>6,720,653,626</b>	5,034,136,419
Less: impairment allowance	<b>(317,576,219)</b>	(290,394,561)
	<b>6,403,077,407</b>	4,743,741,858
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing house	<b>28,689,803</b>	19,255,638
Brokers	<b>199,112,247</b>	178,656,783
	<b>227,802,050</b>	197,912,421
Accounts receivable arising from the business of investment banking	<b>71,786,936</b>	58,567,106
Accounts receivable arising from the business of asset management	<b>5,796,668</b>	6,645,151
Accounts receivable arising from the business of financial products and investments:		
Brokers	<b>562,824,239</b>	935,248
	<b>7,271,287,300</b>	5,007,801,784

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 12. ACCOUNTS RECEIVABLE (Continued)

The movements in the impairment allowances for accounts receivable are as follows:

	HK\$
As at 1 January 2017 (audited)	–
Provision for impairment loss during the year	290,394,561
As at 31 December 2017 and 1 January 2018 (audited)	290,394,561
Adjustment on adoption of HKFRS 9	29,992,913
Reversal of provision for impairment loss during the period	(2,811,255)
As at 30 June 2018 (unaudited)	317,576,219

The aging analysis of the accounts receivable based on past due dates are as follows:

	As at 30 June 2018 HK\$ Unaudited	As at 31 December 2017 HK\$ Audited
Past due (accounts receivable from cash clients):		
0 – 30 days	5,064,020	1,435,627
Over 30 days	3,924,105	3,368,386
Accounts receivable which were past due but not credit impaired	8,988,125	4,804,013
Accounts receivable which were neither past due nor credit impaired	7,289,480,833	4,982,997,771
Credit impaired accounts receivable	290,394,561	310,394,561
	7,588,863,519	5,298,196,345
Less: impairment allowance	(317,576,219)	(290,394,561)
	7,271,287,300	5,007,801,784

Except for secured margin loans which are repayable on demand subsequent to settlement date, 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 futures and options contracts are one day after trade date.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 12. ACCOUNTS RECEIVABLE (Continued)

The normal settlement terms of account receivable arising from the business of investment banking clients, assets management clients and wealth management are determined in accordance with the agreed terms, usually within one year after the service was provided.

The normal settlement terms of account receivable 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 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 accounts receivable arising from the business of investment banking and asset management net of impairment losses based on date of invoice/contract note at the reporting date:

### Investment Banking

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
Less than 31 days	<b>7,882,411</b>	40,133,081
31 – 60 days	<b>19,260,705</b>	3,127,120
61 – 90 days	<b>196,208</b>	468,588
91 – 180 days	<b>14,132,663</b>	11,183,496
Over 180 days	<b>30,314,949</b>	3,654,821
	<b>71,786,936</b>	58,567,106

### Asset Management

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
Less than 31 days	<b>1,007,636</b>	2,087,648
31 – 60 days	<b>986,331</b>	2,259,816
61 – 90 days	<b>1,094,735</b>	551,320
91 – 180 days	<b>1,866,739</b>	760,541
Over 180 days	<b>841,227</b>	985,826
	<b>5,796,668</b>	6,645,151

During the six months ended 30 June 2018 and year ended 31 December 2017, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 13. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
<b>Held for trading</b>		
Short position in equity and debt securities	<b>118,677,294</b>	2,718,000
Credit derivative ( <i>note a</i> )	<b>1,438,001</b>	596,858
Foreign currency forward contracts ( <i>note b</i> )	<b>7,687,355</b>	5,254,235
	<b>127,802,650</b>	8,569,093
Designated at fair value through profit or loss:		
Unlisted issued structured products ( <i>note c</i> )	<b>833,702,602</b>	176,671,697
	<b>961,505,252</b>	185,240,790
Analyses as:		
Current	<b>938,093,616</b>	161,958,014
Non-current	<b>23,411,636</b>	23,282,776
	<b>961,505,252</b>	185,240,790

Notes:

- (a) As at 30 June 2018 and 31 December 2017, the Group held credit derivative contracts with notional amounts of US\$25,000,000 and HK\$200,000,000 respectively with non bank financial institutions .
- (b) As at 30 June 2018 and 31 December 2017, the Group held forward contracts with a notional amounts of US\$220,000,000 and US\$200,000,000 respectively with non bank financial institutions .
- (c) As at 30 June 2018 and 31 December 2017, included in financial liabilities designated at fair value through profit or loss are the issued structured notes which arise from selling structured products generally in the form of notes with the underlying investments related to listed and unlisted debt investment traded in Hong Kong stock exchange and over-the-counter markets.

The risk of economic exposure on these structured products is primarily hedged using financial instruments classified as financial assets designated at fair value through profit or loss. These structured products are at fair value through profit or loss as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

Details of disclosure for fair value measurement are set out in note 20.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 14. ACCOUNTS PAYABLE

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
Accounts payable arising from the business of dealing in securities:		
Clearing house	<b>56,532,931</b>	5,857,460
Brokers	<b>299,263,646</b>	21,025,415
Clients	<b>4,669,320,286</b>	3,675,453,119
	<b>5,025,116,863</b>	3,702,335,994
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	<b>502,587,998</b>	310,087,267
Accounts payable arising from the business of financial products and investments:		
Brokers	<b>383,962,878</b>	–
Secured margin loans from a broker	<b>36,902,801</b>	191,248,478
Clients	<b>78,483,000</b>	–
	<b>499,348,679</b>	191,248,478
	<b>6,027,053,540</b>	4,203,671,739

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 14. ACCOUNTS PAYABLE *(Continued)*

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 total market value of debt securities pledged as collateral in respect of the loans was approximately HK\$454,282,225 at 30 June 2018 (31 December 2017: HK\$315,015,000).

The Group has accounts payable arising from the business of dealing in securities of HK\$61,953,563 due to the immediate holding company as at 30 June 2018 (31 December 2017: HK\$1,615,942).

## 15. BANK BORROWINGS

	<b>As at 30 June 2018 HK\$ Unaudited</b>	As at 31 December 2017 HK\$ Audited
Variable rate borrowings	<b>9,965,590,836</b>	5,404,592,664
Repayable within one year and contain a repayable on demand clause	<b>9,665,590,836</b>	5,104,592,664
Repayable within one year without a repayable on demand clause	<b>300,000,000</b>	300,000,000
Repayable within one year	<b>9,965,590,836</b>	5,404,592,664

The bank borrowings consist of loans borrowed by the Group from banks to facilitate investment and general working capital.

The interest rate of the Group's bank borrowings as at 30 June 2018 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.6% to HIBOR+2.3% (31 December 2017: HIBOR+1.6% to HIBOR+2.3%).

At 30 June 2018, HK\$9,965,590,836 (31 December 2017: HK\$5,404,592,664) was drawn by the Group respectively under the aggregated banking facilities of HK\$12,078,200,000 (31 December 2017: HK\$9,428,200,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK\$6,400,000,000 as at 30 June 2018 (31 December 2017: HK\$1,600,000,000).

The Group's bank borrowings amounting to HK\$628,318,748 as at 30 June 2018 (31 December 2017: HK\$414,592,664) was secured by charges over clients' pledged securities with fair value of approximately HK\$1,825,675,000 (31 December 2017: HK\$1,504,808,500) upon receiving client's authorisation. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK\$6,400,000,000 as at 30 June 2018 (31 December 2017: HK\$1,480,000,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 16. OTHER BORROWINGS

The interest rate of the borrowings as at 30 June 2018 ranged from fixed interest rate of 3.25% to 4.5% (31 December 2017: fixed interest of 2.70% to 3.68%).

## 17. NOTES

During the six months ended 30 June 2018, the Group's wholly owned subsidiary renewed guaranteed notes with fixed interest rate of 3% which is guaranteed by the Company. The note will mature in June 2019.

## 18. SHARE CAPITAL

Details of the movement of share capital are as follows:

	<b>Number of ordinary shares of HK\$0.10 each</b>	<b>Share capital</b> HK\$
Authorised:		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	20,000,000,000	2,000,000,000
Issued and fully paid:		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	4,000,000,000	400,000,000

## 19. EMPLOYEE SHARE PARTICIPATION SCHEME

On 25 April 2016, Industrial Securities (Hong Kong) adopted an employee share participation scheme to incentivise eligible participants for their contributions to the Group and to attract suitable personnel for further development of the Group.

Pursuant to the Scheme, the Company issued and allotted a total of 277,029,703 shares for a total consideration of HK\$279,800,000 (being the total award price for award of the shares which has been irrevocably settled on 26 April 2016).

No expenses is recognised in the condensed consolidated financial statements for the six months ended 30 June 2018 and 2017.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 20. FINANCIAL INSTRUMENTS

### Financial Risk Management Objectives and Policies

The Group's activities expose it to a variety of financial risks: Market risk (including interest rate risk, foreign exchange risk and other price risk), credit risk and liquidity risk.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017.

There has been no change in the risk management policies during the current period.

### Fair Value Measurement of Financial Instruments

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs are unobservable inputs for the asset or liability.

### Fair Value of the Financial Assets and Financial Liabilities that are not Measured on a Recurring Basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 30 June 2018 and 31 December 2017.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 20. FINANCIAL INSTRUMENTS (Continued)

### Fair Value of the Financial Assets and Financial Liabilities that are Measured at Fair Value on a Recurring Basis

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2018 HK\$ Unaudited	31 December 2017 HK\$ Audited		
<b>1) Financial assets held for trading</b>				
Equity securities				
– Traded on stock exchanges	<b>354,310,798</b>	259,712,504	Level 1	Quoted price in active markets
– Unlisted	<b>353,098,976</b>	–	Level 2	Recent transaction prices
Debt securities				
– Traded on stock exchanges	<b>4,703,137,495</b>	3,367,070,652	Level 1	Quoted price in active markets
– Unlisted	<b>2,988,733,512</b>	718,618,170	Level 2	Quoted from market makers
– Unlisted	<b>2,415,177,176</b>	–	Level 2	NAV calculated by fixed income pricing model with observable market inputs such as dividend yield and volatility
Credit derivative	<b>2,738,456</b>	3,193,943	Level 2	Quoted from market makers
Foreign currency forward contract	<b>129,003,945</b>	–	Level 2	Quoted from market makers
	<b>10,946,200,358</b>	4,348,595,269		
<b>2) Financial assets designated at fair value through profit or loss</b>				
Convertible bonds				
– Traded on stock exchanges	<b>125,762,659</b>	32,240,418	Level 1	Quoted price in active markets
Unlisted collateralised loan obligation	<b>39,830,123</b>	40,066,225	Level 2	Quoted from market makers
Investment funds				
– Unlisted	<b>257,506,802</b>	375,621,692	Level 2	NAV of funds with reference to observable quoted price of underlying investment portfolio in active markets
– Unlisted	<b>48,624,927</b>	–	Level 2	Recent transaction prices
Unlisted credit-linked notes	<b>59,476,929</b>	67,233,080	Level 2	Observable quoted price of underlying preference shares/debt securities in active market
Unlisted preference share linked note	–	242,351,800	Level 2	Recent transaction price
	<b>531,201,440</b>	757,513,215		

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 20. FINANCIAL INSTRUMENTS (Continued)

Fair Value of the Financial Assets and Financial Liabilities that are Measured at Fair Value on a Recurring Basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2018 HK\$ Unaudited	31 December 2017 HK\$ Audited		
<b>3) Available-for-sale financial assets</b>				
Debt securities				
– Listed on stock exchanges	–	1,473,504,798	Level 1	Quoted price in active markets
– Unlisted	–	398,828,976	Level 2	Quoted from market makers
Investment funds				
– Unlisted	–	11,423,329	Level 2	NAV of funds with reference to observable quoted price of underlying investment portfolio in active market
	–	1,883,757,103		
<b>4) Financial liabilities held for trading</b>				
Short position in listed equity and debt securities	<b>118,677,294</b>	2,718,000	Level 1	Quoted price in active markets
Credit derivative	<b>1,438,001</b>	596,858	Level 2	Quoted price from market makers
Foreign currency forward contracts	<b>7,687,355</b>	5,254,235	Level 2	Quoted price from market makers
	<b>127,802,650</b>	8,569,093		

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 20. FINANCIAL INSTRUMENTS (Continued)

Fair Value of the Financial Assets and Financial Liabilities that are Measured at Fair Value on a Recurring Basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2018 HK\$ Unaudited	31 December 2017 HK\$ Audited		
<b>5) Financial liabilities designated at fair value through profit or loss</b>				
Unlisted structured product (with the underlying investment related to listed debt security)	<b>215,258,440</b>	153,388,921	Level 2	Observable quoted price of underlying investment in active market
Unlisted structured product (with the underlying investment related to unlisted debt security)	<b>23,411,636</b>	23,282,776	Level 2	Observable quoted price of underlying investment in active market
Unlisted structured product (with the underlying investment related to unlisted debt security)	<b>595,032,526</b>	–	Level 2	NAV of underlying investment portfolio calculated by fixed income pricing model with observable market inputs such as dividend yield and volatility as key payments
	<b>833,702,602</b>	176,671,697		

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 20. FINANCIAL INSTRUMENTS (Continued)

### Derivative Financial Instruments

	Notional Amount		Fair Value			
			Assets		Liabilities	
	As at 30 June 2018 HK\$ Unaudited	As at 31 December 2017 HK\$ Audited	As at 30 June 2018 HK\$ Unaudited	As at 31 December 2017 HK\$ Audited	As at 30 June 2018 HK\$ Unaudited	As at 31 December 2017 HK\$ Audited
Hang Seng Index futures	46,444,450	179,626,050	482,850	–	–	1,559,350
Interest rate futures	1,509,878,027	683,215,914	95,038	3,241,029	–	–
<b>Total</b>	<b>1,556,322,477</b>	862,841,964	<b>577,888</b>	3,241,029	–	1,559,350
Less: Settlement			(577,888)	(3,241,029)	–	(1,559,350)
<b>Net position</b>			<b>–</b>	–	–	–

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in treasury futures traded through China Industrial Securities International Futures Limited, were settled daily with the broker. Accordingly, the net position of the above derivative contracts was nil as at 30 June 2018 and 31 December 2017.

## 21. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the notes to the unaudited condensed consolidated financial statements, the Group had the following material transactions with related parties.

### (A) Compensation of Key Management Personnel

The remuneration of key management during the six months ended 30 June 2018 and 2017 was as follows:

	For the six months ended 30 June	
	2018 HK\$ Unaudited	2017 HK\$ Unaudited
Salary and short-term benefits	9,342,729	9,340,889
Post-employment benefits	63,000	63,000

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 21. RELATED PARTY TRANSACTIONS *(Continued)*

### (B) Right of Trading of RMB Denominated Securities in the PRC

During the six months ended 30 June 2018 and 2017, the Group invests in RMB denominated securities in the PRC using the approved quota under the PRC RMB Qualified Foreign Institutional Investor program of the intermediate holding company for consideration of HK\$1 per annum.

### (C) Consultancy Services from a Fellow Subsidiary

Pursuant to service agreement entered into between the Company and Industrial Securities Consultancy Service (Shenzhen) Company Limited ("Industrial Securities (Shenzhen)"), dated 27 September 2016 (the "Service Agreement"), Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%. During the six months ended 30 June 2018 and 2017, the Company paid a service fee of 9,713,488 and HK\$3,247,101, respectively, under the Service Agreement. Details of the Service Agreement are set out in the announcement on 16 May 2018.

### (D) Right of Use of Trademark

During the six months ended 30 June 2018 and 2017, the Group was granted by the intermediate holding company a non-transferable and non-assignable license to use its registered trademarks for the Group's business and any related businesses for consideration of HK\$1 per annum.

## 22. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

In May 2017, the Group acquired approximately 38.45% of issued units of CIS Excellent Select Fund Segregated Portfolio ("Excellent") for consideration of HK\$39,880,000.

	HK\$
<b>Consideration transferred</b>	
Cash	39,880,000
<b>Assets acquired and liabilities recognised at the date of acquisition</b>	
Bank	90,361,196
Financial assets held for trading	57,032,087
Payables	(43,673,867)
	103,719,416
<b>Net assets acquired at the date of acquisition attributable to the Group</b>	
Net assets acquired at the date of acquisition	103,719,416
Proportion of the Group's interest	38.45%
	39,880,000

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 22. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY *(Continued)*

Third-party interests at the acquisition date were measured at the proportionate share of the fair value of identifiable net assets of Excellent, which are reflected as other liability in the unaudited condensed statement of financial position.

As the acquisition date, included in the financial assets held for trading represents the listed equity securities with the quoted market price.

### **Net cash inflow on acquisition of a consolidated structured entity**

Cash and cash equivalent balances acquired	90,361,196
Less: consideration paid in cash	(39,880,000)
	<hr/>
	50,481,196

## 23. INTEREST IN CONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including asset management products. For the asset management products where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management products that is of such significance that it indicates that the Group is a principal.

Third-party interests in consolidated structured entities consist of third-party unit holders/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

As at 30 June 2018, the third-party interests in the consolidated structured entities of the Group amounted to HK\$402,519,439 (31 December 2017: HK\$278,866,324) and presented in the unaudited condensed consolidated statement of financial position.

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS AND OVERVIEW

The Group recorded operating revenue of HK\$560.3 million (2017: HK\$358.4 million) for the six months ended 30 June 2018, representing a year-on-year increase of 56.3%. Under the influence of the increase in total finance costs as a combined result of the moderate increase in gearing ratio to cope with the business development of the Company and the significant increase in market interest rates, the Group recorded profit after tax of HK\$56.7 million (2017: HK\$59.6 million) for the six months ended 30 June 2018, representing a year-on-year decrease of 4.9%.

During the period under review, the businesses of brokerage, loans and financing, investment banking, asset management, financial products and investments of the Group all recorded growth, and the corresponding operating revenue from the aforesaid businesses increased by 36.6%, 37.1%, 563.7%, 72.0% and 3.5% for the six months ended 30 June 2018, respectively.

## ANALYSIS ON PRINCIPAL BUSINESSES

### (I) Policy Review

The Stock Exchange implemented a new listing regime at the end of April 2018 after market consultation. The amendments to the Listing Rules facilitate companies from emerging and innovative sectors to obtain a listing status in Hong Kong, subject to appropriate safeguards. Under the new listing regime, biotech companies without track record of revenue or profit, high growth and innovative companies with weighted voting rights (WVR) structures and qualifying issuers seeking a secondary listing on the Stock Exchange are allowed to list on the Main Board of the Stock Exchange.

The mutual market access mechanism for the mainland and Hong Kong capital markets continues to develop. Since 1 May 2018, the Northbound daily quota for each of the Shanghai Connect and the Shenzhen Connect has been increased from RMB13.0 billion to RMB52.0 billion and the Southbound daily quota for each of the Shanghai Connect and the Shenzhen Connect has been increased from RMB10.5 billion to RMB42.0 billion.

### (II) Macro Environment

In the first half of 2018, the major economies around the globe maintained a moderate growth. The unemployment rate in the United States fell from 4.1% in January to 4.0% in June, and recorded a rate of 3.8% in May, the lowest level since 2000. According to Eurostat, in the first quarter of 2018, quarterly growth of the seasonally adjusted gross domestic product (GDP) in Eurozone was 0.4%, being slower than the quarterly growth of 0.7% in last quarter. The economy of China continued to develop in a stable and positive manner generally. According to the National Bureau of Statistics of China, the preliminary accounting results of gross domestic product (GDP) of the PRC achieved 6.8% growth in the first half of 2018.

The economy of Hong Kong maintained a steady development. According to the Hong Kong Census and Statistics Department, the seasonally adjusted unemployment rate stood at 2.8% for the quarter from March to May 2018 and 2.9% for the quarter from January to March 2018 respectively, both lower than the corresponding periods in 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (III) Markets

In the first half of 2018, the Shanghai Composite Index decreased by 13.9%, and the Shenzhen Composite Index decreased by 15.4%. Dow Jones Index decreased by 1.8% while S & P 500 Index and Nasdaq Index increased by 1.7% and 8.8%, respectively.

The stock market in Hong Kong experienced significant fluctuation as a result of various factors, including the Sino-US trade friction beyond market expectation. In the first half of 2018, the Hang Seng Index fell by 3.2%. For the first six months of 2018, the average daily turnover was HK\$126.6 billion, representing an increase of 66.5% from HK\$76.0 billion for the corresponding period in 2017. For the first six months of 2018, the funds raised from the initial public offerings amounted to HK\$50.4 billion, representing a decrease of 8.1% from HK\$54.8 billion for the corresponding period in 2017. For the first six months of 2018, the total funds raised amounted to HK\$189.8 billion, representing an increase of 8.9% from HK\$174.3 billion for the corresponding period in 2017. For the first six months of 2018, there were 108 newly listed companies on Hong Kong Stock Exchange, representing an increase of 50% from 72 companies for the corresponding period in 2017 (including transfers of Listing from GEM to Main Board).

## (IV) Business Review

The Group's operating revenue mainly derives from: (i) brokerage; (ii) loans and financing; (iii) investment banking; (iv) asset management; and (v) financial products and investments. Thanks to the robust developments of the investment banking business and brokerage business, the operating revenue of the Group increased by 56.3% to HK\$560.3 million for the six months ended 30 June 2018 (2017: HK\$358.4 million).

### **Brokerage**

For the six months ended 30 June 2018, the income from the Group's brokerage business recorded a year-on-year increase of 36.6% to HK\$113.3 million (2017: HK\$82.9 million).

As at 30 June 2018, total assets under custody of the Group's brokerage clients exceeded HK\$130.0 billion, increased by over 30% as compared to the level as at 30 June 2017. Benefiting from the increase in the overall turnover of Hong Kong stock market and the growth in total assets under custody of the Group's brokerage clients, the Group's commission and fee income from securities brokerage for the six months ended 30 June 2018 recorded a year-on-year increase of 49.2%.

### **Loans and financing**

The Group's loans and financing business maintained a steady growth under prudent risk management approach. The revenue for the six months ended 30 June 2018 increased by 37.1% to HK\$197.4 million (2017: HK\$143.9 million).

The increase in revenue from loans and financing business was attributable to the expansion of brokerage business and the increase of clients' financing requirements. The Group continuously reviews and updates the risk management policies including credit risk management policy, so as to further enhance the risk control system. In the future, the Group will review its own risk control levels on an ongoing basis, timely monitor risk exposure and continuously enhance risk prevention capabilities.

### **Investment banking**

For the six months ended 30 June 2018, the Group's revenue from investment banking business significantly increased by 563.7% to HK\$129.3 million (2017: HK\$19.5 million).



# MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2018, the Group's commission on placing, underwriting and sub-underwriting of equity securities amounted to HK\$34.8 million, representing a year-on-year increase of approximately 196.4% (2017: HK\$11.7 million). For the six months ended 30 June 2018, the Group has submitted 2 IPO applications in the capacity of sponsor, entered into 7 financial advisory agreements and completed 6 underwriting/sub-underwriting projects for IPO and 17 placing projects with a total underwritten amount of approximately HK\$1,482.1 million and a total placing amount of approximately HK\$1,013.8 million, respectively.

With the aid of the rapid development in last year, the Group's bond issue and underwriting business made great progress as compared to the corresponding period last year. For the six months ended 30 June 2018, the Group's commission on placing, underwriting and sub-underwriting of debt securities amounted to HK\$70.3 million, representing a significant year-on-year increase of approximately 13.2 times (2017: HK\$4.9 million). With reference from Bloomberg, for the six months ended 30 June 2018, the Group has participated in the issuance and underwriting of 33 public offered or privately placed bonds (including preference share), and helped raise approximately US\$1.3 billion for clients. In addition, the fixed income structured products issuance business generated arrangement fee income amounting to HK\$20.0 million.

## **Asset management**

For the six months ended 30 June 2018, the Group's revenue from asset management business increased by 72.0% to HK\$10.8 million (2017: HK\$6.3 million).

As the Federal Reserve System has entered the interest rate hike cycle, and the volatility of the exchange rate of Renminbi has expanded, the demand for overseas asset allocation from institutional clients, corporate clients and individual clients in Chinese mainland has also increased. The Group has consolidated investment capabilities in various asset classes, and introduced products in single asset and multi-asset combination, to meet clients' requirements in terms of risk appetite and return. For the six months ended 30 June 2018, the Group has newly issued two "Belt and Road" offshore private equity funds. The Group will further enhance its capability of research and investment management in the future, so as to steadily and gradually develop its asset management platform.

## **Financial products and investments**

For the six months ended 30 June 2018, the Group's revenue from financial products and investments business increased by 3.5% to HK\$109.5 million (2017: HK\$105.7 million).

The financial products and investments business of the Group primarily comprises investments in US dollar-denominated bonds and other fixed income products as well as certain equity products, including public funds, private funds and discretionary portfolios as well as securities and financial derivatives for hedging purpose.

In the first half of 2018, certain factors, including the interest rate hikes in the United States, heightened the pressure on the secondary market price of US dollar-denominated bonds issued by Chinese issuers. At the same time, under the influence of various factors, major markets around the world, including US stocks, China A-shares and Hong Kong stocks, fluctuated sharply. As a result of above, the Group's revenue from financial products and investments fluctuated significantly. In the future, the Group will continue to manage risks in a prudent manner and closely monitor the market conditions. With risk prevention in mind, the Group will timely adjust the investment portfolio and adopt risk hedging measures to reduce the exposure to interest rate change and other external factors.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL POSITIONS

As at 30 June 2018, the total assets of the Group increased by 47.9% to HK\$25,225.4 million (31 December 2017: HK\$17,053.8 million). As at 30 June 2018, the total liabilities of the Group increased by 65.3% to HK\$20,921.5 million (31 December 2017: HK\$12,656.5 million).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 30 June 2018, the net current assets of the Group decreased by 2.3% to HK\$4,263.0 million (31 December 2017: HK\$4,363.0 million). As at 30 June 2018, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year/period) was approximately 1.2 times (31 December 2017: approximately 1.3 times).

For the six months ended 30 June 2018, the net cash inflows of the Group were HK\$665.5 million (2017: HK\$448.6 million). As at 30 June 2018, the bank balances of the Group were HK\$1,846.9 million (31 December 2017: HK\$1,181.4 million).

As at 30 June 2018, the Group had bank and other borrowings of HK\$11,397.9 million (31 December 2017: HK\$6,608.5 million), representing an increase of 72.5%. As at 30 June 2018, the notes outstanding of the Group were HK\$62.8 million (31 December 2017: HK\$62.5 million, details are set out in note 17 to the unaudited condensed consolidated financial statements). As at 30 June 2018, the gearing ratio of the Group (defined as the ratio of bank and other borrowings and notes outstanding to total equity) increased to 266.3% (31 December 2017: 151.7%).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK\$4,303.9 million as at 30 June 2018 (31 December 2017: HK\$4,397.3 million).

## PROSPECTS AND FUTURE PLAN

The Group will step up its efforts in building a core professional team to timely capitalize on the major development opportunities arising from the PRC's "Belt and Road" Initiative, the mutual market access mechanism between the mainland and Hong Kong markets, and the Listing reform of the Hong Kong stock market. It will continue to consolidate and promote its securities and futures brokerage business, and accelerate the development of the institutional sales and research business, which will also drive the corporate finance and assets management business. These will facilitate its goal of business diversification and mitigate the effect of external factors such as the economic environment and interest rate volatility, while achieving better returns for shareholders.

# MANAGEMENT DISCUSSION AND ANALYSIS

## USE OF PROCEEDS

On 20 October 2016, the Group was listed on the GEM of the Stock Exchange. A total of 1,000,000,000 shares were offered under the global offering at an offer price of HK\$1.33 per share. The net proceeds (net of issuance expenses) amounted to HK\$1,288.2 million.

	<b>Proposed Use of proceeds as disclosed in the Prospectus<sup>(note 1)</sup></b>	<b>Use of proceeds by 30 June 2018, as allocated in accordance with the Prospectus<sup>(note 1)</sup></b>		<b>Use of proceeds as at 30 June 2018, as actually applied</b>		<b>Outstanding proceeds allocated as at 30 June 2018</b>	
	<i>Approximate percentage of allocation</i>	<i>Approximate percentage of application</i>	<i>HK\$'million (approx.)</i>	<i>Approximate percentage of application</i>	<i>HK\$'million (approx.)</i>	<i>Approximate percentage of outstanding allocation</i>	<i>HK\$'million (approx.)</i>
Expansion of the loans and financing business	40%	32%	412.2	39.0%	501.8	1.0%	13.5
Development of proprietary trading business (currently known as financial products and investments)	20%	16%	206.1	20.0%	257.6	Nil	Nil
Development of capital-based intermediary business	10%	8%	103.1	10.0%	128.8	Nil	Nil
Development of asset management business	8%	8%	103.1	8.0%	103.1	Nil	Nil
Development of investment banking business	8%	8%	103.1	0.5%	6.9	7.5%	96.2
Development of institutional sales capabilities	4%	4%	51.5	4.0%	51.5	Nil	Nil
Working capital and other general corporate purposes	10%	8%	103.1	10.0%	128.8	Nil	Nil
<b>Total</b>		<b>84%</b>	<b>1,082.2</b>	<b>91.5%</b>	<b>1,178.5</b>	<b>8.5%</b>	<b>109.7</b>

Note:

- The implementation plan in the prospectus of the Company dated 30 September 2016 (the "Prospectus") is based on the mid-range expected offer price as at the latest practicable date of the Prospectus. The allocation percentages reflect the percentage of the proceeds of the Company's listing as stated in the implementation plan, while the actual amounts allocated have been adjusted to reflect the percentage of the net proceeds actually received pursuant to the listing of the Company on the GEM.

# MANAGEMENT DISCUSSION AND ANALYSIS

The actual use of proceeds in loans and financing and financial products and investments of the Group up to 30 June 2018 was accelerated in comparison to the implementation plan as disclosed in the Prospectus, due to the unexpected growth of business with respect to such business segments of the Group. The actual use of proceeds in capital-based intermediary business up to 30 June 2018 was accelerated in comparison to the implementation plan as disclosed in the Prospectus, due to unexpected growth in the business since its expansion. The actual use of proceeds in investment banking business up to 30 June 2018 was significantly reduced in comparison to the implementation plan as disclosed in the Prospectus, as the Group's investment banking business was still under development during this abovesaid period and has not yet used the proceeds to provide capital support for significant fund raising services, and accordingly, the proceeds allocated for this segment have been reserved for supporting and developing such services.

The actual use of proceeds in working capital and other general corporate purposes was accelerated by HK\$25.7 million up to 30 June 2018 in comparison to the implementation plan as disclosed in the Prospectus, due to the rapid growth in the Group's overall business since the date of listing.

Save as disclosed above, the Group will apply the proceeds from its listing on the GEM to various businesses gradually in accordance with the proceeds allocation set out in the Prospectus.

## SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no significant acquisitions or disposals of subsidiaries and associated companies by the Group during the six months ended 30 June 2018.

As at 30 June 2018, the Group did not hold any significant investments.

## CHARGES ON GROUP ASSETS

For the six months ended 30 June 2018, the Group's asset pledged was mainly debt securities pledged as collaterals for other borrowings or margin loans from a broker. For details please refer to note 9, 10 and 14 of the notes to unaudited condensed consolidated financial statements.

## EMPLOYEE INFORMATION

As at 30 June 2018, the Group had 178 full-time employees (30 June 2017: 144 full-time employees), including the Directors. Total remuneration for the six months ended 30 June 2018 was HK\$61.9 million (2017: HK\$78.9 million).

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EVENT AFTER THE REPORTING PERIOD

Up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors 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 in 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.

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, especially during adverse market movements; and we have 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 in place 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 have authorisation limits in place for any commitment or fund outlay, such as procurement, investments, loans, etc., and we 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

We have established limits and controls on margin loans and money lending loans on aggregate and individual loan basis.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 the business performance, risk tolerance levels and variations in market conditions;

In terms of the financial products and investments business, the Group formulates different selection criteria for bonds and other fixed income products, limit the investment in industries and enterprises with excess capacity and negative news, and track and monitor 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 on 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 capability of revenue generation of different types of bonds and control 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 establish mechanisms that set pre-determined points to stop profit or loss on an overall basis or on each individual security.

## 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 bond and other fixed income product investment denominated in US dollars. Despite the fact that the Hong Kong dollar is pegged to the US dollar under the Linked Exchange Rate System, the exchange rate of Hong Kong dollar has been fluctuating in the first half of 2018, the Group will closely monitor the exchange rate trend and adopt hedge measures when appropriate. However, the Group does not expect significant foreign exchange risk arising from US dollar denominated monetary items.

## Interest rate risks

The interest rate risks of the Group mainly come 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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; they also formulate and update 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.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

#### Long Position in Ordinary Shares of HK\$0.1 each of the Company

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage
Huang Yilin	Beneficiary of a trust	2,264,384	0.06%
Huang Jinguang	Beneficiary of a trust	9,263,389	0.23%
Wang Xiang	Beneficiary of a trust	8,131,197	0.20%
Zeng Yanxia	Beneficiary of a trust	7,204,858	0.18%

Save as disclosed above, as at 30 June 2018, none of the Directors or Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.



# OTHER INFORMATION

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

So far as the Directors and the Chief Executives are aware, as at 30 June 2018, the following persons/corporations (other than a Director or the Chief Executives) had interests or short positions in the Shares and the underlying Shares, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO:

Name	Nature of Interest	No. of Shares held	Approximate percentage of Shareholding
China Industrial Securities International Holdings Limited	Beneficial owner	2,066,587,644	51.66%
Industrial Securities (Hong Kong) Financial Holdings Limited (Note 1)	Interest of controlled corporation	2,066,587,644	51.66%
Industrial Securities Co., Ltd.* (Note 2)	Interest of controlled corporation	2,066,587,644	51.66%
Harvest Capital Management Co., Ltd (Note 3)	Investment manager	293,232,000	7.33%
Harvest Fund Management Co., Ltd. (Note 3)	Interest of controlled corporation	293,232,000	7.33%
China Credit Trust Co., Ltd. (Note 3)	Interest of controlled corporation	293,232,000	7.33%
Intelligence Creation International Limited (Note 4)	Settlor of a trust	287,988,473	7.20%
Equity Trustee Limited (Note 5)	Trustee	287,988,473	7.20%
Intelligence Creation Value Limited (Note 6)	Beneficial owner	287,988,473	7.20%
Hao Kang Financial Holdings (Group) Limited	Beneficial owner	205,853,089	5.15%
Apex Trade Holdings Limited	Interest of controlled corporation	205,853,089	5.15%
Chen Jiaquan (Note 7)	Interest of controlled corporation	205,853,089	5.15%
Yang Zhiying (Note 8)	Interest of spouse	205,853,089	5.15%

# OTHER INFORMATION

## Notes:

1. Industrial Securities (Hong Kong) Financial Holdings Limited holds the entire issued share capital of China Industrial Securities International Holdings Limited. Therefore, Industrial Securities (Hong Kong) Financial Holdings Limited is deemed or taken to be interested in all the Shares held by China Industrial Securities International Holdings Limited for the purposes of the SFO.
2. Industrial Securities Co., Ltd.\* holds the entire issued share capital of Industrial Securities (Hong Kong) Financial Holdings Limited. Therefore, Industrial Securities Co., Ltd.\* is deemed or taken to be interested in all the Shares held by Industrial Securities (Hong Kong) Financial Holdings Limited for the purposes of the SFO.
3. China Credit Trust Co., Ltd holds 40% of the entire issued share capital of Harvest Fund Management Co., Ltd., and Harvest Fund Management Co., Ltd. holds 75% of the entire issued share capital of Harvest Capital Management Co., Ltd. Therefore, China Credit Trust Co., Ltd and Harvest Fund Management Co., Ltd. are deemed or taken to be interested in all the Shares held by Harvest Capital Management Co., Ltd for the purposes of the SFO.
4. Intelligence Creation International Limited is the settlor of Intelligence Creation Trust.
5. Equity Trustee Limited holds the entire issued share capital of Intelligence Creation Value Limited as the trustee of the Intelligence Creation Trust.
6. Intelligence Creation Value Limited holds the Shares issued and allotted pursuant to the Employee Share Participation which is the trust assets of the Intelligence Creation Trust. For further details of the Intelligence Creation Trust, please refer to the paragraph headed "History, Reorganisation and Group Structure — Employee Share Participation Scheme" in the prospectus of the Company dated 30 September 2016.
7. Chen Jiaquan holds 70% of the total issued share capital of Apex Trade Holdings Limited and is the sole director of Hao Kang Financial Holdings (Group) Limited and therefore is deemed or taken to be interested in all the Shares held by Apex Trade Holdings Limited and Hao Kang Financial Holdings (Group) Limited for the purpose of the SFO.
8. Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the Shares in which Chen Jiaquan is interested.

Save as disclosed above, as at 30 June 2018, the Company has not been notified by any persons, other than the Directors and the Chief Executives who had interests or short positions in the Share or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## 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 2018.

## 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, none of the Directors or the controlling shareholders of the Company nor their respective close associates (as defined in the GEM Listing Rules) had any interest in business that competed or might compete with business of the Group during the six months ended 30 June 2018.

## COMPLIANCE ADVISER'S INTERESTS

As at 30 June 2018, save and except for the compliance adviser's agreement entered into between the Company and Haitong International Capital Limited (the "Compliance Adviser") dated 8 June 2016, neither the Compliance Adviser, nor any of its directors, employees or close associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities).

# OTHER INFORMATION

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in information of Directors subsequent to the date of the 2017 annual report of the Company are set out below:

Directors	Details of Changes
Huang Yilin	Resigned as supervisor of China Securities Credit Investment Co., Ltd. on 16 April 2018  Appointed as legal representative and executive director of Industrial Securities Investment Management Limited on 15 May 2018
Qin Shuo	Appointed as independent director of Oppein Home Group Inc. (stock code: 603833.SS) on 16 May 2018

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2018.

## 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 15 to the GEM Listing Rules during the six months ended 30 June 2018.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee 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 2018 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 GEM 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, 10 August 2018

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