



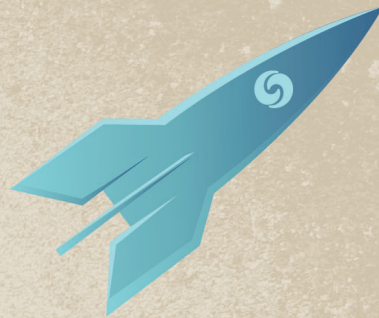
興證國際金融集團有限公司

China Industrial Securities International Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)
Stock code : 6058

INTERIM REPORT

2019



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Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

Mr. Yang Huahui (*Chairman*) (resigned on 6 August 2019)

Mr. Huang Yilin (*Chairman*)

Executive Directors

Mr. Huang Jinguang (*Chief Executive Officer*)

(also appointed as Vice Chairman on 6 August 2019)

Mr. Wang Xiang

Ms. Zeng Yanxia

Ms. Zhang Chunjuan (appointed on 2 August 2019)

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 (resigned on 6 August 2019)

Mr. Huang Yilin (appointed on 6 August 2019)

Mr. Qin Shuo

Nomination Committee

Mr. Yang Huahui (*Chairman*) (resigned on 6 August 2019)

Mr. Huang Yilin (appointed on 6 August 2019)

Mr. Tian Li

Mr. Qin Shuo

COMPANY SECRETARY

Mr. Cho Ka Wai

AUTHORISED REPRESENTATIVES

Ms. Zeng Yanxia (resigned on 2 August 2019)

Ms. Zhang Chunjuan (appointed on 2 August 2019)

Mr. Cho Ka Wai

AUDITOR

KPMG

Certified Public Accountants

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 54, 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

Shanghai Pudong Development Bank Co., Ltd.,

Hong Kong Branch

China Everbright Bank Co., Ltd., Hong Kong Branch

Chiyu Banking Corporation Limited

China Minsheng Bank Corp., Ltd., Hong Kong Branch

WEBSITE

www.xyqz.com.hk

STOCK CODE

6058

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

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

The notes on pages 8 to 38 form part of this interim financial report.

Condensed Consolidated Statement of Financial Position

	Note	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited (Note)
Non-current assets			
Property and equipment		48,688,168	26,668,610
Intangible assets		8,002,802	2,822,898
Interest in a joint venture		39,534,262	39,534,262
Financial assets at fair value through profit or loss	9	47,044,598	46,987,812
Statutory deposits		12,523,851	11,132,259
Deferred tax assets		3,025,843	3,896,066
Deposits, other receivables and prepayments		13,538,432	13,546,949
		172,357,956	144,588,856
Current assets			
Accounts receivable	11	7,338,358,997	6,907,207,392
Loans receivable	10	25,226,411	71,444,048
Reverse repurchase agreements		734,600,038	334,317,392
Financial assets at fair value through profit or loss	9	8,154,299,373	8,734,109,327
Statutory deposits		19,977,373	11,859,727
Deposits, other receivables and prepayments		259,793,074	394,214,270
Tax receivable		43,178	43,178
Bank balances – trust accounts		2,823,820,649	5,228,829,297
Bank balances – general accounts and cash		7,683,583,033	1,517,226,830
		27,039,702,126	23,199,251,461
Current liabilities			
Accounts payable	13	4,876,421,489	5,991,194,627
Accruals and other payables		185,061,775	181,422,911
Amount due to a related party		1,860,236	3,174,615
Contract liabilities		110,400	126,000
Other liabilities	21	551,391,365	399,729,979
Tax payable		111,305,223	86,791,183
Financial liabilities at fair value through profit or loss	12	449,819,373	288,701,100
Repurchase agreements		2,298,774,778	1,542,080,825
Bank borrowings	14	9,086,519,406	5,586,797,616
Other borrowings	15	1,786,868,070	1,485,297,574
Notes	16	62,715,921	62,850,751
Lease liabilities	2	27,793,066	–
		19,438,641,102	15,628,167,181
Net current assets		7,601,061,024	7,571,084,280

Condensed Consolidated Statement of Financial Position

	<i>Note</i>	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited (<i>Note</i>)
Non-current liabilities			
Accruals and other payables		–	785,704
Bank borrowings	14	3,337,932,651	3,322,863,676
Lease liabilities	2	1,662,229	–
Deferred tax liabilities		840,425	950,184
		3,340,435,305	3,324,599,564
Net assets		4,432,983,675	4,391,073,572
Capital and reserves			
Share capital	17	400,000,000	400,000,000
Share premium		3,379,895,424	3,379,895,424
Retained earnings		199,068,586	157,158,483
Other reserve		11,577,844	11,577,844
Capital reserve		442,441,821	442,441,821
Equity attributable to owners of the Company		4,432,983,675	4,391,073,572

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

The notes on pages 8 to 38 form part of this interim financial report.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	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 2019 (audited)	400,000,000	3,379,895,424	442,441,821	-	11,577,844	157,158,483	4,391,073,572
HKFRS 16 adjustment on retained earnings	-	-	-	-	-	2,427,791	2,427,791
At 1 January 2019 (after adjustment)	400,000,000	3,379,895,424	442,441,821	-	11,577,844	159,586,274	4,393,501,363
Dividends recognised as distribution	-	-	-	-	-	(92,000,000)	(92,000,000)
Profit for the period	-	-	-	-	-	131,482,312	131,482,312
Total comprehensive income for the period	-	-	-	-	-	131,482,312	131,482,312
At 30 June 2019 (unaudited)	400,000,000	3,379,895,424	442,441,821	-	11,577,844	199,068,586	4,432,983,675

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

The notes on pages 8 to 38 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Note	2019 HK\$ Unaudited	2018 HK\$ Unaudited (Note)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		2,558,524,131	(3,860,549,647)
INVESTING ACTIVITIES			
Purchase of property and equipment		(444,927)	(6,897,063)
Proceeds from disposal of property and equipment		129,802	–
Acquisition of intangible assets		(5,684,759)	(374,717)
Net cash inflow from acquisition of a consolidated structured entity	19	302,964	–
NET CASH USED IN INVESTING ACTIVITIES		(5,696,920)	(7,271,780)
FINANCING ACTIVITIES			
Interest paid		(210,787,824)	(136,347,311)
Bank borrowings raised		12,436,142,968	29,062,306,120
Repayments of bank borrowings		(8,925,700,000)	(24,501,307,948)
Other borrowings raised		656,630,018	255,564,092
Repayments of other borrowings		(353,507,398)	(27,149,534)
Issuance of a note		62,516,000	62,786,400
Redemption of a note		(62,650,400)	(62,549,900)
Dividends paid	7	(92,000,000)	(120,000,000)
Capital element of lease rentals paid		(15,755,712)	–
Interest element of lease rentals paid		(718,650)	–
Contribution from third-party unitholders/shareholders of consolidated investment funds		123,008,178	–
Withdrawals from third-party unitholders/shareholders of consolidated investment funds		(3,648,188)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		3,613,528,992	4,533,301,919
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,166,356,203	665,480,492
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF THE PERIOD		1,517,226,830	1,181,370,930
CASH AND CASH EQUIVALENTS AS AT END OF THE PERIOD		7,683,583,033	1,846,851,422
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS REPRESENTED BY			
Bank balances — general accounts and cash		7,683,583,033	1,846,851,422
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		376,942,656	340,703,871
Dividend received		2,511,769	9,622,382

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

The notes on pages 8 to 38 form part of this interim financial report.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

1. GENERAL

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

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

HKFRS 16, *Leases*

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

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

(a) Changes in the accounting policies

(i) *New definition of a lease*

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

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

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

(ii) *Lessee accounting*

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

HKFRS 16, Leases *(Continued)*

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

(ii) Lessee accounting *(Continued)*

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

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

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

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

- right-of-use assets that meet the definition of investment property are carried at fair value;
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

HKFRS 16, Leases *(Continued)*

(b) Transitional impact

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

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

HKFRS 16, Leases (Continued)

(b) Transitional impact (Continued)

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

HKFRS 16, Leases *(Continued)*

(c) Lease liabilities

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

HKFRS 16, Leases (Continued)

(c) Lease liabilities (Continued)

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

3. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

3. REVENUE AND OTHER INCOME (Continued)

Revenue (Continued)

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

Other income

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

4. SEGMENT REPORTING

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

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

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

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

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

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

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

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

For the six months ended 30 June 2019 (unaudited)

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

4. SEGMENT REPORTING (Continued)

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

5. PROFIT BEFORE TAXATION

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

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

6. TAXATION

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

6. TAXATION *(Continued)*

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

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

7. DIVIDENDS

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

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

8. EARNINGS PER SHARE

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited
Equity securities		
– Listed in Hong Kong	112,488,488	171,742,442
– Listed outside Hong Kong	123,582,255	78,745,632
– Unlisted	371,086,904	374,529,995
Debt securities		
– Listed in Hong Kong	4,549,055,822	2,984,265,913
– Listed outside Hong Kong	675,620,003	1,658,668,927
– Unlisted	1,987,820,828	1,784,955,456
Foreign currency forward contract	2,548,772	2,322,556
Credit derivative	3,226,687	2,747,716
Funds		
– Listed in Hong Kong	79,072,500	69,441,600
– Unlisted	79,969,310	160,337,247
Convertible bonds		
– Listed in Hong Kong	133,367,099	148,120,335
– Listed outside Hong Kong	30,630,000	65,128,500
Unlisted equity-linked notes	–	398,055,808
Unlisted debt-linked notes	–	882,035,012
Unlisted collateralised loan obligation	52,875,303	–
	8,201,343,971	8,781,097,139
Analysed as		
Current	8,154,299,373	8,734,109,327
Non-current	47,044,598	46,987,812
	8,201,343,971	8,781,097,139

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

10. LOANS RECEIVABLE

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

The credit quality of loans receivable are summarised as follows:

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

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

Fixed-Rate Loans Receivable Denominated in HKD

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

As at 30 June 2019, HK\$22,396,411 (31 December 2018: HK\$66,974,995) 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 2019

11. ACCOUNTS RECEIVABLE

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

11. ACCOUNTS RECEIVABLE *(Continued)*

Secured margin loans

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

Accounts receivable (except for secured margin loans)

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

11. ACCOUNTS RECEIVABLE *(Continued)*

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

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

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

Corporate finance clients

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

Asset management clients

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

12. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited
Held for trading		
Short position in equity and debt securities	46,962,750	104,522,000
Credit derivative	13,419,567	11,879,526
	60,382,317	116,401,526
Designated at fair value through profit or loss:		
Unlisted issued structured products	389,437,056	172,299,574
	449,819,373	288,701,100

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

13. ACCOUNTS PAYABLE

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

13. ACCOUNTS PAYABLE *(Continued)*

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

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

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

14. BANK BORROWINGS

	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited
Variable rate borrowings	12,484,452,057	8,909,661,292
Repayable within one year and contain a repayable on demand clause	9,086,519,406	5,586,797,616
Repayable within a period of more than two years but not exceeding five years	3,397,932,651	3,322,863,676
	12,484,452,057	8,909,661,292

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 2019 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.3% to HIBOR+2.3% (31 December 2018: HIBOR+1.4% to HIBOR+2.3%).

At 30 June 2019, HK\$12,413,306,644 (31 December 2018: HK\$8,902,863,676) was drawn by the Group under the aggregated banking facilities of HK\$15,341,200,000 (31 December 2018: HK\$15,017,200,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK\$10,004,000,000 as at 30 June 2019 (31 December 2018: HK\$9,180,000,000).

Industrial Securities provided letters of comfort to support the bank borrowings of the Group amounting to HK\$9,690,000,000 as at 30 June 2019 (31 December 2018: HK\$6,980,000,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

15. OTHER BORROWINGS

	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited
Fixed rate borrowings associated with transferred assets	1,728,282,763	1,485,297,574
Variable rate borrowings associated with transferred assets	58,585,307	–
	1,786,868,070	1,485,297,574

The interest rate of the fixed rate borrowings as at 30 June 2019 ranged from 3.58% to 4.85% (31 December 2018: 3.58% to 4.85%).

The interest rate of the variable rate borrowings as at 30 June 2019 was London Interbank Offered Rate +3.5%.

16. NOTES

After the note held by the Group's wholly owned subsidiary matured in June 2019, the Group's wholly owned subsidiary issued a one year note with the same term. As at 30 June 2019, the note carries a fixed interest rate of 3% (31 December 2018: 3%).

17. SHARE CAPITAL

Details of the share capital are as follows:

	Number of ordinary shares of HK\$0.10 each	Share capital HK\$
Authorised:		
As at 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	20,000,000,000	2,000,000,000
Issued and fully paid:		
As at 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	4,000,000,000	400,000,000

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. 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 2018.

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 2019 and 31 December 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. 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 and financial liabilities are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2019 HK\$ Unaudited	31 December 2018 HK\$ Audited		
1) Financial assets at fair value through profit or loss				
Equity securities				
— Traded on stock exchanges	236,070,743	250,488,074	Level 1	Quoted price in active markets
— Unlisted	371,086,904	374,529,995	Level 3	Market approach based on the Guideline Companies Method with the Price to Earnings multiple of the comparable companies, with significant unobservable input of the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment (<i>note a</i>)
Debt securities				
— Traded on stock exchanges	5,224,675,825	4,642,934,840	Level 1	Quoted price in active markets
— Unlisted	1,987,820,828	1,784,955,456	Level 2	Quoted from market makers
Credit derivative	3,226,687	2,747,716	Level 2	Quoted from market makers
Foreign currency forward contracts	2,548,772	2,322,556	Level 2	Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. FINANCIAL INSTRUMENTS (Continued)

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2019 HK\$ Unaudited	31 December 2018 HK\$ Audited		
1) Financial assets at fair value through profit or loss (Continued)				
Convertible bonds				
— Traded on stock exchanges	163,997,099	213,248,835	Level 1	Quoted price in active markets
Unlisted collateralised loan obligation	52,875,303	–	Level 2	Recent transaction price
Funds				
— Traded on stock exchange	79,072,500	69,441,600	Level 1	Quoted price in active market
— Unlisted	8,157,134	88,528,438	Level 2	NAV of funds with reference to underlying investment portfolios which have observable quoted price in active markets
— Unlisted	71,812,176	24,820,997	Level 3	NAV of fund provided by external counterparty which is the deemed redemption price (note b)
— Unlisted	–	46,987,812	Level 2	Recent transaction price
Unlisted equity-linked note	–	398,055,808	Level 2	Observable quoted price of underlying equity investment in active market
Unlisted debt-linked note	–	841,767,642	Level 2	Observable quoted price of underlying investment portfolio in active market
Unlisted debt-linked note	–	40,267,370	Level 2	Quoted from market makers
	8,201,343,971	8,781,097,139		

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. FINANCIAL INSTRUMENTS *(Continued)*

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2019 HK\$ Unaudited	31 December 2018 HK\$ Audited		
2) Financial liabilities held for trading				
Short position in listed equity securities	46,962,750	104,522,000	Level 1	Quoted price in active market
Credit derivative	13,419,567	11,198,759	Level 2	Quoted price from market makers
Credit derivative	–	680,767	Level 3	Quoted price from market makers <i>(note c)</i>
	60,382,317	116,401,526		
3) Financial liabilities designated at fair value through profit or loss				
Unlisted structured products (with the underlying investment related to listed debt securities)	365,994,494	148,930,662	Level 2	Observable quoted price of underlying investments in active market
Unlisted structured product (with the underlying investment related to unlisted debt security)	23,442,562	23,368,912	Level 2	Observable quoted price of underlying investment from market makers
	389,437,056	172,299,574		

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. FINANCIAL INSTRUMENTS *(Continued)*

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

Notes:

- (a) The unobservable input is the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted.
- (b) The directors of the Company determined that the reported net asset value of the unlisted investment fund represents the fair value of the fund. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in positive relationship that the higher the reported net asset value adopted in the valuation assessment, the higher the fair value would be resulted.
- (c) The unobservable input is the spread of the credit derivative with reference to the price of the underlying reference obligation and the spread is provided by the external counterparty, when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the spread adopted in the valuation assessment, the lower the fair value would be resulted.

There were no transfers between Level 1 and 2 during the six months ended 30 June 2019 and 2018.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	Financial liabilities at fair value through profit or loss HK\$	Financial assets at fair value through profit or loss HK\$
As at 31 December 2018 (audited)	(680,767)	399,350,992
Derecognition	680,767	–
Transfer into Level 3 (<i>note a</i>)	–	47,044,598
Total gains in profit or loss	–	(3,496,510)
As at 30 June 2019 (unaudited)	–	442,899,080

During the six months ended 30 June 2018, no financial instruments were classified as Level 3.

Note:

- (a) The fair value of the unlisted fund was determined with reference to the recent transaction price and therefore classified as Level 2 investment for the year ended 31 December 2018. During the six months ended 30 June 2019, the fair value of the unlisted fund was determined based on significant unobservable inputs and involved significant judgement made by the management. Thus, the instrument was transferred from Level 2 to Level 3 category. The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. FINANCIAL INSTRUMENTS (Continued)

Derivative Financial Instruments

	Notional Amount		Fair Value			
			Assets		Liabilities	
	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited	As at 30 June 2019 HK\$ Unaudited	As at 31 December 2018 HK\$ Audited
Hang Seng Index futures	92,837,000	96,952,500	172,193	844,750	-	-
Currency exchange futures	308,580,846	-	-	-	4,608,352	-
Interest rate futures	1,555,589,641	3,693,376,000	-	-	6,844,888	25,236,230
Total	1,957,007,487	3,790,328,500	172,193	844,750	11,453,240	25,236,230
Less: Settlement			(172,193)	(844,750)	(11,453,240)	(25,236,230)
Net position			-	-	-	-

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 2019 and 31 December 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

19. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

In April 2019, the Group acquired approximately 62.12% of issued units of CIS Alpha-H Fund Segregated Portfolio ("Alpha-H") for a consideration of HK\$5,000,000.

	HK\$
Consideration transferred	
Cash	5,000,000
Assets acquired and liabilities recognised at the date of acquisition	
Bank	5,302,964
Financial assets held for trading	2,303,460
Accounts receivable	794,213
Other payables	(351,692)
	8,048,945
Net assets acquired at the date of acquisition attributable to the Group	
Net assets acquired at the date of acquisition	8,048,945
Proportion of the Group's interest	62.12%
	5,000,000
Net assets acquired at the date of acquisition attributable to the Group	
	5,000,000

Third-party interests at the acquisition date were measured at the proportionate share of the fair value of identifiable net assets of Alpha-H, 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	5,302,964
Less: consideration paid in cash	(5,000,000)
	302,964

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

20. 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 2019 and 2018 was as follows:

	For the six months ended 30 June	
	2019 HK\$ Unaudited	2018 HK\$ Unaudited
Salary and short-term benefits	13,295,952	9,342,729
Post-employment benefits	78,000	63,000

(B) Consultancy Services from a Fellow Subsidiary

Pursuant to service agreement entered into between the Company and 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%. On 3 April 2018, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which the Company required broader services from Industrial Securities (Shenzhen) including provision of services and support to the Group's clients in core regions in the PRC, brand establishment and promotion and provision of cross-border information technology support. During the six months ended 30 June 2019, the Company paid a consultancy service fee of HK\$7,266,666 (2018: HK\$9,713,488) under the Service Agreement. Details of the Service Agreement and the Supplemental Service Agreement are set out in section headed "Connected Transactions" in the Prospectus and in the announcement dated 3 April 2018 respectively.

21. 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 2019, the third-party interests in the consolidated structured entities of the Group amounted to HK\$551,391,365 (31 December 2018: HK\$399,729,979) 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\$651.91 million (2018: HK\$560.31 million) for the six months ended 30 June 2019, representing a year-on-year increase of 16.35%, and profit after taxation of HK\$131.48 million (2018: HK\$56.67 million), representing a year-on-year increase of 132.00%.

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

ANALYSIS ON PRINCIPAL BUSINESSES

(1) Policy Review

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

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

(2) Macro Environment

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

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

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

Management Discussion and Analysis

(3) Markets

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

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

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

(4) Business Review

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

Brokerage

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

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

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

Management Discussion and Analysis

Corporate Finance

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

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

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

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

Asset management

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

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

Loans and financing

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

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

Management Discussion and Analysis

Financial products and investments

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

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

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

FINANCIAL POSITION

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

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

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

As at 30 June 2019, the Group's bank and other borrowings in aggregate increased by 36.71% to HK\$14,211.32 million (31 December 2018: HK\$10,394.96 million). As at 30 June 2019, the notes outstanding of the Group amounted to HK\$62.72 million (details of which are set out in note 16 to the unaudited condensed consolidated financial statements). As at 30 June 2019, the gearing ratio of the Group (defined as bank and other borrowings and notes outstanding divided by total equity) increased by 35.20% to 3.220 (31 December 2018: 2.382).

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

PROSPECTS AND FUTURE PLAN

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

Management Discussion and Analysis

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

CHARGES ON GROUP ASSETS

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

EMPLOYEE INFORMATION

As at 30 June 2019, the Group had 212 full-time employees (30 June 2018: 178 full-time employees), including the Directors. Total remuneration for the six months ended 30 June 2019 was HK\$90.34 million (2018: HK\$61.92 million). The remuneration policies of the Group are reviewed from time to time against market practices. Staff benefits include performance related bonuses, the Mandatory Provident Fund Scheme contributions and others.

CONTINGENT LIABILITIES

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

EVENT AFTER THE REPORTING PERIOD

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

RISK MANAGEMENT

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

Credit risks

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

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

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

Management Discussion and Analysis

Liquidity risks

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

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

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

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

Compliance and Legal Risks

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

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

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

Market risks

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

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

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

Management Discussion and Analysis

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

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

Foreign currency risks

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

Interest rate risks

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

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

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

Operational risks

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

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

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 2019, 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 the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") were 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	Beneficial owner	2,264,384	0.06%
Huang Jinguang	Beneficial owner	9,263,389	0.23%
Wang Xiang	Beneficial owner	8,131,197	0.20%
Zeng Yanxia	Beneficial owner	7,204,858	0.18%

Save as disclosed above, as at 30 June 2019, 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 the Model Code, 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 2019, 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 were as follows:

Name	Nature of Interest	No. of Shares held	Approximate percentage of Shareholding
Industrial Securities (Hong Kong) Financial Holdings Limited	Beneficial owner	2,076,129,644	51.90%
Industrial Securities Co., Ltd.* (Note 1)	Interest of controlled corporation	2,076,129,644	51.90%
Harvest Capital Management Co., Ltd (Note 2)	Investment manager	293,232,000	7.33%
Harvest Fund Management Co., Ltd. (Note 2)	Interest of controlled corporation	293,232,000	7.33%
China Credit Trust Co., Ltd. (Note 2)	Interest of controlled corporation	293,232,000	7.33%
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 3)	Interest of controlled corporation	205,853,089	5.15%
Yang Zhiying (Note 4)	Interest of spouse	205,853,089	5.15%

Notes:

- 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.
- 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.
- 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.
- 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.

Other Information

Save as disclosed above, as at 30 June 2019, 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 Shares 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 2019.

COMPETING INTERESTS

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

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2018 annual report of the Company are set out below:

Director	Details of Change
Hong Ying	The annual remuneration has been revised to HK\$250,000 with effect from 27 July 2019
Tian Li	The annual remuneration has been revised to HK\$250,000 with effect from 27 July 2019
Qin Shuo	The annual remuneration has been revised to HK\$220,000 with effect from 27 July 2019
Zeng Yanxia	Resigned as chief financial officer of the Company on 17 July 2019
Huang Jinguang	Resigned as director and chief executive officer of Industrial Securities (Hong Kong) Financial Holdings Limited on 31 July 2019

CONTINUING DISCLOSURE OBLIGATION UNDER RULE 13.21 OF THE LISTING RULES

On 26 September 2018, the Company as borrower (the "Borrower") entered into a facility agreement (the "Facility Agreement") with certain financial institutions as lenders (the "Lenders") relating to a 36 months term loan facility of HK\$3,380,000,000 (the "Loan"). Under the terms of the Facility Agreement, if, among others, any of the following events of default occurs, the Lenders may, by notice to the Borrower: (i) cancel all or part of the Loan; and/or (ii) declare all or part of the Loan, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement be immediately due and payable; and/or (iii) declare that all or part of the Loan become payable on demand:

- (a) Industrial Securities Co., Ltd.* ("Industrial Securities"), the controlling shareholder of the Company, does not, or ceases to directly or indirectly own, legally and beneficially, at least 51% of the issued share capital of the Company; or
- (b) Industrial Securities does not or ceases to have Management Control of the Company. "Management Control" means, as between Industrial Securities and the Company, that (i) a majority of the incumbent directors of the Company are nominees of Industrial Securities and (ii) Industrial Securities has control over the management strategies and policies of the Company.

Other Information

On 15 May 2019, the Company as borrower entered into a facility letter (the "Facility Letter A") with a bank as lender in relation to an uncommitted revolving loan facility of US\$30,000,000.

As a condition of the Facility Letter A, it shall be an event of default if Industrial Securities, the controlling shareholder of the Company ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company.

On 15 May 2019, the Company as borrower entered into a facility letter (the "Facility Letter B") with a bank as lender in relation to an uncommitted revolving loan facility of HK\$200,000,000.

As a condition of the Facility Letter B, it shall be an event of default if Industrial Securities, the controlling shareholder of the Company ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain the absolute management control over the Company.

On 15 May 2019, the Company as borrower entered into a facility agreement (the "Facility Agreement A") with a bank as lender in relation to an uncommitted revolving loan facility of HK\$300,000,000. The Facility Agreement A has a term of 12 months commencing from the date of the Facility Agreement A.

As a condition of the Facility Agreement A, it shall be an event of default if Industrial Securities ceases to maintain its status as the Company's controlling shareholder and pledge the Company's shares externally.

On 15 May 2019, the Company as borrower entered into a facility agreement (the "Facility Agreement B") with a bank as lender in relation to an uncommitted revolving loan facility of US\$80,000,000.

As a condition of the Facility Agreement B, it shall be an event of default if Industrial Securities ceases to maintain its actual control status and management control over the Company. "Management Control" means, as between Industrial Securities and the Company, that (i) a majority of the incumbent directors of the Company are nominees of Industrial Securities and (ii) Industrial Securities has control over the management strategies and policies of the Company.

On 9 July 2019, the Company and China Industrial Securities International Brokerage Limited ("CISI Brokerage"), a direct wholly-owned subsidiary of the Company, as borrower, entered into a facility letter (the "Facility Letter") with a bank, as lender (the "Lender"), pursuant to which the Lender has agreed to make available an uncommitted revolving loan facility of up to HK\$1,200,000,000 to the Company and CISI Brokerage.

As a condition of the Facility Letter, it shall be an event of default if Industrial Securities, the controlling shareholder of the Company ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company.

As at the date of this report, the above specific performance obligations imposed on Industrial Securities under the aforesaid facility agreements and facility letters continued to exist.

Other Information

DIRECTORS' SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established with written terms of reference in compliance with the Listing Rules and code provisions under the CG Code. The Audit Committee currently comprises a non-executive Director and two independent non-executive Directors, namely Mr. Huang Yilin (who was appointed in replacement of Mr. Yang Huahui on 6 August 2019), Ms. Hong Ying and Mr. Tian Li. The chairlady of the Audit Committee is Ms. Hong Ying.

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