



中國通海國際金融有限公司

CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 00952

2019

Interim Report





This report is printed on environmentally friendly paper

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Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Fee and commission income	5	127,417	167,642
Interest income	5		
— Calculated using the effective interest method		140,207	75,163
— Others		137,338	96,539
Net investment income/(loss)	5	54,560	(71,243)
Total revenue	5	459,522	268,101
Other income/(loss)	6	(3,907)	8,917
Direct cost		(83,544)	(100,451)
Staff cost	7	(101,397)	(85,396)
Depreciation and amortisation	7	(20,523)	(5,046)
Impairment loss		(111,401)	(153)
Finance cost		(56,370)	(11,921)
Share of results of joint ventures		62	397
Other operating expenses		(25,070)	(36,935)
Profit before tax	7	57,372	37,513
Tax expense	8	(7,131)	(6,755)
Profit attributable to equity holders of the Company		50,241	30,758
		HK cent(s)	HK cent(s)
Earnings per share for profit attributable to equity holders of the Company			
— Basic and diluted	9	0.813	0.495
Dividend per share	10	Nil	Nil

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Profit attributable to equity holders of the Company	50,241	30,758
Other comprehensive income, including reclassification adjustments		
Item that may be reclassified subsequently to profit or loss		
— Exchange loss on translation of financial statements of foreign operations	(105)	(573)
Item that will not be reclassified subsequently to profit or loss		
— Changes in fair value of financial assets measured at fair value through other comprehensive income	—	(204)
Other comprehensive income, including reclassification adjustments and net of tax	(105)	(777)
Total comprehensive income attributable to equity holders of the Company	50,136	29,981

Condensed Consolidated Statement of Financial Position

			As at 30 June 2019			As at 31 December 2018		
Notes	Current HK\$'000 (Unaudited)	Non-current HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Current HK\$'000 (Audited)	Non-current HK\$'000 (Audited)	Total HK\$'000 (Audited)		
ASSETS								
Cash and cash equivalents	242,367	—	242,367	357,300	—	357,300		
Bank balances held on behalf of clients	1,367,097	—	1,367,097	1,321,371	—	1,321,371		
Financial assets held for trading and market making activities	11 1,703,896	202,990	1,906,886	1,740,555	228,891	1,969,446		
Investment securities	12 190,600	8,196	198,796	278,710	55,715	334,425		
Derivative financial instruments	13 15,554	—	15,554	10,000	—	10,000		
Loans to margin clients	14 2,219,612	—	2,219,612	2,810,720	—	2,810,720		
Advances to customers for merger and acquisition activities	15 21,318	—	21,318	—	—	—		
Other loans	16 3,086,379	—	3,086,379	2,570,621	37,410	2,608,031		
Accounts receivable	17 477,130	—	477,130	600,288	—	600,288		
Prepayments, deposits and other receivables	75,082	—	75,082	26,808	—	26,808		
Interests in joint ventures	—	41,419	41,419	—	41,444	41,444		
Goodwill and other intangible assets	—	19,104	19,104	—	20,376	20,376		
Other assets	18 —	31,935	31,935	—	19,004	19,004		
Investment property	19 —	11,200	11,200	—	11,200	11,200		
Property and equipment	19 —	122,351	122,351	—	21,285	21,285		
Deferred tax assets	—	38,642	38,642	—	25,915	25,915		
TOTAL ASSETS	9,399,035	475,837	9,874,872	9,716,373	461,240	10,177,613		
LIABILITIES AND EQUITY								
Liabilities								
Accounts payable	20 1,790,247	—	1,790,247	1,846,261	—	1,846,261		
Obligations under repurchase agreement	21 —	—	—	34,634	—	34,634		
Bank and other borrowings	22 2,021,413	—	2,021,413	2,308,573	50,000	2,358,573		
Contract liabilities	8,032	—	8,032	8,886	—	8,886		
Lease liabilities	30,795	69,814	100,609	—	—	—		
Accrual and other payables	85,318	—	85,318	110,122	—	110,122		
Tax payables	39,809	—	39,809	22,523	—	22,523		
TOTAL LIABILITIES	3,975,614	69,814	4,045,428	4,330,999	50,000	4,380,999		
Equity								
Share capital	23 —	—	20,657	—	—	20,657		
Reserves	—	—	5,808,787	—	—	5,775,957		
TOTAL EQUITY			5,829,444			5,796,614		
TOTAL LIABILITIES AND EQUITY			9,874,872			10,177,613		
<i>Net current assets</i>			<i>5,423,421</i>			<i>5,385,374</i>		

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Cash flows from operating activities		
Profit before tax	57,372	37,513
Adjustments for:		
Amortisation of other intangible assets	1,307	1,102
Changes in net assets value attributable to other holders of a consolidated investment fund	5,929	(4,299)
Depreciation of property and equipment	19,216	3,944
Dividend income	(2,723)	(4,107)
Finance cost	56,370	11,921
Gain on revaluation of investment property	—	(600)
Impairment loss	111,401	153
Interest income	(277,545)	(171,702)
Net losses on disposals of property and equipment	—	142
Net investment (income)/loss on financial assets measured at fair value through profit or loss	(51,837)	75,350
Share of results of joint ventures	(62)	(397)
Operating loss before working capital changes	(80,572)	(50,980)
(Increase)/Decrease in other assets	(10,682)	5,418
Decrease in accounts receivable, prepayments, deposits and other receivables	75,440	68,043
Decrease/(Increase) in loans to margin clients	580,409	(85,086)
Decrease/(Increase) in financial assets held for trading and market making activities	113,376	(420,377)
Decrease/(Increase) in investment securities	129,842	(144,653)
Decrease in derivative financial instruments	3,000	—
Increase in advances to customers for merger and acquisition activities	(19,612)	—
Increase in other loans	(547,610)	(721,669)
Increase in bank balances held on behalf of clients	(45,726)	(51,450)
Decrease in accounts payable, contract liabilities, accrual and other payables	(57,149)	(104,709)
Cash generated from/(used in) operations	140,716	(1,505,463)
Dividend received	2,723	4,107
Interest received	241,960	156,822
Interest paid	(52,279)	(5,361)
Income tax (paid)/refunded, net	(2,572)	1,951
<i>Net cash generated from/(used in) operating activities</i>	330,548	(1,347,944)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Cash flows from investing activities		
Proceeds from disposals of property and equipment	—	8
Purchases of other intangible assets	(35)	(280)
Payments for property and equipment	(8,556)	(6,397)
<i>Net cash used in investing activities</i>	(8,591)	(6,669)
Cash flows from financing activities		
Capital element of lease rentals paid	(14,292)	—
Interest element of lease rentals paid	(2,408)	—
Interest paid for obligations under repurchase agreement	(149)	(2,891)
Net (repayments of)/proceeds from bank and other borrowings	(367,854)	1,106,616
Payments on redemption of shares by other holders of a consolidated investment fund	(1,013)	(12,930)
Proceeds from shares issued to other holders of a consolidated investment fund	784	20,856
Net repayment of obligations under repurchase agreement	(34,779)	(271,274)
Purchase of shares held under the share award scheme	(17,306)	—
<i>Net cash (used in)/generated from financing activities</i>	(437,017)	840,377
Net decrease in cash and cash equivalents	(115,060)	(514,236)
Cash and cash equivalents at the beginning of the period	357,300	1,074,932
Effect of foreign exchange rate changes, on cash held	127	(25)
Cash and cash equivalents at the end of the period	242,367	560,671

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital		Exchange reserve	Investment revaluation reserve	Property revaluation reserve	Shareholder's contribution	Shares held for Share		Total
			redemption reserve	Contributed surplus					Award Scheme	Retained profits	
			HK\$'000 (Unaudited)	HK\$'000 (Unaudited)					HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	
At 1 January 2019	20,657	5,117,070	1,019	352,580	(1,971)	(17,850)	5,255	1,811	(5,419)	323,462	5,796,614
Share purchase for share award scheme	—	—	—	—	—	—	—	—	(17,306)	—	(17,306)
Transactions with owner	—	—	—	—	—	—	—	—	(17,306)	—	(17,306)
Profit for the period	—	—	—	—	—	—	—	—	—	50,241	50,241
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—
— Exchange loss on translation of financial statements of foreign operations	—	—	—	—	(105)	—	—	—	—	—	(105)
Total comprehensive income for the period	—	—	—	—	(105)	—	—	—	—	50,241	50,136
Transfer from share premium account*	—	(5,000,000)	—	5,000,000	—	—	—	—	—	—	—
At 30 June 2019	20,657	117,070	1,019	5,352,580	(2,076)	(17,850)	5,255	1,811	(22,725)	373,703	5,829,444

* Pursuant to the special resolution passed on 24 May 2019, an amount of HK\$5,000,000,000 standing to the credit of the share premium account of the Company was cancelled and that the credit arising therefrom was transferred to the contributed surplus account of the Company.

Attributable to equity holders of the Company

	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Capital redemption reserve HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Investment revaluation reserve HK\$'000 (Unaudited)	Property revaluation reserve HK\$'000 (Unaudited)	Shares held for Share			Total HK\$'000 (Unaudited)
								Shareholder's contribution HK\$'000 (Unaudited)	Award Scheme HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	
At 1 January 2018	20,740	5,135,621	936	352,580	490	(13,841)	5,255	1,811	(905)	234,736	5,737,423
Profit for the period	—	—	—	—	—	—	—	—	—	30,758	30,758
Other comprehensive income											
— Exchange loss on translation of financial statements of foreign operations	—	—	—	—	(573)	—	—	—	—	—	(573)
— Changes in fair value of financial assets measured at fair value through other comprehensive income	—	—	—	—	—	(204)	—	—	—	—	(204)
Total comprehensive income for the period	—	—	—	—	(573)	(204)	—	—	—	30,758	29,981
At 30 June 2018	20,740	5,135,621	936	352,580	(83)	(14,045)	5,255	1,811	(905)	265,494	5,767,404

Notes to the Condensed Consolidated Interim Financial Statements

1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and, its principal place of business is 18th and 19th Floors, China Building, 29 Queen's Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company and its subsidiaries (together the "Group") are principally engaged in the following activities:

- discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing and money lending services, insurance broking and wealth management services
- corporate finance advisory and general advisory services
- fund management, discretionary portfolio management and portfolio management advisory services
- financial media services
- investing and trading of various investment products

The unaudited interim financial statements for the six months ended 30 June 2019 were approved for issue by the board of directors of the Company (the "Board") on 5 August 2019. These interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

2. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation that have been used in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of new and amended Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations.

During the interim period, the Group has adopted all the new and amended HKFRSs which are first effective for the reporting period. Except as explained below, the adoption of new and amended HKFRSs has no material impact on the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Lease

The Group has initially adopted HKFRS 16 Lease from 1 January 2019. 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.

HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated — i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under HK(IFRIC) 4. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as lease under HKAS 17 and HK(IFRIC) 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone price. However, for lease of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Group lease many assets, including properties and office equipment.

As a lessee, the Group previously classified lease as operating or finance lease based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most lease — i.e. these lease are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some lease of low-value assets (e.g. office equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

As a lessee (Continued)

The Group present right-of-use assets in "property and equipment", the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below:

	HK\$000
Balance at 1 January 2019	108,140
Balance at 30 June 2019	98,513

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re measurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

As a lessee (Continued)

i. Significant accounting policies (Continued)

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

Previously, the Group classified property leases as operating leases under HKAS 17. The Group enters into leases only as the lessee.

At the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Group applied this approach to all leases.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

As a lessee (Continued)

ii. Transition (Continued)

- Relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.
- 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).

iii. Impacts on financial statements

Impact on transition

On transition to HKFRS 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below.

	As at 1 January 2019 HK\$'000
Right-of-use assets presented in property and equipment	108,140
Lease liabilities	<u>109,066</u>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4.55%.

The following table reconciles the operating lease commitments as disclosed in the Group's consolidated financial statements as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

As a lessee (Continued)

iii. Impacts on financial statements (Continued)

Impact on transition (Continued)

	As at 1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements	120,681
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(946)
Operating lease liabilities before discounting	119,735
Discounted using the incremental borrowing rate at 1 January 2019	(10,669)
Lease liabilities recognised at 1 January 2019	109,066

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 statement of financial position at 31 December 2018.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Increased property and equipment by HK\$108,140,000
- Increased lease liabilities by HK\$109,066,000
- Decreased accruals and other payables by HK\$1,063,000
- Decreased prepayments, deposits and other receivables by HK\$137,000

There is no net impact on retained earnings on 1 January 2019.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

As a lessee (Continued)

iii. Impacts on financial statements (Continued)

Impacts for the period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised HK\$98,513,000 right-of-use assets and HK\$100,609,000 of lease liabilities as at 30 June 2019.

Also in relation to those leases under HKFRS 16, the Group has recognised depreciation and interest expense, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised HK\$15,462,000 of depreciation charges and HK\$2,408,000 of interest expense from these leases.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

4. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines.

The Group has identified the following reportable segments:

- (a) the brokerage and interest income segment engages in discretionary and non-discretionary dealing services for securities, futures and options, margin financing and money lending services, insurance broking and wealth management services, and interest income arising from debt instruments;
- (b) the corporate finance segment engages in securities placing and underwriting services, corporate finance advisory and general advisory services;
- (c) the asset management segment engages in fund management, discretionary portfolio management and portfolio management advisory services;
- (d) the investments segment engages in investing and trading of various investment products; and
- (e) the others segment represents financial media services and other insignificant operating segments.

4. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2019 (Unaudited)

	Brokerage and interest income HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Investments HK\$'000	Others HK\$'000	Total HK\$'000
Reportable segment revenue						
Fee and commission income	88,087	22,500	11,066	—	5,764	127,417
Interest income	277,545	—	—	—	—	277,545
Net investment income	—	—	—	54,560	—	54,560
Segment revenue from external customers	365,632	22,500	11,066	54,560	5,764	459,522
Inter-segment revenue	—	250	1,638	—	695	2,583
Reportable segment revenue	365,632	22,750	12,704	54,560	6,459	462,105
Fee and commission income by timing of revenue recognition:						
Point in time	88,087	12,553	1,661	—	2,131	104,432
Over time	—	9,947	9,405	—	3,633	22,985
Fee and commission income	88,087	22,500	11,066	—	5,764	127,417
Reportable segment result	26,579	4,198	895	27,655	666	59,993

4. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2018 (Unaudited)

	Brokerage and interest income HK\$'000 (restated)	Corporate finance HK\$'000	Asset management HK\$'000	Investments HK\$'000 (restated)	Others HK\$'000	Total HK\$'000
Reportable segment revenue						
Fee and commission income	117,914	29,469	12,871	—	7,388	167,642
Interest income	171,702	—	—	—	—	171,702
Net investment loss	—	—	—	(71,243)	—	(71,243)
Segment revenue from external customers	289,616	29,469	12,871	(71,243)	7,388	268,101
Inter-segment revenue	3,115	1,400	5,560	—	2,644	12,719
Reportable segment revenue	292,731	30,869	18,431	(71,243)	10,032	280,820
Fee and commission income by timing of revenue recognition:						
Point in time	117,914	11,879	4,277	—	2,115	136,185
Over time	—	17,590	8,594	—	5,273	31,457
Fee and commission income	117,914	29,469	12,871	—	7,388	167,642
Reportable segment result	111,278	9,804	2,375	(85,680)	1,444	39,221

4. SEGMENT INFORMATION (CONTINUED)

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

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Reportable segment result	59,993	39,221
Gain on revaluation of investment property	—	600
Other operating income and gains	267	2,547
Share of results of joint ventures	62	397
Unallocated corporate expenses	(2,950)	(5,252)
Profit before tax	57,372	37,513

5. REVENUE

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Brokerage business		
<i>Fee and commission income:</i>		
— Commission on dealings in securities		
— Hong Kong securities	32,638	38,042
— Other than Hong Kong securities	4,068	4,914
— Commission on dealings in futures and options contracts	40,123	67,645
— Handling, custodian and other service fee income	11,258	7,313
	88,087	117,914
Interest income business		
<i>Interest income from loans to margin clients:</i>	100,539	74,982
<i>Interest income calculated using the effective interest method:</i>		
— Interest income from other loans	123,392	61,675
— Interest income from cash clients receivables	1,294	761
— Interest income from trust bank deposits	5,405	5,126
— Interest income from initial public offering loans	138	594
— Interest income from house money bank deposits and others	9,978	7,007
<i>Interest income from bonds measured at fair value through profit or loss and others:</i>	36,799	21,557
	277,545	171,702
Corporate finance business		
<i>Fee and commission income:</i>		
— Placing and underwriting commission income	12,553	7,604
— Financial and compliance advisory services fee income	9,947	21,865
	22,500	29,469

5. REVENUE (CONTINUED)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Asset management business		
<i>Fee and commission income:</i>		
— Management fee income	9,405	8,594
— Performance fee income	1,661	4,277
	11,066	12,871
Investments and others business		
<i>Fee and commission income:</i>		
— Financial media service fee income	5,764	7,388
<i>Net investment income:</i>		
— Net investment income/(loss) on financial assets measured at fair value through profit or loss	51,837	(75,350)
— Dividend from financial assets measured at fair value through profit or loss	2,723	4,023
— Dividend from financial assets measured at fair value through other comprehensive income	—	84
	60,324	(63,855)
Total revenue	459,522	268,101

6. OTHER INCOME/(LOSS)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Changes in net asset value attributable to other holders of a consolidated investment fund	(5,929)	4,299
Exchange gains, net	1,204	3,189
Gain on revaluation of investment property	—	600
Others	818	829
	(3,907)	8,917

7. PROFIT BEFORE TAX

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Profit before tax is arrived at after charging:		
Staff cost		
— Fees, salaries, allowances, bonuses and benefits in kind	98,381	82,413
— Retirement benefits scheme contributions	2,316	2,239
— Other staff benefits	700	744
	101,397	85,396
Depreciation and amortisation		
— Other intangible assets	1,307	1,102
— Property and equipment	19,216	3,944
	20,523	5,046
Other item		
— Net losses on disposals of property and equipment	—	142

8. TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying corporations are taxed 8.25%, and assessable profits above HK\$2 million are taxed at 16.5%. The profits of corporation not qualifying the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. For the six months ended 30 June 2019 and 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. Tax on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. TAX EXPENSE (CONTINUED)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Current tax — Hong Kong		
— Current period	19,881	5,193
— (Over)/under provision in prior year	(23)	25
	19,858	5,218
Deferred tax	(12,727)	1,537
Total tax expense	7,131	6,755

9. EARNINGS PER SHARE

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

Earnings

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
For purpose of basic and diluted earnings per share	50,241	30,758



9. EARNINGS PER SHARE (CONTINUED)

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

	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
For purpose of basic and diluted earnings per share	6,181,499,207	6,219,887,218

Earnings per share for profit attributable to equity holders of the Company

	Six months ended 30 June 2019 HK cents (Unaudited)	Six months ended 30 June 2018 HK cents (Unaudited)
Basic and diluted	0.813	0.495

10. DIVIDENDS

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

11. FINANCIAL ASSETS HELD FOR TRADING AND MARKET MAKING ACTIVITIES

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Financial assets held for trading and market making activities at fair value through profit or loss			
Listed debt securities		7,810	65,226
Listed equity securities	(d)	488,689	485,331
Unlisted debt securities	(e)	710,628	712,657
Unlisted equity securities	(a)	468,546	469,884
Unlisted mutual funds	(b)	28,223	7,457
Private equity fund	(c)	202,990	228,891
		1,906,886	1,969,446
Analysis of the net amount into current and non-current portions:			
Current		1,703,896	1,740,555
Non-current		202,990	228,891
		1,906,886	1,969,446

Notes:

- (a) The Group had entered into agreements for subscription of shares in two private entities in December 2017. Under the agreements, the Group subscribed 3,529,411 ordinary shares and 4,000,000 ordinary shares of the respective entities for a total consideration of approximately US\$60,000,000. Upon the completion of these shares subscriptions in January 2018, the Group's interests in each of these entities are less than 1%. As at 30 June 2019, the fair value of investment in these two private entities was HK\$468,546,000 (31 December 2018: HK\$469,884,000).

11. FINANCIAL ASSETS HELD FOR TRADING AND MARKET MAKING ACTIVITIES (CONTINUED)

Notes: (Continued)

- (b) Pursuant to the subscription agreement, the Group's interest in the above mutual funds are in the form of redeemable shares, which is puttable at the holder's option and entitles the Group to a proportionate stake in the fund's net assets. The mutual fund is managed by an investment manager who is empowered to manage its daily operations and apply various investment strategies to accomplish its investment objectives.

The Group served as an investment manager for the above mutual funds and generated management and performance fee income from managing assets on behalf of investors. As the variable returns the Group exposed are not significant, the Group did not consolidate the above mutual fund in which it holds an interest.

- (c) The Group had committed to invest US\$20 million in Oceanwide Pioneer Limited Partnership (the "Fund"), representing 25%* (31 December 2018: 25%*) of the aggregated capital committed by all partners in the Fund as at 30 June 2019. Following the acceptance of the subscription agreement by the general partner, the Group was admitted as a limited partner.

The Fund is a close-ended private equity fund structured as a Cayman Islands exempted limited partnership with an investment objective to achieve long-term capital appreciation through equity and equity-related investments in selected good-quality enterprises and projects as pioneers in the relevant industries. Under the subscription agreement, the limited partners do not have the power to participate in the financial and operating policy decisions of the Fund, whilst the general partner has the rights and power to administer the affairs of the Fund and include all powers statutory and otherwise, which may be possessed under the laws of Cayman Islands. Though the Group had served as an investment manager and generated management fee income from managing assets on behalf of investors, as the Group as an investment manager can be terminated without cause by the general partner, and the Group did not have any control or significant influence over the general partner, the Group did not consolidate or account for the Fund as an associate despite its equity interest of 25%* (31 December 2018: 25%*).

- (d) The Group invested around HK\$390,000,000 in one leading Chinese financial institution H-share in June 2018. As at 30 June 2019, the fair value of this investment was HK\$264,121,000 (31 December 2018: HK\$300,000,000). Details of the transaction were set out in the Company's announcement dated on 4 June 2018.
- (e) Unlisted debt securities of HK\$710,628,000 (31 December 2018: HK\$712,657,000) were issued by a fellow subsidiary.

* rounded to the nearest one percent

12. INVESTMENT SECURITIES

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Investment securities at fair value through profit or loss			
Unlisted debt securities		17,242	16,139
Unlisted equity securities		1,875	1,250
		19,117	17,389
Investment securities at amortised cost			
Unlisted debt securities	(b)	253,710	389,123
Less: Impairment allowance		(80,352)	(78,408)
		173,358	310,715
Investment securities at fair value through other comprehensive income			
Unlisted equity securities	(a)	6,321	6,321
		198,796	334,425
Analysis of the net amount into current and non-current portions:			
Current		190,600	278,710
Non-current		8,196	55,715
		198,796	334,425

12. INVESTMENT SECURITIES (CONTINUED)

Notes:

- (a) Fair value of the unlisted equity securities has been determined by using the discounted cash flow valuation technique. The valuation involves assumptions and estimates, including discount rate of 13% (31 December 2018: 13%) and the expected future cash flows from the unlisted equity securities. The directors believe that the estimated fair value resulting from the valuation technique, which is recorded in the condensed consolidated statement of financial position and the related changes in fair value, which is recorded in the condensed consolidated statement of comprehensive income, is reasonable, and that is the most appropriate value at the reporting date.
- (b) Unlisted debt securities of HK\$94,325,000 (31 December 2018: HK\$229,893,000) were issued by a fellow subsidiary.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Financial assets at fair value through profit or loss		
Derivative financial instruments	15,554	10,000

14. LOANS TO MARGIN CLIENTS

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Loans to margin clients		
— Measured at fair value through profit and loss	2,219,612	2,810,720

14. LOANS TO MARGIN CLIENTS (CONTINUED)

Note:

Margin clients are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a comprehensive analysis including but not limited to loan-to-market and loan-to-marginable value ratios ("lending ratios"), concentration risk, illiquid collaterals and overall availability of funds. The Group exercises continuous monitoring of outstanding margin loans to see if the actual lending ratios have exceeded the pre-determined levels as a credit risk control mechanism. Any excess in the lending ratios will trigger a margin call which the clients have to make good the shortfall. As at 30 June 2019, the market value of securities pledged by margin clients to the Group as collateral was HK\$10,617,344,000 (31 December 2018: HK\$10,722,507,000) and the Group is permitted to sell these collaterals if the client defaults in margin calls. Loans to margin clients are repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

15. ADVANCES TO CUSTOMERS FOR MERGER AND ACQUISITION ACTIVITIES

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Advances to customers for merger and acquisition activities		
— Measured at fair value through profit and loss	21,318	—

16. OTHER LOANS

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Other loans			
— Unsecured	(a)	2,290,358	1,876,375
— Secured	(a, b)	921,031	749,407
		3,211,389	2,625,782
Less: Impairment allowance		(125,010)	(17,751)
		3,086,379	2,608,031
Analysis of the net amount into current and non-current portions:			
— Current		3,086,379	2,570,621
— Non-current		—	37,410
		3,086,379	2,608,031

Notes:

- (a) The loans bear interest at fixed rate ranging from 5.0% to 20.0% (31 December 2018: from 5.0% to 9.5%) per annum. HK\$1,297,330,000 (31 December 2018: HK\$919,152,000) of the carrying amounts of the loans are from fellow subsidiaries, and HK\$88,476,000 (31 December 2018: HK\$100,257,000) of the carrying amounts of the loans are from a company in which the ultimate controlling shareholder of the Company has shareholding less than 10%.
- (b) As at 30 June 2019, the collaterals held by the Group for the secured loans mainly include shares of listed companies, notes and assets of private companies.

17. ACCOUNTS RECEIVABLE

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
<i>Accounts receivable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing houses	(a)	446,408	568,126
— Cash clients	(a)	14,604	13,245
— Clients for subscription of securities	(a)	49	27
Less: Impairment allowance		(6,273)	(5,770)
		454,788	575,628
<i>Accounts receivable from asset management, corporate finance and other businesses</i>			
— Clients	(a)	29,841	30,466
Less: Impairment allowance		(7,499)	(5,806)
		22,342	24,660
Net accounts receivable	(b)	477,130	600,288

Notes:

- (a) Amounts due from brokers, clearing house and cash clients for the dealings in securities are required to be settled on the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) and the amounts due from clients for subscription of securities are required to be settled upon the allotment of the securities subscribed. Amounts due from brokers and clearing houses for the dealings in futures and options contracts are repayable on demand except for the required margin deposits for the trading of futures and options contracts. There are no credit terms granted to clients for its asset management, advisory and other services. The amounts due from clients for subscription of securities as at 30 June 2019 bear interest at a fixed rate of 3.5% (31 December 2018: 2.5%) per annum. The amounts due from cash clients after the settlement dates bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

17. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

- (b) Ageing analysis of accounts receivable based on due date and net of impairment allowance is as follows:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Repayable on demand	2,940	1,524
0–30 days	464,159	590,751
31–90 days	3,966	3,982
Over 90 days	6,065	4,031
	477,130	600,288

18. OTHER ASSETS

Other assets mainly comprise long term deposits for property and equipment, rental deposits and deposits with the Stock Exchange and clearing houses.

19. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

	Property and Equipment								
	Right-of-use assets	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicle	Sub-total	Investment property	Total		
			HK\$'000					HK\$'000	HK\$'000
			(Unaudited)					(Unaudited)	(Unaudited)
Six months ended 30 June 2019									
Opening net carrying amount	—	8,604	12,681	—	21,285	11,200	32,485		
Impact on initial application of HKFRS 16	108,140	—	—	—	108,140	—	108,140		
Adjusted opening net carrying amount	108,140	8,604	12,681	—	129,425	11,200	140,625		
Additions	5,833	360	5,343	604	12,140	—	12,140		
Depreciation	(15,462)	(1,306)	(2,398)	(50)	(19,216)	—	(19,216)		
Translation differences	2	—	—	—	2	—	2		
Closing net carrying amount	98,513	7,658	15,626	554	122,351	11,200	133,551		
Six months ended 30 June 2018									
Opening net carrying amount	—	3,724	9,759	—	13,483	10,200	23,683		
Additions	—	4,923	2,074	—	6,997	—	6,997		
Disposals	—	—	(150)	—	(150)	—	(150)		
Depreciation	—	(1,926)	(2,018)	—	(3,944)	—	(3,944)		
Fair value change	—	—	—	—	—	600	600		
Translation differences	—	—	(5)	—	(5)	—	(5)		
Closing net carrying amount	—	6,721	9,660	—	16,381	10,800	27,181		

20. ACCOUNTS PAYABLE

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
<i>Accounts payable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing house	(a)	64,200	30,905
— Cash clients	(a)	704,931	706,408
— Margin clients	(b)	1,009,667	1,107,775
		1,778,798	1,845,088
<i>Accounts payable from other businesses</i>			
— Clients		11,449	1,173
	(c)	1,790,247	1,846,261

Notes:

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

21. OBLIGATIONS UNDER REPURCHASE AGREEMENT

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Analysed by collateral type		
— Debt securities	—	34,634

As at 31 December 2018, The Group sold securities under repurchase agreements at purchase prices of approximately US\$5,400,000 and the Group agreed to repurchase the securities on the scheduled repurchase dates for considerations equal to the respective purchase price and an amount representing the product of the relevant purchase price and a spread. As the Group retained substantially the risks and rewards of ownership of the transferred securities, these transactions were accounted for as financing arrangements to the Group with the transferred securities as collaterals. The Group continued to recognise the transferred securities and recognised the consideration received on transfer as financial liabilities. The following present the transferred securities at the reporting date:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Financial assets held for trading and market making activities at fair value through profit or loss		
— Listed debt securities	—	41,731

In addition, the repurchase agreements contain clauses which give the buyers a right to require the Group to repurchase the transferred securities before the scheduled repurchase dates. Accordingly, the amounts are classified under current liabilities.

22. BANK AND OTHER BORROWINGS

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Bank loans			
— Secured	(a),(b)	1,751,676	2,163,573
— Unsecured	(c)	165,000	145,000
Note payables			
— Unsecured	(d)	104,737	50,000
		2,021,413	2,358,573
Repayable on demand or within 1 year		2,021,413	2,308,573
Repayable in the 2nd year		—	50,000
		2,021,413	2,358,573

Notes:

- (a) Bank loans of HK\$725,759,000 (31 December 2018: HK\$1,164,341,000) were guaranteed by the Company and secured by securities collateral pledged to the Group by margin clients with total market value of HK\$2,138,387,000 (31 December 2018: HK\$3,037,439,000), and bear interest at floating rates ranging from 2.25% to 4.95% (31 December 2018: 3.50% to 4.07%) per annum. Specific written authorisations have been obtained by the Group from the margin clients for such use over the clients' securities.
- (b) Bank loans of HK\$1,025,917,000 (31 December 2018: HK\$999,232,000) were borrowed from a company in which the ultimate controlling shareholder of the Company is also a director of its parent company, and were secured by corporate bonds held by the Group as at 30 June 2019, certain Company's listed shares held by the immediate controlling shareholder of the Company and certain fellow subsidiary's listed shares held by its immediate controlling shareholder. These bank loans were also guaranteed by the ultimate controlling shareholder and a wholly-owned subsidiary of the Company and bear interest at floating rates of 5.54% (31 December 2018: 5.54%) per annum.
- (c) As at 30 June 2019, bank loans of HK\$100,000,000 (31 December 2018: HK\$80,000,000) were unsecured and guaranteed by the Company and bank loans of HK\$65,000,000 (31 December 2018: HK\$65,000,000) were unsecured and unguaranteed. These bank loans bear interest at floating rates ranging from 4.17% to 4.93% (31 December 2018: 2.22% to 4.82%) per annum.

22. BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (Continued)

- (d) The notes of HK\$53,048,000 (31 December 2018: HK\$50,000,000) was issued in June 2018, and will be matured on the date following 2 years after issuance. The notes bear interest at 6% per annum. The notes of HK\$51,689,000 (31 December 2018: Nil) was issued in February 2019, and will be matured on the date following 1 year after issuance. The notes bear interest at 9.5% per annum.

23. SHARE CAPITAL

	Number of ordinary shares of HK one third of one cent each (Unaudited)	HK\$'000 (Unaudited)
<i>Authorised</i>		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	30,000,000,000	100,000
<i>Issued and fully paid</i>		
At 1 January 2018 and 30 June 2018	6,222,049,220	20,740
At 1 January 2019 and 30 June 2019	6,197,049,220	20,657

All issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

24. CAPITAL COMMITMENTS

At the reporting date, the Group had the following capital commitments which were contracted, but not provided for:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Capital contributions payable to a private equity fund	18	18
Property and equipment	3,361	1,406
	3,379	1,424

25. RELATED PARTY TRANSACTIONS

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Part 1. Continuing connected transactions with China Oceanwide Group, Oceanwide Holdings Group and Tohigh Group (note a)		
Income from service transactions provided to:		
China Oceanwide Group		
— Interest income	12,257	8,504
Oceanwide Holdings Group		
— Asset management fee income	374	—
— Commission fee income	39	3,924
— Interest income	51,127	17,084
Tohigh Group		
— Interest income from financial assistance	30,267	13,614
— Interest income from margin financing	2,111	—
— Fee income from derivative financial instruments	1,515	—
— Arrangement fee income	50	50
	97,740	43,176
Expenses for service transactions provided by:		
Oceanwide Holdings Group		
— Research fee expense	—	250
— Advisory fee expense	74	—
— Interest expense	1,689	—
— Legal and professional fee	161	—
Tohigh Group		
— Underwriting fee expense	423	—
	2,347	250
	100,087	43,426

25. RELATED PARTY TRANSACTION (CONTINUED)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Part II. Continuing connected transactions from brokerage and interest income business (note b)		
Directors of the Company		
— Commission income from securities and futures dealings	124	85
— Interest income from margin financing	864	406
Close family members of directors of the Company		
— Commission income from securities and futures dealings	9	10
Directors of subsidiaries and their close family members and company owned by a director of subsidiary		
— Commission income from securities and futures dealings	15	116
— Interest income from margin financing	104	149
	1,116	766

25. RELATED PARTY TRANSACTION (CONTINUED)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Part III. Continuing connected transactions from asset management business (note c)		
Related company — Company indirectly owned by Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company		
— Asset management fee income	3,100	3,567
Fellow subsidiary		
— Advisory fee expense	2,510	1,784
Part IV. Other related party transactions (note d)		
Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company		
— Interest income	1,129	342
Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, had indirect significant influence		
— Interest income	588	2,904
— Advisory fee income	—	3,300
Related company — Company indirectly owned by Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company		
— Asset management fee income	1,618	—
Related company owned by a director of a subsidiary of the Company		
— Commission income	189	—
	3,524	6,546

25. RELATED PARTY TRANSACTIONS (CONTINUED)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company		
— Interest expense	27,474	—
Intermediate holding companies		
— Rental expenses	296	—
Fellow subsidiaries		
— Building management fee	8	—
Director of the Company		
— Motor vehicle expenses	126	126
	27,904	126

Notes:

- (a) The income and expense arising from connected transactions with China Oceanwide Group*, Oceanwide Holdings Group* and Tohigh Group* were charged based on the respective framework services agreement. Details of the annual caps of these income and expense and the maximum daily outstanding balances were set out in the Company's circulars dated 31 October 2017. These transactions have been approved in the special general meeting held on 20 November 2017.

* China Oceanwide Group includes China Oceanwide Holdings Limited and its subsidiaries. Oceanwide Holdings Group includes Oceanwide Holdings Co., Ltd and its subsidiaries, which excludes China Oceanwide Group and the Group. Tohigh Group includes Tohigh Holdings Co., Ltd and its subsidiaries, which excludes China Oceanwide Group, Oceanwide Holdings Group and the Group. The definitions of China Oceanwide Group, Oceanwide Holdings Group and Tohigh Group were set out in the Company's circulars dated 31 October 2017.

- (b) The income from connected transactions with directors of the Company and the subsidiaries and their close family members was based on the pricing stated in the letters stipulating the applicable service fees and interest rate for dealing services. Details of the annual caps of the connected dealings services and connected margin loans were set out in the Company's circulars dated 26 April 2016 and 20 February 2019. These transactions have been approved in the special general meeting held on 19 May 2016 and 8 March 2019.

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

- (c) The connected transactions from asset management business (including asset management fee income and advisory fee expenses) were based on the relevant management and advisory agreements. Details of the annual caps of the management fee income and advisory fee expenses were set out in the Company's announcement dated 20 September 2017 and 24 May 2019.
- (d) The transactions are related party transactions under HKAS 24 (Revised) — Related Party Disclosures.

Compensation of key management personnel

Included in staff cost are key management personnel compensation and comprises the following categories:

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Short-term employee benefits	10,179	12,517
Post-employment benefits	27	29
	10,206	12,546



26. FAIR VALUE MEASUREMENT

For financial reporting purpose, fair value measurements are categorised into three levels based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses its own internal expertise or engages third party qualified valuers to perform the valuation. Valuation is prepared at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

26. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value

The following table presents financial instruments measured at fair value on a recurring basis in the condensed consolidated statement of financial position according to the fair value hierarchy:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30 June 2019 (Unaudited)				
Financial assets held for trading and market making activities at fair value through profit or loss				
— Listed debt securities (note (i))	—	7,810	—	7,810
— Listed equity securities (note (i))	488,510	179	—	488,689
— Unlisted debt securities (note (ii))	—	710,628	—	710,628
— Unlisted equity securities (note (iii))	—	—	468,546	468,546
— Unlisted mutual funds (note (iv))	—	28,223	—	28,223
— Private equity fund (note (v))	—	—	202,990	202,990
Investment securities at fair value through profit or loss				
— Unlisted debt securities (note (vi))	—	—	17,242	17,242
— Unlisted equity securities (note (iii))	—	—	1,875	1,875
Investment securities at fair value through other comprehensive income				
— Unlisted equity securities (note (viii))	—	—	6,321	6,321
Derivative financial instruments (note (vi))				
—	—	—	15,554	15,554
Loans to margin clients (note (vii))	—	2,219,612	—	2,219,612
Advances to customers for merger and acquisition activities (note (vi))	—	—	21,318	21,318
	488,510	2,966,452	733,846	4,188,808
Financial liabilities measured at fair value through profits or loss				
— Accrual and other payables (note (ix))	—	56,650	—	56,650

26. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31 December 2018 (Audited)				
Financial assets held for trading and market making activities at fair value through profit or loss				
— Listed debt securities (note (i))	—	65,226	—	65,226
— Listed equity securities (note (i))	485,067	264	—	485,331
— Unlisted debt securities (note (ii))	—	712,657	—	712,657
— Unlisted equity securities (note (iii))	—	—	469,884	469,884
— Unlisted mutual funds (note (iv))	—	7,457	—	7,457
— Private equity fund (note (v))	—	—	228,891	228,891
Investment securities at fair value through profit or loss				
— Unlisted debt securities (note (vi))	—	—	16,139	16,139
— Unlisted equity securities (note (iii))	—	—	1,250	1,250
Investment securities at fair value through other comprehensive income				
— Unlisted equity securities (note (viii))	—	—	6,321	6,321
Derivative financial instruments				
(note (vi))	—	—	10,000	10,000
Loans to margin clients (note (vii))				
	—	2,810,720	—	2,810,720
	485,067	3,596,324	732,485	4,813,876
Financial liabilities measured at fair value through profits or loss				
— Accrual and other payables (note (ix))	—	50,666	—	50,666

There have been no transfers between levels 1, 2 or transfers into or out of level 3 in the current period and previous year. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer.

26. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

Notes:

- (i) The fair value of these listed debt and equity securities has been determined by reference to their quoted bid prices at the reporting date and has been translated using the spot foreign currency rates at the end of the reporting period where appropriate.
- (ii) The fair value of the unlisted debt securities in level 2 was estimated based on discounted cash flow analysis with discount rate determined by reference to the listed bonds with similar credit terms and rating.
- (iii) The fair value of the unlisted equity securities has been determined with reference to the price of recent investment valuation technique under market approach.
- (iv) The fair value of the unlisted mutual funds has been determined with reference to the fair value of the underlying assets and liabilities at the reporting date.
- (v) The fair value of the private equity fund has been determined with reference to the unadjusted net asset value of the fund.
- (vi) The fair value of the unlisted debt securities in level 3, derivative financial instruments and advances to customers for merger and acquisition activities were based on black-scholes model using discounted cash flows with market observable inputs, such as quoted market price, dividend yield, volatility, foreign exchange rate, and significant unobservable input.
- (vii) The fair value of the margin loans has been determined with reference to the market value of the collaterals at the reporting date.
- (viii) The fair value of these unlisted equity securities has been determined by using the discounted cash flow valuation technique. The discounted cash flow valuations are based on the following significant unobservable inputs:

26. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

Notes: (Continued)

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Significant unobservable inputs		
Discount for lack of marketability	25%	25%
Discount for lack of control	10%	10%
Weighted average cost of capital	13%	13%
Long-term revenue growth rate	3%	3%

Generally, a change in the discount for lack of marketability and control and weighted average cost of capital is accompanied by a directionally opposite change to the fair value measurement whilst a change in the long-term revenue growth rate is accompanied by a directionally similar change to the fair value measurement.

- (ix) The financial liabilities represent net asset value attributable to third party interest of a fund. The fair value has been determined by reference to the net asset value of the fund. The underlying investments held by the fund are all listed with unadjusted quoted prices in active markets, with immaterial assets and liabilities with unobservable prices.

26. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

Notes: (Continued)

- (x) The movement of the financial instruments carried at fair value based on significant unobservable inputs (i.e. Level 3) is as follows:

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Financial assets held for trading and market making activities at fair value through profit or loss		
At the beginning of the period	698,775	88,007
Purchases	—	505,417
Fair value changes recognised in profit or loss	(27,239)	618
Disposals	—	(2,542)
At the end of the period	671,536	591,500
Investment securities at fair value through profit or loss		
At the beginning of the period	17,389	—
Purchases	—	1,250
Fair value changes recognised in profit or loss	1,728	—
At the end of the period	19,117	1,250
Derivative financial instruments		
At the beginning of the period	10,000	—
Fair value changes recognised in profit or loss	8,554	—
Disposals	(3,000)	—
At the end of the period	15,554	—

26. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

Notes: (Continued)

- (x) The movement of the financial instruments carried at fair value based on significant unobservable inputs (i.e. Level 3) is as follows: (Continued)

	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Advances to customers for merger and acquisition activities		
At the beginning of the period	—	—
Purchases	19,612	
Fair value changes recognised in profit or loss	1,706	—
At the end of the period	21,318	—
Investment securities at fair value through other comprehensive income		
At the beginning of the period	6,321	11,615
Fair value changes recognised in other comprehensive income	—	(204)
At the end of the period	6,321	11,411
Total unrealised (loss)/gain recognised in profit or loss for assets held at the end of the reporting period	(8,251)	618

(b) Fair value of financial instruments measured at amortised cost

The carrying amounts of the financial assets and financial liabilities measured at amortised cost as disclosed under current assets and current liabilities, respectively, approximate their fair value as they are all short term in nature.

26. FAIR VALUE MEASUREMENT (CONTINUED)

(b) Fair value of financial instruments measured at amortised cost (Continued)

The carrying amount of the financial instruments measured at amortised cost under non-current assets, other than those whose carrying amount reasonably be approximate to their fair value, and their fair value are as follows:

	Carrying amount		Fair value	
	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Financial assets				
— Financial assets measured at amortised cost (note)	—	85,554	—	87,883

Note: The fair value of the financial assets measured at amortised cost has been calculated by discounting the expected future cash flows using rate currently available for instruments with similar terms, credit risk and remaining maturities and are categorised within level 2 of fair value hierarchy.

(c) Fair value of investment property measured at fair value

Investment property represented commercial office premises in Hong Kong and are categorised within level 2 of fair value hierarchy. There have been no transfers between levels 1, 2 or transfers into or out of level 3 in the current period and the previous year. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer. The fair value of the investment property as at 30 June 2019 and 31 December 2018 has been determined using market comparable approach by reference to transaction price of comparable properties on a price per saleable area basis using market data which is publicly available.

27. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current interim period presentation.

Management Discussion and Analysis

MACRO ENVIRONMENT

According to a recent report from the International Monetary Fund (IMF), the global economic growth is now projected to slow down from 3.6% in 2018 to 3.3% in 2019, before returning to 3.6% in 2020. The forecast envisaged that global growth will level off in the first half of this year and firm up after that. The projected pickup in the second half of this year is predicated on an ongoing buildup of policy stimulus in Mainland China, recent improvements in global financial market sentiment, waning of some temporary drags on growth in the Euro area, and a gradual stabilisation of conditions in stressed emerging market economies.

During this interim period, the economic conditions improved as the US Federal Reserve had signaled a more accommodative monetary policy stance and markets had become more optimistic about a US-China trade deal. In January 2019, communication by the US Federal Reserve suggested a patient and flexible approach by policy normalisation, and at the Federal Open Market Committee meeting in March 2019, it signaled a pause in its interest rate hikes for this year. In addition, the U.S. Federal Open Market Committee lowered the target range for the federal funds rate for a 0.25% to 2–2.25% at the July 2019 meeting. It has been the first Fed interest rate reduction over a decade since the financial tsunami in late 2008. In other words, capital is expected to be secured at a low level of funding cost for investment opportunities.

HONG KONG STOCK MARKET

During this interim period, the Hang Seng Index had an upward trend pattern. The upward trend started from a low level at the beginning of this year and hit its lowest close at 25,064 on 3 January 2019, then subsequently reached to the highest close during this interim period on 9 April 2019 at 30,157. Afterwards, the Hang Seng Index adjusted to 26,762 before the uptrend continuing until the end of June 2019, representing a year-on-year decrease of 1.4% but a rise of 10.4% as compared to that by the end of December 2018. As at the end of June 2019, the total Hong Kong Stock Market capitalisation amounted to around HK\$32.7 trillion. Under the risk averse sentiment in global markets, the average daily turnover of the secondary stock market in Hong Kong for interim 2019 decreased to HK\$97.9 billion, which is 22.7% lower than that in the first half of 2018. In the first half of 2019, the average daily turnover of equity index futures amounted to 494,141 contracts, which is around 1% higher than that in the first half of 2018. In the first half of 2019, there were 84 newly listed companies in the Hong Kong market, which was dropped by around 22% from 108 newly listed companies in the first half of 2018. Total equity funds raised during the first half of 2019, including funds raised from initial listing, amounted to HK\$145.2 billion, representing a decrease of around 24.6% as compared to HK\$192.7 billion in the first half of 2018.

RESULTS AND OVERVIEW

For the six months ended 30 June 2019, the Group recorded an after-tax profit of HK\$50.24 million (interim 2018: HK\$30.76 million), representing an increase of around 63%. The Group's revenue increased by roughly 72% to HK\$460 million for interim 2019 (interim 2018: HK\$268 million). Excluding investment gain of HK\$54.56 million (interim 2018: HK\$71.24 million loss), revenue from other businesses amounted to HK\$405 million, representing an increase of 19% as compared to the HK\$339 million on the same basis in interim 2018. Investment gain or loss was mainly arising from the fair value changes of securities investment, which had been very volatile across the periods. The Group's effective tax rate has improved significantly from 18.0% in interim 2018 to 12.4% in interim 2019.

Excluding the impact of certain material items (since those items would distort the comparative figures of the previous interim, the adjusted data allows reader to enhance the understanding of actual business performances of the Group), the Group's adjusted revenue for interim 2019 was HK\$460 million, which increased roughly 34% as compared to HK\$343 million for interim 2018. Adjusted profit before tax for interim 2019 recorded HK\$155 million, which increased roughly 38% as compared to HK\$112 million for interim 2018.

Adjusted results	Six months ended 30 June 2019 HK\$'000 (Unaudited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)
Adjusted revenue	460,456	342,923
Other income/(loss)	(3,907)	8,917
Adjusted total expenses	(301,421)	(239,902)
Share of results of joint ventures	62	397
Adjusted profit before tax	155,190	112,335

The adjustment items include:

- 1) Impairment provision on our US\$14 million historic investment cost in China Energy Reserve public bond. By considering the decrease in fair value of the bond, there was roughly HK\$2 million incremental provision recorded in interim 2019 and there was no impairment recorded in interim 2018. This item has been shown as an adjustment item in full year 2018 annual report.
- 2) Fair value adjustments on our proprietary investment in one leading Chinese financial institution H-share with carrying value around HK\$264 million. There had been some sales and purchase of this stock during interim 2019 and all net realised gain has been booked in interim 2019 and has not been adjusted here. Our shareholding has been reduced as a result of these trading transactions as at interim end 2019 when compared to year end 2018. The fair value gain shown in interim 2019 was HK\$25 million (interim 2018: HK\$75 million loss). This item has also been shown as an adjustment item in full year 2018 annual report.
- 3) Revaluation loss of our seed funding investment in our private equity fund. We have invested US\$20 million in this private equity fund from the beginning and there has been significant valuation ups-and-downs due to its nature. The revaluation loss shown in interim 2019 was HK\$26 million (interim 2018: NIL). This item has also been shown as an adjustment item in full year 2018 annual report.
- 4) Specific provision made against one other loan to a Mainland Chinese privately-owned listed property developer. This other loan's principal amount is around HK\$180 million (HK\$189 million with accrued interest) and we have made around 40% accumulative provision for its carrying amount in interim 2019 which amounts to around HK\$76 million (interim 2018: NIL), representing an increase of HK\$70 million in provision for the interim period. In early 2019, this property developer has gone into a status of credit default and is undergoing a debt restructuring negotiation with all of its creditors at this moment without a definitive plan yet.

- 5) Specific provision made against one other loan to an Australian public mining company. This other loan's principal amount is around HK\$100 million (HK\$101 million with accrued interest) and we have made around 25% accumulative provision for its carrying amount in interim 2019 which amounts to around HK\$25 million (interim 2018: NIL). In the first half of 2019, this Australian mining company was unable to service its debt, had suspended its business operation as well as its trading of shares in the stock market. The Company has appointed receivers in Australia to protect our interest.

The board of directors of the Company resolved not to declare the payment of interim dividend.

BUSINESS REVIEW

In terms of operating targets in interim 2019, the Group's market share in the secondary market of Hong Kong stock market has remained roughly the same. As at 30 June 2019, the Group's margin loans to clients was HK\$2,220 million (trade date basis), representing a drop of 21% as compared to HK\$2,811 million (trade date basis) at the end of 2018. Fair value loss on margin loans for interim 2019 was 0.5%, which was still at a mild level. There is one sponsorship engagement for initial public offerings newly signed by the Group in interim 2019. We have also signed 4 new mandates on financial advisor/independent financial advisor roles, 3 placing/underwriting mandates made in respect of merger and acquisition financing while completed 2 debt placing/underwriting projects. As at 30 June 2019, our assets under management (AUM) recorded US\$302 million, which is more than double of that in 2018 interim end and has increased more than 20% as compared to that at the end of 2018 due mainly to the Group's new products.

FINANCIAL REVIEW

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

Revenue	Interim 2019		Interim 2018		Change
	HK\$ million	Composition	HK\$ million	Composition	
Brokerage business	88	22%	118	36%	(25%)
Interest income business	278	69%	172	51%	62%
Corporate finance business	23	6%	29	9%	(21%)
Asset management business	11	3%	13	4%	(15%)
Total revenue less revenue from investments and others business	400	100%	332	100%	20%

Brokerage Business

Revenue from brokerage business has decreased roughly 25% from HK\$118 million in interim 2018 to HK\$88 million in interim 2019 mainly due to the drop in commission from futures and options. Commission income from futures and options products has dropped roughly 41% from HK\$67.65 million in interim 2018 to HK\$40.12 million in interim 2019 and the main reason is a decline in the trading volume in futures and options product of roughly the same percentage. Commission income from dealings in Hong Kong securities has also decreased roughly 13% from HK\$38 million in interim 2018 to HK\$33 million in interim 2019. The main reason for this drop is that the Hong Kong Stock Exchange's secondary market trading volume has decreased roughly 22.7% across the two interim periods (though our market share has remained roughly the same). Handling, custodian and other service fee income has increased roughly 54% from HK\$7.31 million to HK\$11.26 million due mainly to some one-off transactions' handling fees.

Interest Income Business

Interest income has recorded HK\$278 million for interim 2019, which has increased roughly 62% as compared to HK\$172 million for interim 2018. Out of which, the interest income from loans to margin clients has increased roughly 35% from HK\$75 million in interim 2018 to HK\$101 million in interim 2019. We are glad to report that the average balance of loans to margin clients has increased roughly 30% across two interim periods and there is a slight improvement on the average interest rate charged to our margin clients. Besides, the interest income from other loans has also increased roughly 98% from HK\$62 million in interim 2018 to HK\$123 million in interim 2019. The increase in such interest income is mainly due to the increase in outstanding loan balance across the two interim periods. Out of the other loans' balance as at 30 June 2019, HK\$1,297 million (around 42%) were lent to connected parties of our controlling shareholder through shareholders' approved continuing connected transaction ("CCT") framework. As discussed in earlier sections, two problematic other loans were identified and specific provisions have been made against them in interim 2019.

Corporate Finance Business

The Group's corporate finance business comprises sponsorship for listing, financial advisory, financing consultation service, equity capital market and debt capital market. It consists of revenue booked in our subsidiary China Tonghai Capital Limited and some commission income booked under another subsidiary China Tonghai Securities Limited. Income from corporate finance business has dropped roughly 21% from HK\$29 million in interim 2018 to HK\$23 million in interim 2019. Commission-based income has increased 65% from HK\$7.60 million in interim 2018 to HK\$12.55 million in interim 2019. Significant placing commission income has been booked in interim 2019 upon successful listing of Tai Hing Group Holdings Limited (stock code: 6811), where we acted as a Joint Global Coordinator. Fee-based income has decreased 55% from HK\$21.87 million in interim 2018 to HK\$9.95 million in interim 2019. Sponsorship fee, financial advisor fee and independent financial advisory fee have dropped across the two interim periods due to a lesser number of projects completed during the period.

Asset Management Business

Income from asset management business has dropped 15% from HK\$13 million in interim 2018 to HK\$11 million in interim 2019. Out of which, management fee income has increased 10% from HK\$8.59 million in interim 2018 to HK\$9.41 million in interim 2019. Average AUM for interim 2019 has grown substantially compared to that in interim 2018 while the incremental AUM carries lower rate of management fee income due to the nature of those new products. As in 2018 interim and annual report, we have consolidated our Oceanwide Greater China UCITS Fund (“UCITS”, an European public fund registered in Luxembourg) in interim 2019 as we considered we have significant control over its performance due to the substantial shareholding percentage by our seed funding. Performance fee has sharply declined 61% from HK\$4.28 million in interim 2018 to HK\$1.66 million in interim 2019 mainly due to the fact that most of our equity funds have not exceeded their respective high water mark achieved in 2018 and thus no performance fee could be booked.

Investments and Others Business

Income from investments and others business has recorded a turnaround from HK\$64 million loss in interim 2018 to HK\$60 million gain in interim 2019. The main reason for the turnaround is our investment in one H-share, as we mentioned earlier, with marked-to-market loss in interim 2018 of HK\$75 million versus the marked-to-market gain in interim 2019 of HK\$25 million. Net realised gain of HK\$45 million was recorded for this stock in interim 2019. Those gains were partially offset by two losses namely: firstly, the fair value loss of HK\$2.1 million (interim 2018: HK\$12.4 million loss) of our seed funding investments in various funds, including our consolidated UCITS fund; secondly, the fair value loss of HK\$10.7 million (interim 2018: HK\$0.54 million gain) from loans to margin clients.

Expenses

Direct cost has reduced by 16% from HK\$100 million in interim 2018 to HK\$84 million in interim 2019. The trend is in line with the 25% decline in income from our brokerage business, and offset by slight average increase in the payout ratio to self-employed account executives.

Staff cost has increased by 19% from HK\$85 million in interim 2018 to HK\$101 million in interim 2019. The main cost drivers are: 1) the general increase in the number of employees; 2) the overall single-digit percentage annual salary increment; and 3) recruitment of high caliber staff to build up the business teams.

Impairment loss has shot up from minimal level in interim 2018 to HK\$111 million in interim 2019. As discussed earlier, the provision amount in interim 2019 mainly comprises two items: 1) HK\$70 million specific provision made against a Mainland Chinese privately-owned listed property developer; and 2) HK\$25 million specific provision made against an Australian listed mining company. Apart from these two specific provisions, the remaining balance in interim 2019 represented some general provision made against those remaining other loans.

Finance cost has grown by 3.7 times from HK\$12 million in interim 2018 to HK\$56 million in interim 2019. The average total borrowings of the Group have increased substantially from interim 2018 to interim 2019. The outstanding total borrowings of the Group have increased gradually from HK\$570 million in early January 2018 to HK\$1,400 million in late June 2018. While the outstanding total borrowings of the Group has stood above HK\$2 billion for most of the time in interim 2019. The main reason for the increase in outstanding total borrowings is the drawdown of the HK\$1 billion banking facility from China Minsheng Bank Corporation Ltd. Hong Kong Branch (the "CMBC HK Branch") in July 2018. The interest rate of the loan from CMBC HK Branch is higher than the rest of our bank loans for the reason of different risk profile and different collaterals.

PROSPECTS

1. **Increase fee-based income** — The Company will deploy more resources to increase its fee-based income. Our investments in strengthening our institutional clients securities business and capital markets are bearing fruit. The Company has recently strengthened the sales and marketing efforts in its securities, corporate finance and asset management businesses in order to gain business volume. We are determined to expand our market share in securities brokerage, corporate finance and asset management.
2. **Prudent loan management** — Due to the continuing liquidity squeeze in the private enterprises in the PRC, we were negatively impacted during this interim period. Certain enterprises that owed us money have encountered liquidity problems and we have made provisions in this interim period. We are working closely with these borrowers and their respective creditor groups on the debt restructuring plans to maximise our recoverability. We face this macro economy issue with a pragmatic approach by reducing our pace of loan portfolio expansion coupled with strengthening our risk management measures to mitigate the downside risks.

- 3. Deepen business cooperation with controlling shareholder** — The Company will strive to deepen our business interaction with Oceanwide Holdings Co., Ltd* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046) and with the private group of our controlling shareholder. Under the CCT frameworks approved by shareholders in 2017, the Company has greatly explored business opportunities with our parent company. The CCT framework is set to be due by the end of this year and we are working towards a renewal exercise whereby we look forward to expand the business scope so that we could transact without the shareholders' approval every time. Meanwhile, the Company will take advantage of various established networks and competitive edges of our substantial shareholders to generate more income for the Group and our shareholders as a whole.

Although there are uncertain economic elements ahead, we are committed to unite and perform ourselves well. In the near future, we would focus on our planned strategy and we wholeheartedly wish to bring the Company to a new height. We have launched a marketing campaign promoting our securities trading APP, Direct Spot and our brand. We will continue to promote our brand awareness. All in all, the Group endeavoured to become a leading Chinese privately-owned international financial platform.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow as well as through the utilisation of banking facilities and short-term loans and notes from independent third parties. From time to time, the Company may raise capital by issuing new shares or issuing debt instruments. The Group's cash and short term deposits as at 30 June 2019 stood at around HK\$242 million (31 December 2018: HK\$357 million).

As at 30 June 2019, the Group's total borrowings recorded HK\$2,021 million, showing a decrease by 16% from HK\$2,393 million at the end of 2018. Borrowings mainly consisted of three components. The first component was utilised bank facilities of around HK\$1,916 million (31 December 2018: HK\$2,308 million), of which the Group had available aggregate banking facilities of around HK\$3,879 million (31 December 2018: HK\$3,840 million), and most of them were secured by the legal charge on certain securities owned by the margin clients of the Group. The second component was the obligations under repurchase agreement, which was Nil as at 30 June 2019 (31 December 2018: HK\$35 million). The third component was notes issued to independent third parties, which recorded HK\$105 million as at 30 June 2019 (31 December 2018: HK\$50 million). As at 30 June 2019, the Group's gearing ratio (leverage) was 35% (31 December 2018: 41%), being calculated as total borrowings divided by net assets at balance sheet dates. The management has applied prudent risk and credit management on our borrowings. In addition, the Group is required to strictly follow regulatory re-pledging ratios and prudent bank borrowing benchmarks that govern the extent of bank borrowings in our SFC licensed subsidiary.

* For identification purposes only

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

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

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2019, HK\$802 million (31 December 2018: HK\$810 million) corporate bonds were charged to bank for facilities.

CONTINGENT LIABILITIES

Counterclaim by a Hong Kong listed company

On 4 February 2019, our subsidiary, China Tonghai Securities Limited ("China Tonghai Securities") commenced legal proceedings in the High Court of HKSAR against a Hong Kong listed company (the "Defendant") for its failure to pay China Tonghai Securities the commission fee in relation to the provision of financial agency services pursuant to the entering of the agreement on 28 March 2018 (the "Agency Agreement"). Pursuant to the Agency Agreement, it is agreed that the Defendant would pay China Tonghai Securities a service fee of HK\$1.2 million for performing the financial agency services and a commission fee of 2.5% of the value of securities subscribed by the investors introduced by China Tonghai Securities or the total value of the capital financing and related transactions. The financial services fee is deductible from the commissions upon successful completion of the capital financing.

China Tonghai Securities had introduced investors to the Defendant and the Defendant had successfully raised HK\$450 million through our introduction and the capital financing was completed on 3 December 2018. Other than the payment of the partial financial service fee of HK\$0.9 million, the Defendant has failed to pay China Tonghai Securities the balance of the commission fee of HK\$10.35 million.

The service fee income of HK\$1.2 million and the balance of the commission fee income of HK\$10.35 million have not been recognised in the Group's financial statement.

In the defence and counterclaim filed by the Defendant on 24 May 2019, the Defendant denied that the investor was introduced by China Tonghai Securities and claimed that the Agency Agreement is a void and illegal agreement and hence the Defendant is entitled to recover the HK\$0.9 million paid to China Tonghai Securities.

China Tonghai Securities and the Defendant will exchange list of documents in September 2019.

Other than disclosed above, the Directors are of the opinion that the Group has no other contingent liabilities. Notwithstanding the likely outcome of the above cannot be ascertained at present, the Directors believe that any possible legal liabilities which may incurred from the aforesaid counterclaim will not have any material impact on the financial position of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had a total of 352 staff (31 December 2018: 343), comprising of 232 full time employees (31 December 2018: 221) in Hong Kong, 31 full time employees (31 December 2018: 31) in Mainland China and 89 commission sales representatives (31 December 2018: 91). Competitive total remuneration packages are offered to employees with reference to industry remuneration research reports, prevailing market practices and standards and individual merit. Salaries are reviewed annually, and discretionary bonuses are paid with reference to individual performance appraisals, prevailing market conditions and the Group's financial performance. Other benefits offered by the Group include a mandatory provident fund scheme and medical and health insurance. In addition, the Group has maintained a restricted share award scheme as means for reward and staff retention.

RISK MANAGEMENT

The Group's business is closely related to the economy and market fluctuation of Hong Kong and China, and indirectly affected by other overseas financial markets. To cope with the unpredictable market fluctuation and minimise risks, the Group takes preventive measures and establish a risk management system with defined segregation of duty between business departments on the front line and internal control units such as the Risk Management Department and Compliance Department.

The Group established the Risk Management Department in 2017 which is responsible for overseeing all risk management functions. These functions primarily include risk identification, risk limits setting, measurement and monitoring of risk limits, analysis of risk scenarios, and produce timely reports to the management. The Risk Management Department (RMD) team also perform pre and post risk assessments on both asset and liability items, as well as having control and supervision over newly developed financial products and businesses.

Credit Risk

Credit risk is the risk in respect of loss arising from incompetence of a borrower, counterparty or issuer of financial instruments to meet its obligation, or potential deterioration of credit ratings. The Group has Credit Risk Approving Policy and Post Lending Monitoring Policy in place to dictate procedures and approving authorities required for all credit applications relating to increases in credit risk. The credit risks of the Group mainly arise from six business areas: brokerage business, asset management business, debt and equity underwriting/trading business, loans lending business, proprietary investment and capital raising business. The Group's management has also set up a Business Assessment Committee to review and approve credit risky products/transactions within each of the business line.

Advance risk systems are also developed and implemented by the Group to conduct daily monitoring on credit and concentration risk limits, as well as periodic stress tests applied on margin financing products.

Market Risk

Market risk refers to potential losses due to market price movement of investment positions held, which includes interest rates risk, equity prices risk and foreign exchange rates risk.

The Group continues to modify the market risk models though periodic back-testing and stress scenarios tests. The RMD recently brought in a more comprehensive system to consolidate market risks exposures of various business lines to increase the efficiency of risk return analysis and resources allocation.

Liquidity Risk

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

Operational Risk

Operational risk is the risk of financial loss arises mainly from negligence or omission of internal procedural management, information system failures or personnel misconduct of staffs. The Group actively schedules briefing sessions to improve risk awareness amongst employees, and instructs all departments to establish internal procedural and control guidelines. There is an Operational Risk Events Reporting procedure to ensure that all risk events are timely reported to the Risk, Compliance and IT departments for immediate implementation of remedial action. In this current interim period, the Group was conducting an exercise to enhance the business contingency plan.

Regulatory Compliance Risk

As a financial institution conducting regulated activities, we endeavour to meet the stringent and evolving regulatory requirements, including but not limited to those related to investor protection, market integrity and anti-money laundering. Our compliance team working together with third party professionals has continually reviewed and scrutinised our internal control processes to reduce regulatory risks that can impact the Group's operation.

INTERIM DIVIDEND

The board of directors of the Company (the “Board”) has resolved not to declare an interim dividend in respect of the six months ended 30 June 2019 (2018: Nil).

DIRECTORS’ INTERESTS

As at 30 June 2019, the interests and short positions of the directors of the Company (the “Directors”) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”) as recorded in the register kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) under Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

I) Long position in the shares of the Company (“Shares”)

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholding in the Shares in issue (Note 1)
Mr. Kenneth LAM Kin Hing	Beneficial Owner	113,072,833	1.82%
Mr. Bernard POULIOT	Beneficial Owner	38,952,666	0.62%

II) Long positions in the shares of associated corporations of the Company

(a) *Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司) (“Oceanwide Holdings”)*

Name of Director	Capacity	Number of shares in Oceanwide Holdings	Approximate percentage of shareholding in Oceanwide Holdings (Note 2)
Mr. HAN Xiaosheng	Beneficial owner	3,500,000	0.06%
Mr. ZHANG Bo	Beneficial owner	510,000	0.009%
Mr. ZHANG Xifang	Beneficial owner	276,000	0.005%
Mr. LIU Hongwei	Beneficial owner	30,000	0.0005%
Mr. LIU Bing	Beneficial owner	90,000	0.001%
Mr. ZHAO Yingwei	Beneficial owner	200,000	0.003%
Mr. ZHAO Xiaoxia	Beneficial owner	183,500	0.003%

(b) *China Oceanwide Holdings Limited (“China Oceanwide”)*

Name of Director	Capacity	Number of shares in China Oceanwide	Approximate percentage of shareholding in China Oceanwide (Note 2)
Mr. LIU Jipeng	Beneficial owner	9,212,000	0.05%

* For identification purposes only

III) Interest in the debentures of an associated corporation of the Company

Name of Director	Name of associated corporation	Nature of interest	Amount of debenture
Mr. Kenneth LAM Kin Hing	Oceanwide Holdings International Development III Co., Ltd.	Personal interest	US\$5,000,000

Notes:

1. The approximate percentage shown was the number of Shares the relevant Director was interested in expressed as a percentage of the total number of issued Shares as at 30 June 2019.
2. The approximate percentage shown was the number of shares the relevant Director was interested in expressed as a percentage of the total number of issued shares of the relevant entity as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, none of the Directors or their respective associates had or were deemed under the SFO to have any interest or short position 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 were required to be recorded in the register kept by the Company under section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30 June 2019, so far as were known to the Directors, the following persons (other than the Directors) who had interests or short positions in the Shares, underlying Shares and debentures of the Company as recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the Shares in issue, were as follows:

Long position in the Shares and underlying Shares

Name of holder of Shares/ underlying Shares	Capacity	Number of Shares and underlying Shares held	Approximate percentage of total interests in the Shares in issue (Note 11)
Mr. LU Zhiqiang ("Mr. LU")	Interest of controlled corporations	4,495,254,732 (Note 1)	72.53%
Ms. HUANG Qiongzi	Interest of controlled corporations	4,495,254,732 (Note 1)	72.53%
Tohigh Holdings Co., Ltd.* (通海控股有限公司)	Interest of controlled corporations	4,495,254,732 (Note 2)	72.53%
Oceanwide Group Co., Ltd.* (泛海集團有限公司)	Interest of controlled corporations	4,495,254,732 (Note 3)	72.53%
China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司)	Interest of controlled corporations	4,495,254,732 (Note 4)	72.53%
Oceanwide Holdings	Interest of controlled corporations	4,495,254,732 (Note 5)	72.53%
China Oceanwide Group Limited	Interest of controlled corporations	4,495,254,732 (Note 5)	72.53%
Oceanwide Holdings International Financial Development Co., Ltd. ("Oceanwide Holdings IF")	Beneficial owner	4,495,254,732 (Note 5)	72.53%
Haitong Securities Co., Ltd.	Interest of controlled corporations	4,100,000,000 (Note 6)	66.16%
Haitong International Holdings Limited	Interest of controlled corporations	4,100,000,000 (Note 7)	66.16%
Haitong International Securities Group Limited	Interest of controlled corporations	4,100,000,000 (Note 8)	66.16%
Haitong International Investment Solutions Limited	Security interest in Shares	4,100,000,000 (Note 9)	66.16%

* For identification purposes only

Notes:

1. Mr. LU and Ms. HUANG Qiongzhi (黃瓊姿) (the spouse of Mr. LU) together held more than one-third of the voting power at general meetings of Tohigh Holdings Co., Ltd.* (通海控股有限公司). By virtue of the SFO, Mr. LU and Ms. HUANG Qiongzhi (黃瓊姿) are deemed to be interested in all the Shares in which Tohigh Holdings Co., Ltd.* (通海控股有限公司) is interested.
2. Tohigh Holdings Co., Ltd.* (通海控股有限公司) held the entire issued share capital of Oceanwide Group Co., Ltd.* (泛海集團有限公司). By virtue of the SFO, Tohigh Holdings Co., Ltd.* (通海控股有限公司) is deemed to be interested in all the Shares held by Oceanwide Group Co., Ltd.* (泛海集團有限公司).
3. Oceanwide Group Co., Ltd.* (泛海集團有限公司) held 98% interest in the issued share capital of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司). By virtue of the SFO, Oceanwide Group Co., Ltd.* (泛海集團有限公司) is deemed to be interested in all the Shares held by China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司).
4. China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) directly and indirectly held 70.88% interest in the issued share capital of Oceanwide Holdings. By virtue of the SFO, China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) is deemed to be interested in all the Shares held by Oceanwide Holdings.
5. Oceanwide Holdings IF is a wholly-owned subsidiary of China Oceanwide Group Limited, which in turn is a wholly-owned subsidiary of Oceanwide Holdings. By virtue of the SFO, China Oceanwide Group Limited and Oceanwide Holdings are deemed to be interested in 4,495,254,732 Shares.
6. Haitong Securities Co., Ltd held 100% interest in the issued share capital of Haitong International Holdings Limited. By virtue of the SFO, Haitong Securities Co., Ltd is deemed to be interested in all the Shares held by Haitong International Holdings Limited.
7. Haitong International Holdings Limited indirectly held 63.08% interest in the issued share capital of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Holdings Limited is deemed to be interested in all the Shares held by Haitong International Securities Group Limited.
8. Haitong International Investment Solutions Limited is an indirect subsidiary of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Securities Group Limited is deemed to be interested in all the Shares held by Haitong International Investment Solutions Limited.
9. According to the announcement of Oceanwide Holdings dated 5 December 2018, Oceanwide Holdings IF issued to Haitong International Investment Solutions Limited the short term notes in the principal amount up to HK\$1,100,000,000 pursuant to which Oceanwide Holdings IF has pledged 4,100,000,000 Shares (representing 66.16% of the issued share capital of the Company as at 30 June 2019) to Haitong International Investment Solutions Limited.

10. The following entities, namely Tisé Media Fund LP and China Alliance Properties Limited (and its associates), disclosed to the Company that they were, directly or indirectly interested or deemed to be interested in 5% or more of the Shares on 28 August 2015 pursuant to the subscription agreement entered among the Company, CMBC International Holdings Limited ("CMBCI"), and the co-investors, namely New Hope Global Holding Co., Limited, United Energy International Trading Limited, Mind Power Investments Limited, China P&I Services (Hong Kong) Limited, China Alliance Properties Limited, Good First International Holding Limited, Divine Unity Limited, Tisé Media Fund LP, Novel Well Limited, Ristora Investments Limited and Insight Multi-Strategy Funds SPC for the account of Insight Phoenix Fund III SP (together the "Co-Investors") on 28 August 2015 which CMBCI and the Co-Investors had conditionally agreed to subscribe for an aggregate of 23,054,875,391 Shares at the subscription price of HK\$0.565 per subscription share (the "First Subscription Agreement").

As disclosed in the announcement of the Company dated 1 March 2016, the First Subscription Agreement ceased to be effective as of 28 February 2016 as certain conditions precedent under the First Subscription Agreement remained outstanding as at the long stop date. Accordingly, as at the 30 June 2019, as far as the Directors were aware, CMBCI and the Co-Investors had ceased to have any interests in the Shares.

11. The approximate percentage shown was the number of Shares the relevant company/person was interested in expressed as a percentage of the total number of issued Shares as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any other person (other than the Directors) who had interests or short positions in the Shares or underlying Shares which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

SHARE AWARD SCHEME

A Restricted Share Award Scheme ("Share Award Scheme") was adopted by the Company on 19 August 2010. The purpose of the Share Award Scheme is to recognise and motivate the contribution of certain employees and/or consultants and to provide incentives and help the Group in retaining its existing employees or consultants and recruiting additional employees or consultants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

Pursuant to the rules of Share Award Scheme, the Board may, from time to time, at its absolute discretion select the employees and consultants (excluding any excluded participant) as they deem appropriate for participation in the Share Award Scheme and determines the number of awarded shares to be granted. Existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected participants. The awarded shares of the Company will be vested only after satisfactory completion of time-based targets or time-and-performance-based targets.

The Share Award Scheme is subject to the administration of the Board in accordance with the rules of Share Award Scheme. The aggregate number of awarded shares granted by the Board throughout the duration of the Share Award Scheme should not be in excess of 10% of the issued share capital of the Company as at the date of its adoption. Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years from the date of its adoption. However, the Board has the right to renew the Share Award Scheme up to three times and each time for another 5-year term. Further details of the Share Award Scheme were set out in the announcement of Company dated 19 August 2010.

The Trustee has purchased 48,810,000 issued Shares from the market during December 2018 to 30 June 2019. Accordingly, a total of 50,972,002 Awarded Shares now held by the trustee under the Restricted Shares Award Scheme Trust which is available for allocation and no awarded shares has been granted during the six months ended 30 June 2019. The Share Award Scheme should be retained until expiry of trust period or until informed by the Company.

Save as disclosed above, at no time during the six months ended 30 June 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of the shares in or debentures of the Company or any other body corporate.

DISCLOSURE PURSUANT TO RULE 13.15 OF THE LISTING RULES

As at 30 June 2019, the following advances (loans and notes) were outstanding:

Items	Transactions	Amortised cost		Fair value	
		Principal amounts	Carrying amounts	Principal amounts	Carrying amounts

The following short term loans were provided or extended by China Tonghai Finance Limited ("China Tonghai Finance", an indirect wholly-owned subsidiary of the Company) to China Oceanwide:

1	on 21 December 2018, extended a short term loan of HK\$280 million with an adjusted interest rate of 9% per annum and with a maturity date of 21 December 2019.	HK\$280 million	HK\$280 million (Note 1a)	—	—
2	on 21 March 2019, extended a short term loan of HK\$8 million with an interest rate of 9.5% per annum and with a maturity date of 30 November 2019.	HK\$8 million	HK\$8 million (Note 1a)	—	—
3	on 13 June 2019, provided a short term loan of HK\$5 million with an interest rate of 12% per annum and with a maturity date of 12 September 2019.	HK\$5 million	HK\$5 million (Note 1a)	—	—

The following short term loans and margin facility were provided or extended to China Oceanwide International Investment Company Limited or Minyun Limited (both are indirect subsidiaries of Tohigh Holdings Co., Ltd.* (通海控股有限公司)):

1	on 29 January 2019, China Tonghai Finance extended a short term loan of HK\$550 million with an adjusted interest rate of 9% per annum to China Oceanwide International Investment Company Limited and with a maturity date of 28 January 2020.	HK\$550 million	HK\$556 million (Note 1a)	—	—
2	on 29 January 2019, China Tonghai Finance provided a short term loan of HK\$128 million with an interest rate of 9% per annum to China Oceanwide International Investment Company Limited and with a maturity date of 28 January 2020.	HK\$128 million	HK\$129 million (Note 1a)	—	—
3	on 21 March 2019, China Tonghai Finance extended a short term loan of HK\$35 million with an adjusted interest rate of 9% per annum to China Oceanwide International Investment Company Limited and with a maturity date of 30 November 2019.	HK\$35 million	HK\$35 million (Note 1a)	—	—
4	a margin facility of HK\$64.5 million provided by China Tonghai Securities Limited ("China Tonghai Securities") to Minyun Limited pursuant to the terms of facility agreement dated 30 January 2019 at interest rate ranged from 2% to 3% above prime rate payable by Minyun Limited annually. The facility is secured by the collateral which shall be charged to or held by China Tonghai Securities for its benefit as a first priority fixed continuing security for the payment and/or discharge to China Tonghai Securities of all and any of the Minyun Limited's liabilities to China Tonghai Securities pursuant to the terms of the facility.	—	—	HK\$64.5 million	HK\$66 million (Note 2a)

Items	Transactions	Amortised cost		Fair value	
		Principal amounts	Carrying amounts	Principal amounts	Carrying amounts
5	on 12 June 2019, China Tonghai Finance provided a short term loan of HK\$10 million with an interest rate of 12% per annum to China Oceanwide International Investment Company Limited and with a maturity date of 11 July 2019.	HK\$10 million	HK\$10 million (Note 1a)	—	—
6	on 13 June 2019, China Tonghai Finance provided a short term loan of HK\$32 million with an interest rate of 12% per annum to China Oceanwide International Investment Company Limited and with a maturity date of 12 July 2019.	HK\$32 million	HK\$32 million (Note 1a)	—	—
The following short term loans and unsecured private notes were provided or extended to Oceanwide Holdings International Development III Co., Ltd. (the "Issuer/OHIDIII", a subsidiary of Oceanwide Holdings Co):					
1	on 18 April 2019, China Tonghai Capital (Holdings) Limited ("China Tonghai Capital Holdings", a wholly-owned subsidiary of the Company) and China Tonghai Securities subscribed unlisted senior notes issued by the Issuer in the subscription amount of US\$91 million (equivalent to approximately HK\$709.8 million) with coupon interest rate of 10.8% per annum, payable semi-annually and with a maturity date of 17 April 2020.	—	—	HK\$710 million	HK\$711 million (Note 2b)
2	on 31 May 2019, China Tonghai Finance extended and consolidated into short term loan in an aggregate of HK\$240,739,228 (which represented short term loan of US\$2,514,583.33 (equivalent to approximately HK\$19.6 million), short term loans of HK\$20 million, HK\$31 million and HK\$40 million and short terms notes of HK\$50 million and HK\$80 million) with an adjusted interest rate of 9.85% per annum and with a maturity date of 30 November 2019.	HK\$241 million	HK\$239 million (Note 1a)	—	—
3	on 6 June 2019, China Tonghai Capital Holdings extended an unsecured private notes issued by the Issuer in the subscription amount of US\$12 million (equivalent to approximately HK\$93.6 million) with coupon interest rate of 10% per annum and with a maturity date of 4 June 2020.	HK\$94 million	HK\$91 million (Note 1b)	—	—
4	on 13 June 2019, China Tonghai Finance provided a short term loan of HK\$3 million with an interest rate of 12% per annum and with a maturity date of 12 July 2019.	HK\$3 million	HK\$3 million (Note 1a)	—	—
Total		HK\$1,386 million	HK\$1,388 million	HK\$774.5 million	HK\$777 million

Notes:

- 1a As at 30 June 2019, HK\$1,297 million forms part of the HK\$3,086 million total for current portion of other loans in the condensed consolidated statement of financial position.
- 1b As at 30 June 2019, HK\$91 million forms part of the HK\$191 million total for current portion of investment securities in the condensed consolidated statement of financial position.
- 2a As at 30 June 2019, HK\$66 million forms part of the HK\$2,220 million total for current portion of loans to margin clients in the condensed consolidated statement of financial position.
- 2b As at 30 June 2019, HK\$711 million forms part of the HK\$1,704 million total for current portion of financial assets held for trading and market making activities in the condensed consolidated statement of financial position.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Pursuant to the banking facility agreement offered by a licensed bank in Hong Kong as lender (the "Banking Facility Agreement") in relation to a revolving credit facility with a total loan amount of up to HK\$1 billion (the "Banking Facility") and in order to secure the Company's obligations under the Banking Facility, Oceanwide Holdings IF and Oceanwide Holdings International Co., Ltd., being the immediate controlling shareholders of the Company and China Oceanwide, charged 395,254,732 shares of the Company and 3,016,279,070 shares of China Oceanwide respectively, which represents 6.38% of the total issued shares of the Company and 18.69% of total issued shares of China Oceanwide respectively in favour of the Bank, as at the date of this report.

Pursuant to the terms of Banking Facility Agreement, Mr. LU and his parties acting in concert, shall at all times directly or indirectly beneficially own 60% of the issued shares of the Company. As at the date of this report, Mr. LU, through his controlled corporation, beneficially own approximately 72.53% of the issued shares of the Company. Upon the breach of this condition, the Banking Facility will immediately and automatically be cancelled and all outstanding loans, together with accrued interest, and all other amounts accrued under the Banking Facility Agreement, become immediately due and payable.

UPDATES ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Changes of information of the Directors since the date of 2018 Annual Report which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of Change
Mr. ZHAO Yingwei	Entered the letter of appointment with the Company for a term of one year commencing 28 March 2019

Save as disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

In response to special enquiry, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the six months ended 30 June 2019.

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has applied the principles and complied with the code provisions set out in Appendix 14 of the Listing Rules, titled “Corporate Governance Code and Corporate Governance Report”, throughout the six months ended 30 June 2019 and subsequent period up to the date of this report, save for the deviations from code provision A.5.1 which stipulates that a Nomination Committee should be established. In view of the stage of business growth, the existing size of the board and business operation of the Group, it is considered more beneficial and effective to have the relevant function performed by the Board itself rather than through the establishment of such committee.

AUDIT COMMITTEE REVIEW

The audit committee of the Company comprises five independent non-executive Directors. The audit committee has reviewed the unaudited condensed consolidated financial results of the Company for the six months ended 30 June 2019 and discussed with the management of the Company the accounting principles and practices adopted by the Group, internal control and financial reporting matters.

On behalf of the Board

China Tonghai International Financial Limited

HAN Xiaosheng

Chairman

Hong Kong, 5 August 2019

BOARD OF DIRECTORS

Mr. HAN Xiaosheng *Chairman*
Mr. ZHANG Bo *Deputy Chairman*
Mr. ZHANG Xifang
Mr. FENG Henian
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing
Chief Executive Officer
Mr. Bernard POULIOT[^]
Mr. LIU Bing[^]
Mr. ZHAO Yingwei[^]
Mr. ZHAO Xiaoxia[^]
Mr. Roy LO Wa Kei[#]
Mr. KONG Aiguo[#]
Mr. LIU Jipeng[#]
Mr. HE Xuehui[#]
Mr. HUANG Yajun[#]

[^] *Non-executive Director*

[#] *Independent Non-executive Director*

EXECUTIVE COMMITTEE

Chairman: Mr. ZHANG Bo
Vice-chairman: Mr. Kenneth LAM Kin Hing
Members: Mr. HAN Xiaosheng
Mr. ZHANG Xifang
Mr. FENG Henian
Mr. LIU Hongwei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Chairman: Mr. KONG Aiguo
Members: Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

COMPANY SECRETARY

Ms. Hortense CHEUNG Ho Sze

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th and 19th Floors
China Building
29 Queen's Road Central
Hong Kong

AUDITOR

KPMG
Certified Public Accountants

HONG KONG LEGAL ADVISER

Howse Williams

BERMUDA LEGAL ADVISER

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Minsheng Banking Corp., Ltd.
Hong Kong Branch
Chong Hing Bank Limited
Dah Sing Bank, Limited
Fubon Bank (Hong Kong) Limited
Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

STOCK CODE

00952

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