

2020
INTERIM REPORT



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

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

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Corporate Information

BOARD OF DIRECTORS

Non-executive Director

Mr. Huang Yilin (*Chairman*)

Executive Directors

Mr. Li Baochen (*Chief Executive Officer*)
(appointed on 13 January 2020)

Mr. Wang Xiang

Ms. Zeng Yanxia

Ms. Zhang Chunjuan

Mr. Huang Jinguang (resigned as Chief Executive Officer
on 13 January 2020 and resigned as Executive Director
and Vice Chairman on 6 February 2020)

Independent Non-executive Directors

Ms. Hong Ying

Mr. Tian Li

Mr. Qin Shuo

BOARD COMMITTEES

Audit Committee

Ms. Hong Ying (*Chairlady*)

Mr. Huang Yilin

Mr. Tian Li

Remuneration Committee

Mr. Tian Li (*Chairman*)

Mr. Huang Yilin

Mr. Qin Shuo

Nomination Committee

Mr. Huang Yilin (*Chairman*)

Mr. Tian Li

Mr. Qin Shuo

COMPANY SECRETARY

Mr. Cho Ka Wai

AUTHORISED REPRESENTATIVES

Ms. Zhang Chunjuan

Mr. Cho Ka Wai

AUDITOR

KPMG

Public Interest Entity Auditor registered in accordance with
the Financial Reporting Council Ordinance

REGISTERED OFFICE

PO Box 1350, Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32/F, Infinitus Plaza

199 Des Voeux Road Central

Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited

Second Floor

Century Yard

Cricket Square, P.O. Box 902

Grand Cayman, KY1-1103

Cayman Islands

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Industrial Bank Co., Ltd., Hong Kong Branch

CMB Wing Lung Bank Limited

Shanghai Pudong Development Bank Co., Ltd.,

Hong Kong Branch

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

Chiyu Banking Corporation Limited

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

WEBSITE

www.xyzq.com.hk

STOCK CODE

6058



The board of directors (the "Board") of China Industrial Securities International Financial Group Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2020 together with the comparative figures as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	For the six months ended 30 June	
		2020 HK\$ Unaudited	2019 HK\$ Unaudited
Commission and fee income from customers	3	177,879,148	183,357,227
Interest revenue	3	99,064,775	143,013,021
Net investment income and gains or losses	3	128,977,720	325,535,288
Revenue	3	405,921,643	651,905,536
Other income	3	79,062,057	44,783,227
Share of result of a joint venture		8,078,154	-
Finance costs		(317,055,110)	(238,706,593)
Commission and fee expenses		(24,246,961)	(36,462,791)
Staff costs	5	(79,198,981)	(90,336,866)
Other operating expenses		(81,879,601)	(85,277,056)
Impairment losses on financial assets	5	(293,124,787)	(58,000,000)
Other gains or losses	5	(22,057,759)	(39,349,352)
(Loss)/profit before taxation	5	(324,501,345)	148,556,105
Taxation	6	38,660,100	(17,073,793)
(Loss)/profit for the period		(285,841,245)	131,482,312
Total comprehensive income for the period attributable to owners of the Company		(285,841,245)	131,482,312
(Loss)/earnings per share			
Basic (expressed in HK\$)	8	(0.0715)	0.0329

The notes on pages 8 to 32 form part of this interim financial report.

Condensed Consolidated Statement of Financial Position

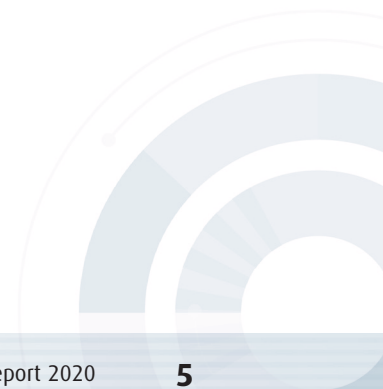
	<i>Note</i>	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Non-current assets			
Property and equipment		118,689,649	29,522,322
Intangible assets		40,548,183	6,897,819
Interest in a joint venture		40,423,572	32,345,418
Financial assets at fair value through profit or loss	9	47,479,734	48,004,707
Reverse repurchase agreements		88,805,609	169,074,404
Statutory deposits		18,404,618	12,094,229
Deferred tax assets		123,426,283	84,368,068
Deposits, other receivables, prepayments and other assets		15,050,240	48,187,079
		492,827,888	430,494,046
Current assets			
Accounts receivable	10	3,946,327,906	5,543,114,617
Reverse repurchase agreements		896,555,041	856,955,362
Financial assets at fair value through profit or loss	9	10,467,512,957	9,077,929,636
Statutory deposits		19,372,199	14,133,035
Deposits, other receivables, prepayments and other assets		218,060,157	1,171,699,907
Tax receivable		6,121,289	64,522
Bank balances – trust accounts		4,351,079,396	1,850,331,251
Bank balances – general accounts and cash		4,841,244,697	5,359,950,333
		24,746,273,642	23,874,178,663
Current liabilities			
Accounts payable	12	5,343,181,706	3,411,501,538
Accruals and other payables		184,943,878	179,145,153
Amount due to a related party		551,769	5,744,417
Contract liabilities		746,066	179,333
Tax payable		4,912,191	66,906,352
Financial liabilities at fair value through profit or loss	11	246,849,371	39,401,016
Repurchase agreements		2,874,718,486	3,101,099,261
Bank borrowings	13	5,888,358,062	6,371,479,379
Other borrowings	14	556,176,067	196,217,064
Notes	15	–	31,302,195
Bonds	16	2,165,981,924	2,173,672,130
Lease liabilities		101,680,698	13,404,498
Other liabilities		522,336,856	546,215,309
		17,890,437,074	16,136,267,645
Net current assets		6,855,836,568	7,737,911,018

Condensed Consolidated Statement of Financial Position



	<i>Note</i>	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Non-current liabilities			
Financial liabilities at fair value through profit or loss	11	–	639,840,032
Repurchase agreements		344,402,042	340,765,474
Bank borrowings	13	–	3,348,128,927
Other borrowings	14	1,163,979,457	–
Loan from the immediate holding company	17	2,286,456,500	–
Deferred tax liabilities		25,786	28,715
		3,794,863,785	4,328,763,148
Net assets		3,553,800,671	3,839,641,916
Capital and reserves			
Share capital	18	400,000,000	400,000,000
Share premium		3,379,895,424	3,379,895,424
Accumulated loss		(680,114,418)	(394,273,173)
Other reserve		11,577,844	11,577,844
Capital reserve		442,441,821	442,441,821
Equity attributable to owners of the Company		3,553,800,671	3,839,641,916

The notes on pages 8 to 32 form part of this interim financial report.



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Equity attributable to owners of the Company					Total equity
	Share capital	Share premium	Capital reserve	Other reserve	Accumulated loss	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2020 (audited)	400,000,000	3,379,895,424	442,441,821	11,577,844	(394,273,173)	3,839,641,916
Loss and total comprehensive income for the period	-	-	-	-	(285,841,245)	(285,841,245)
At 30 June 2020 (unaudited)	400,000,000	3,379,895,424	442,441,821	11,577,844	(680,114,418)	3,553,800,671

For the six months ended 30 June 2019

	Equity attributable to owners of the Company					Total equity
	Share capital	Share premium	Capital reserve	Other reserve	Retained earnings	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2019 (audited)	400,000,000	3,379,895,424	442,441,821	11,577,844	157,158,483	4,391,073,572
HKFRS 16 adjustment on retained earnings	-	-	-	-	2,427,791	2,427,791
At 1 January 2019 (after adjustment)	400,000,000	3,379,895,424	442,441,821	11,577,844	159,586,274	4,393,501,363
Dividends recognised as distribution	-	-	-	-	(92,000,000)	(92,000,000)
Profit and total comprehensive income for the period	-	-	-	-	131,482,312	131,482,312
At 30 June 2019 (unaudited)	400,000,000	3,379,895,424	442,441,821	11,577,844	199,068,586	4,432,983,675

The notes on pages 8 to 32 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020



	Note	For the six months ended 30 June	
		2020 HK\$ Unaudited	2019 HK\$ Unaudited
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(104,129,975)	2,558,524,131
INVESTING ACTIVITIES			
Purchase of property and equipment		(3,927,088)	(444,927)
Proceeds from disposal of property and equipment		–	129,802
Purchase of intangible assets		(35,053,287)	(5,684,759)
Net cash inflow from acquisition of a consolidated structured entity	20	–	302,964
NET CASH USED IN INVESTING ACTIVITIES		(38,980,375)	(5,696,920)
FINANCING ACTIVITIES			
Interest paid		(259,198,373)	(210,787,824)
Bank borrowings raised		15,838,000,148	12,436,142,968
Repayments of bank borrowings		(19,702,000,148)	(8,925,700,000)
Other borrowings raised		1,697,397,516	656,630,018
Repayments of other borrowings		(175,133,131)	(353,507,398)
Issuance of a note		–	62,516,000
Redemption of a note		(31,148,400)	(62,650,400)
Loan from the immediate holding company		2,297,194,500	–
Dividends paid	7	–	(92,000,000)
Capital element of lease rentals paid		(19,055,659)	(15,755,712)
Interest element of lease rentals paid		(722,262)	(718,650)
Contribution from third-party unitholders/shareholders of consolidated investment funds		26,259,565	123,008,178
Withdrawals from third-party unitholders/shareholders of consolidated investment funds		(47,189,042)	(3,648,188)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(375,595,286)	3,613,528,992
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(518,705,636)	6,166,356,203
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF THE PERIOD		5,359,950,333	1,517,226,830
CASH AND CASH EQUIVALENTS AS AT END OF THE PERIOD		4,841,244,697	7,683,583,033
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS REPRESENTED BY			
Bank balances — general accounts and cash		4,841,244,697	7,683,583,033
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		415,179,169	376,942,656
Dividend received		11,403,920	2,511,769

The notes on pages 8 to 32 form part of this interim financial report.



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. GENERAL

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

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

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

(a) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 21 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2(b).

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

(b) Changes in accounting policies

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



3. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	For the six months ended 30 June	
	2020 HK\$ Unaudited	2019 HK\$ Unaudited
Commission and fee income from customers		
Brokerage:		
Commission and fee income from securities brokerage	72,565,014	76,498,325
Commission and fee income from futures and options brokerage	10,385,147	11,128,155
Insurance brokerage commission income	1,014,503	3,199,466
	83,964,664	90,825,946
Corporate finance:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	20,821,576	35,123,891
– Equity securities	5,767,303	37,083,639
Corporate advisory fee income	1,765,962	635,933
Sponsor fee income	6,500,000	5,800,000
Arrangement fee	49,064,104	4,864,907
	83,918,945	83,508,370
Asset management:		
Asset management fee income	7,536,139	6,891,130
Investment advisory fee income	2,459,400	2,131,781
	9,995,539	9,022,911
	177,879,148	183,357,227
Interest revenue		
Loans and financing:		
Interest income from margin financing	78,896,657	141,440,181
Interest income from money lending activities	–	1,320,197
	78,896,657	142,760,378
Financial products and investments:		
Interest income from reverse repurchase agreements	20,168,118	252,643
	99,064,775	143,013,021

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. REVENUE AND OTHER INCOME (Continued)

Revenue (Continued)

	For the six months ended 30 June	
	2020 HK\$ Unaudited	2019 HK\$ Unaudited
Net investment income and gains or losses		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	242,108,219	220,303,905
Dividend income from financial assets at fair value through profit or loss	11,403,920	2,541,717
Net realised (loss)/gain on financial assets at fair value through profit or loss	(29,316,433)	30,975,754
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(49,628,133)	165,374,352
Interest income from derivatives	3,207,193	5,287,652
Net realised loss on derivatives	(40,898,571)	(75,101,279)
Net unrealised (loss)/gain on derivatives	(935,074)	24,686,364
Net realised loss on financial liabilities at fair value through profit or loss	–	(5,796,048)
Net unrealised loss on financial liabilities at fair value through profit or loss	(6,963,401)	(42,737,129)
	128,977,720	325,535,288
	405,921,643	651,905,536

Other income

	For the six months ended 30 June	
	2020 HK\$ Unaudited	2019 HK\$ Unaudited
Interest income from financial institutions	70,798,982	39,888,616
Sundry income	8,263,075	4,894,611
	79,062,057	44,783,227

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



4. SEGMENT REPORTING

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

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

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

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

Corporate finance — provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

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

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

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

For the six months ended 30 June 2020 (unaudited)

	Brokerage HK\$	Loans and financing HK\$	Corporate finance HK\$	Asset management HK\$	Financial products and investments HK\$	Eliminations HK\$	Consolidated HK\$
Segment revenue and result							
Revenue from external customers	83,964,664	78,896,657	83,918,945	9,995,539	20,168,118	-	276,943,923
Net gains on financial products and investments	-	-	-	-	128,977,720	-	128,977,720
Inter-segment revenue	809,484	-	-	10,039,795	-	(10,849,279)	-
Segment revenue and net gains on financial products and investments	84,774,148	78,896,657	83,918,945	20,035,334	149,145,838	(10,849,279)	405,921,643
Revenue presented in the condensed consolidated statement of profit or loss and other comprehensive income							405,921,643
Segment results	34,016,213	(273,640,828)	59,511,794	4,580,914	(95,133,290)	-	(270,665,197)
Unallocated expenses							(53,836,148)
Loss before taxation presented in the condensed consolidated statement of profit or loss and other comprehensive income							(324,501,345)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. SEGMENT REPORTING (Continued)

For the six months ended 30 June 2019 (unaudited)

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



5. (LOSS)/PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2020 HK\$ Unaudited	2019 HK\$ Unaudited
(Loss)/profit before taxation has been arrived at after charging/(crediting):		
Staff costs (including directors' remuneration)	79,198,981	90,336,866
Salaries and bonuses	77,165,019	88,053,957
Contribution to the Mandatory Provident Fund Scheme	1,745,062	1,642,770
Other staff costs	288,900	640,139
Legal and professional fee	9,229,884	8,854,323
Amortisation of intangible assets	1,402,923	504,855
Depreciation		
Owned property and equipment	5,940,474	6,738,171
Right-of-use assets	16,151,146	15,599,405
Maintenance fee	13,336,341	9,535,392
Impairment losses on financial assets		
Secured margin loans	293,124,787	58,000,000
Other gains or losses	22,057,759	39,349,352
Exchange loss	25,006,735	10,096,901
Other (gain)/loss	(2,948,976)	29,252,451

6. TAXATION

	For the six months ended 30 June	
	2020 HK\$ Unaudited	2019 HK\$ Unaudited
Hong Kong Profits Tax:		
Current period	401,044	16,313,329
Deferred tax:		
Current period	(39,061,144)	760,464
	(38,660,100)	17,073,793

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. TAXATION *(Continued)*

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2019: 16.5%) to the six months ended 30 June 2020, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

7. DIVIDENDS

No dividend and a final dividend of HK\$0.023 per share in respect of the year ended 31 December 2019 and 2018 respectively were declared and paid to the owners of the Company. The aggregate amount of the 2018 final dividend declared and paid during the six months ended 30 June 2019 amounted to HK\$92,000,000.

The Board did not declare the payment of interim dividend for the six months ended 30 June 2020 and 2019.

8. (LOSS)/EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2020 HK\$ Unaudited	2019 HK\$ Unaudited
(Loss)/earnings (HK\$)		
(Loss)/earnings for the purpose of basic (loss)/earnings per share:		
(Loss)/profit for the period attributable to owners of the Company	(285,841,245)	131,482,312
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	4,000,000,000	4,000,000,000

For each of the six months ended 30 June 2020 (unaudited) and 30 June 2019 (unaudited), there were no potential ordinary shares in issue, thus no diluted (loss)/earnings per share is presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Equity securities		
– Listed in Hong Kong	157,237,592	137,131,620
– Listed outside Hong Kong	227,260,493	196,490,625
– Unlisted	207,448,169	241,171,753
Debt securities		
– Listed in Hong Kong	5,307,900,436	4,939,309,654
– Listed outside Hong Kong	1,084,028,374	512,412,359
– Unlisted	2,536,607,319	2,887,543,807
Foreign currency forward contracts	–	3,936,218
Credit derivative	–	1,183,320
Funds		
– Listed in Hong Kong	29,899,000	101,311,650
– Unlisted	57,762,532	69,242,666
Convertible bonds		
– Listed outside Hong Kong	46,953,972	36,200,671
– Unlisted	783,828,291	–
Unlisted collateralised loan obligation	76,066,513	–
	10,514,992,691	9,125,934,343
Analysed as		
Current	10,467,512,957	9,077,929,636
Non-current	47,479,734	48,004,707
	10,514,992,691	9,125,934,343

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

10. ACCOUNTS RECEIVABLE

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	3,038,223,587	4,248,656,051
Less: impairment allowance	(698,170,088)	(405,810,868)
	2,340,053,499	3,842,845,183
Clearing house	366,197,921	1,148,102,205
Cash clients	88,277,743	126,836,285
Brokers	122,061,867	57,056,336
Clients for subscription of new shares in IPO	360,417,624	30,302
Less: impairment allowance	(560,000)	(560,000)
	936,395,155	1,331,465,128
	3,276,448,654	5,174,310,311
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing house	21,526,602	36,125,995
Brokers	122,578,496	129,540,770
Less: impairment allowance	(88,000)	(88,000)
	144,017,098	165,578,765
Accounts receivable arising from the business of corporate finance	22,795,581	17,695,697
Accounts receivable arising from the business of asset management	10,717,700	28,823,967
Less: impairment allowance	(512,867)	(512,867)
	10,204,833	28,311,100
Accounts receivable arising from the business of financial products and investments:		
Brokers	492,861,740	157,218,744
	3,946,327,906	5,543,114,617

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



10. ACCOUNTS RECEIVABLE *(Continued)*

Secured margin loans

For secured margin loans at 30 June 2020 and 31 December 2019, the loans are repayable on demand subsequent to settlement date.

Accounts receivable (except for secured margin loans)

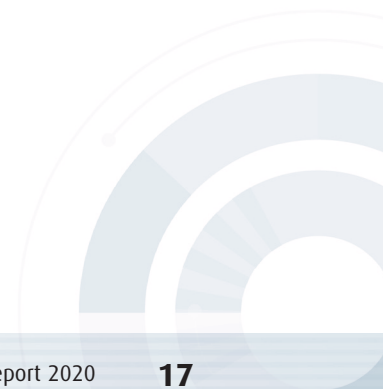
Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after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

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

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

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

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



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

10. ACCOUNTS RECEIVABLE (Continued)

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

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

Corporate finance clients

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Less than 31 days	12,998,450	11,886,520
31–60 days	39,000	–
61–90 days	–	116,807
91–180 days	3,255,294	–
Over 180 days	6,502,837	5,692,370
	22,795,581	17,695,697

Asset management clients

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Less than 31 days	1,825,257	18,434,772
31–60 days	487,416	1,549,502
61–90 days	415,538	1,362,061
91–180 days	2,025,864	3,034,312
Over 180 days	5,963,625	4,443,320
	10,717,700	28,823,967

During the six months ended 30 June 2020 and the year ended 31 December 2019, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

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

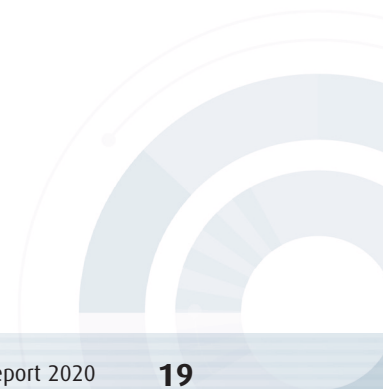
Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



11. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Held for trading		
Short position in listed equity securities	37,017,500	30,853,500
Credit derivatives	6,849,781	8,460,016
Foreign currency forward contracts	–	87,500
	43,867,281	39,401,016
Designated at fair value through profit or loss		
Unlisted issued structured products	202,982,090	639,840,032
	246,849,371	679,241,048
Analysed as:		
Current	246,849,371	39,401,016
Non-current	–	639,840,032
	246,849,371	679,241,048



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. ACCOUNTS PAYABLE

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Accounts payable arising from the business of dealing in securities:		
Clearing house	–	15,699,420
Brokers	5,711,062	8,448,927
Clients	4,612,307,929	2,988,451,031
	4,618,018,991	3,012,599,378
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	377,253,854	324,921,275
Accounts payable arising from the business of financial products and investments:		
Brokers	347,908,861	73,980,885
	5,343,181,706	3,411,501,538

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



12. ACCOUNTS PAYABLE *(Continued)*

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

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

The Group has accounts payable arising from the business of dealing in securities of HK\$78,718,717 due to the immediate holding company as at 30 June 2020 (31 December 2019: HK\$98,718,717).

13. BANK BORROWINGS

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Variable rate borrowings	5,888,358,062	9,719,608,306
Repayable within one year and contain a repayable on demand clause	5,888,358,062	6,371,479,379
Repayable within a period of more than one year but not exceeding two years	–	3,348,128,927
	5,888,358,062	9,719,608,306

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

The interest rate of the Group's bank borrowings as at 30 June 2020 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.3% to HIBOR+2.4% (31 December 2019: HIBOR+1.4% to HIBOR+2.3%).

At 30 June 2020, HK\$5,630,000,000 (31 December 2019: HK\$9,703,599,612) had been drawn by the Group under the aggregated banking facilities of HK\$9,740,000,000 (31 December 2019: HK\$13,160,000,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK\$6,100,000,000 as at 30 June 2020 (31 December 2019: HK\$9,790,000,000). Out of which HK\$3,780,000,000 had been drawn as at 30 June 2020 (31 December 2019: HK\$8,090,000,000).

No bank borrowings were secured by charges over client's pledged securities as at 30 June 2020 and 31 December 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

14. OTHER BORROWINGS

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Variable rate (3 months London InterBank Offered Rate ("LIBOR") + 3.5%)	58,755,859	–
Fixed rate ranged from 1.8% to 3.8% (31 December 2019: 4.3% to 6.00%)	1,661,399,665	196,217,064
	1,720,155,524	196,217,064
Analysed as:		
Current	556,176,067	196,217,064
Non-current	1,163,979,457	–
	1,720,155,524	196,217,064

The other borrowings were repayable within three years (31 December 2019: one year). As at 30 June 2020, client securities amounting to HK\$354,656,145 (31 December 2019: HK\$391,006,060) and financial assets at fair value through profit or loss amounting to HK\$2,279,943,757 (31 December 2019: Nil) have been pledged to other borrowings.

15. NOTES

In 2019, the Company's wholly owned subsidiary issued guaranteed notes with a fixed rate of 3% per annum and one year maturity which were guaranteed by the Company.

16. BONDS

In 2019, the Company issued corporate bonds with fixed interest rate of 5% per annum and one year maturity which were guaranteed by the Company's wholly owned subsidiary.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



17. LOAN FROM THE IMMEDIATE HOLDING COMPANY

	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Loan from the immediate holding company	2,286,456,500	–

In January 2020, the Group borrowed USD295,000,000 (equivalent to HK\$2,297,194,500) from the immediate holding company, Industrial Securities (Hong Kong).

The loan from the immediate holding company is unsecured, repayable in 2023 and bears interest at a rate of 2.9% per annum.

18. SHARE CAPITAL

Details of the share capital are as follows:

	Number of ordinary shares of HK\$0.10 each	Share capital HK\$
Authorised:		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	20,000,000,000	2,000,000,000
Issued and fully paid:		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	4,000,000,000	400,000,000

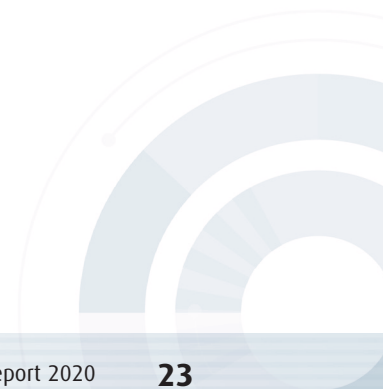
19. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2019.

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



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurement of financial instruments

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

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

Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

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

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 30 June 2020 and 31 December 2019.

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2020 HK\$ Unaudited	31 December 2019 HK\$ Audited		
1) Financial assets at fair value through profit or loss				
Equity securities				
– Traded on stock exchanges	384,498,085	333,622,245	Level 1	Quoted price in active markets

Notes to the Condensed Consolidated Financial Statements

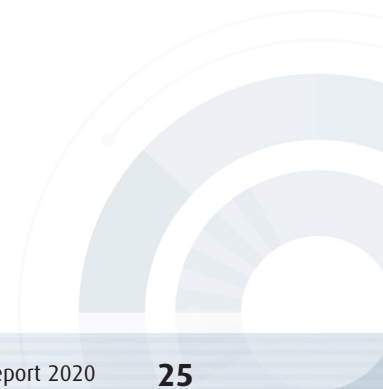
For the six months ended 30 June 2020



19. FINANCIAL INSTRUMENTS (Continued)

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2020 HK\$ Unaudited	31 December 2019 HK\$ Audited		
1) Financial assets at fair value through profit or loss (Continued)				
– Unlisted	207,448,169	241,171,753	Level 3	Market approach based on the Comparable Companies Method with the Price to Earnings and EV/ EBITDA multiple of the comparable companies, with significant unobservable input of the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment (<i>note a</i>)
Debt securities				
– Traded on stock exchanges and unlisted	8,928,536,129	7,560,555,820	Level 2	Quoted from brokers or market makers or last tradable price
– Unlisted	–	778,710,000	Level 2	Recent transaction price
Credit derivative	–	1,183,320	Level 2	Quoted from market makers
Foreign currency forward contracts	–	3,936,218	Level 2	Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2020 HK\$ Unaudited	31 December 2019 HK\$ Audited		
1) Financial assets at fair value through profit or loss <i>(Continued)</i>				
Convertible bonds				
– Traded on stock exchange and unlisted	830,782,263	36,200,671	Level 2	Quoted from brokers or market makers or last tradable price
Funds				
– Traded on stock exchange	29,899,000	101,311,650	Level 1	Quoted price in active market
– Unlisted	57,762,532	69,242,666	Level 3	NAV of fund <i>(note b)</i>
Unlisted collateralised loan obligation	76,066,513	–	Level 2	Quoted from market makers
	10,514,992,691	9,125,934,343		

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



19. FINANCIAL INSTRUMENTS (Continued)

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2020 HK\$ Unaudited	31 December 2019 HK\$ Audited		
2) Financial liabilities held for trading				
Short position in listed equity securities	37,017,500	30,853,500	Level 1	Quoted price in active market
Credit derivative	6,849,781	8,460,016	Level 3	Quoted price from market makers (<i>note c</i>)
Foreign currency forward contracts	–	87,500	Level 2	Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate
	43,867,281	39,401,016		
3) Financial liabilities designated at fair value through profit or loss				
Unlisted structured products (with the underlying investment related to listed debt securities)	120,374,982	80,696,680	Level 2	Quoted price of underlying investments from brokers or market makers
Unlisted structured product (with the underlying investment related to unlisted debt security)	82,607,108	107,648,354	Level 2	Quoted price of underlying investment from brokers or market makers
Unlisted structured product (with the underlying investment related to unlisted fund)	–	451,494,998	Level 2	Recent transaction price
	202,982,090	639,840,032		

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. FINANCIAL INSTRUMENTS (Continued)

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Notes:

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

There were no transfers between Level 1 and 2 during the six months ended 30 June 2020 and 2019.

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

	2020		2019	
	Financial liabilities at fair value through profit or loss HK\$	Financial assets at fair value through profit or loss HK\$	Financial liabilities at fair value through profit or loss HK\$	Financial assets at fair value through profit or loss HK\$
As at 31 December (audited)	(8,460,016)	310,414,419	(680,767)	399,350,992
Derecognition	–	–	680,767	–
Transfer into Level 3 (note a)	–	–	–	47,044,598
Total gains/(loss) in profit or loss	1,610,235	(45,203,718)	–	(3,496,510)
As at 30 June (unaudited)	(6,849,781)	265,210,701	–	442,899,080

Note:

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

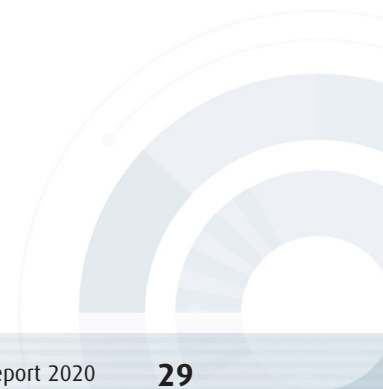


19. FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments

	Notional Amount		Fair Value			
			Assets		Liabilities	
	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited	As at 30 June 2020 HK\$ Unaudited	As at 31 December 2019 HK\$ Audited
Foreign currency exchange futures	232,521,000	233,576,910	–	–	2,170,367	2,191,932
Interest rate futures	321,001,598	1,031,790,750	–	903,912	618,966	–
Total	553,522,598	1,265,367,660	–	903,912	2,789,333	2,191,932
Less: Settlement			–	(903,912)	(2,789,333)	(2,191,932)
Net position			–	–	–	–

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in treasury futures traded through China Industrial Securities International Futures Limited, were settled daily with the broker. Accordingly, the net position of the above derivative contracts was nil as at 30 June 2020 and 31 December 2019.





Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

20. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

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

	HK\$
--	------

Consideration transferred

Cash	5,000,000
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Assets acquired and liabilities recognised at the date of acquisition

Bank	5,302,964
Financial assets held for trading	2,303,460
Accounts receivable	794,213
Other payables	(351,692)
	8,048,945

Net assets acquired at the date of acquisition attributable to the Group

Net assets acquired at the date of acquisition	8,048,945
Proportion of the Group's interest	62.12%
	5,000,000

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

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

Net cash inflow on acquisition of a consolidated structured entity

Cash and cash equivalent balances acquired	5,302,964
Less: consideration paid in cash	(5,000,000)
	302,964

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



21. RELATED PARTY TRANSACTIONS

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

(a) Compensation of key management personnel

The remuneration of key management during the six months ended 30 June 2020 and 2019 was as follows:

	For the six months ended 30 June	
	2020 HK\$ Unaudited	2019 HK\$ Unaudited
Salary and short-term benefits	14,173,461	13,295,952
Post-employment benefits	63,000	78,000

(b) Consultancy services from a fellow subsidiary

Pursuant to service agreement entered into between the Company and Industrial Securities (Shenzhen), dated 27 September 2016 (the "Service Agreement"), Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%. On 3 April 2018, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which the Company required broader services from Industrial Securities (Shenzhen) including provision of services and support to the Group's clients in core regions in the PRC, brand establishment and promotion and provision of cross-border information technology support. During the six months ended 30 June 2020, the Company paid a consultancy service fee of HK\$7,748,904 (2019: HK\$7,266,666) under the Service Agreement. Details of the Service Agreement and the Supplemental Service Agreement are set out in section headed "Connected Transactions" in the Prospectus and in the announcement dated 3 April 2018 respectively.

(c) Significant related party transactions during the reporting period are as follows:

	Note	For the six months ended 30 June	
		2020 HK\$ Unaudited	2019 HK\$ Unaudited
Loan from the immediate holding company	(i)	2,297,194,500	–
Interest expense to the immediate holding company	(i)	33,230,115	–

- (i) In January 2020, the Group borrowed USD295,000,000 (equivalent to HK\$2,297,194,500) from the immediate holding company, Industrial Securities (Hong Kong). The interest expense in relation to the aforesaid loan was accrued at an interest rate of 2.9% per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

21. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Outstanding balances with related parties:

	As at 30 June 2020		As at 31 December 2019	
	Carrying amount HK\$ Unaudited	Maximum amount outstanding HK\$ Unaudited	Carrying amount HK\$ Audited	Maximum amount outstanding HK\$ Audited
Loan from the immediate holding company – Industrial Securities (Hong Kong)	2,286,456,500	2,299,849,500	–	–

The loan from the immediate holding company is unsecured, repayable in 2023 and bears interest at a rate of 2.9% per annum.

22. INTEREST IN CONSOLIDATED STRUCTURED ENTITIES

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

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

For the six months ended 30 June 2020, gain from changes in interests held by third-party unit holders/shareholders of HK\$2,948,946 (2019: loss of HK\$29,252,451) in consolidated structured entities are included as other gain/loss within other gains or losses in the condensed consolidated statement of profit or loss and other comprehensive income and the interests held by third-party unit holders/shareholders amounted to HK\$522,336,856 (31 December 2019: HK\$546,215,309) as at 30 June 2020 are included in other liabilities in the condensed consolidated statement of financial position.

Management Discussion and Analysis



MACROENVIRONMENT

Since early 2020, the novel coronavirus (COVID-19) pandemic (“Pandemic”) has been spreading all over the world. The outbreak of Pandemic caused wild swings in financial markets in the first half of the year. Global equity markets experienced sharp corrections in the first quarter. With the easing of the Pandemic situation in some places in the second quarter, coupled with monetary and fiscal stimulus measures introduced globally, major equity markets have rebounded significantly, though still below the levels at the beginning of the year. While fighting the Pandemic, governments and central banks of different countries have cut interest rates and implemented stimulus measures to tackle the economic impact of the outbreak. In particular, the U.S. Federal Reserve has cut rates by 0.5% and 1% in just the first two weeks of March 2020 and restarted quantitative easing measures. Facing the huge global and local challenges, the Hong Kong Monetary Authority has also followed correspondingly and lowered the Base Rate according to its pre-set formula. Although China and the U.S. have signed a trade deal, the frictions between the two countries remained and even deteriorated amid the worsening pandemic in the US. As such, there are great uncertainties in projecting global economic growth.

HONG KONG MARKET REVIEW

The Pandemic dealt a heavy blow to global stock markets. Hong Kong stocks fell in the first half of 2020, with the Hang Seng Index closing at 24,427.2 as at the end of June 2020, a 13% drop from the end of 2019. The number of new stocks listed in Hong Kong declined in the first half of 2020 due to the Pandemic outbreak, but the total amount of financing was higher than that of the same period last year thanks to the second listings of two giants. In the first half of 2020, initial public offerings in Hong Kong raised a total amount of HK\$87.5 billion, representing an increase of 22% year-on-year.

RESULTS AND OVERVIEW

For the six months ended 30 June 2020, the Group achieved an operating revenue of HK\$405.92 million (2019: HK\$651.91 million), representing a year-on-year decrease of 37.73%; and recorded a net loss after tax of HK\$285.84 million (2019: a net profit of HK\$131.48 million). The main reasons for the loss include: First, due to market volatility and other headwinds in early 2020, revenue from proprietary business dropped by 54.22% year-on-year; second, global stock markets experienced substantial corrections and the Hong Kong stock market suffered a downturn due to the Pandemic, the provision for impairment of HK\$293 million was made for margin loans.

For the six months ended 30 June 2020, the Group’s operating revenue from brokerage services, corporate finance services, asset management services, loans and financing services, financial products and investments saw a decrease of 7.55%, an increase of 0.49% and 10.78%, and a decrease of 44.73% and 54.22% year-on-year, respectively.

BUSINESS REVIEW

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

Brokerage

For the six months ended 30 June 2020, the Group recorded commission and fee income from brokerage services of HK\$83.96 million (2019: HK\$90.83 million), representing a year-on-year decrease of 7.55%.



Management Discussion and Analysis

Corporate finance

For the six months ended 30 June 2020, the Group recorded income from corporate finance business of HK\$83.92 million (2019: HK\$83.51 million), representing a year-on-year increase of 0.49%.

The Pandemic had affected the progress and intention of corporate customers to issue bonds for financing. For the six months ended 30 June 2020, the Group's commission income on placing, underwriting and sub-underwriting of debt securities amounted to HK\$20.82 million (2019: HK\$35.12 million), representing a year-on-year decrease of 40.72%. On the other hand, Hong Kong stock market's financing projects suffered different levels of delay due to the Pandemic, the number of newly listed stocks dropped significantly. Commission income on placing, underwriting and sub-underwriting of equity securities amounted to HK\$5.77 million (2019: HK\$37.08 million), representing a year-on-year decrease of 84.45%. Arrangement fee amounted to HK\$49.06 million (2019: HK\$4.86 million), representing a year-on-year increase of 908.53%.

Asset management

For the six months ended 30 June 2020, the Group recorded income from asset management business of HK\$10.00 million (2019: HK\$9.02 million), representing a year-on-year increase of 10.78%.

Loans and financing

In 2020, the Group optimized its customer structure and scaled down margin financing, resulting in a significant year-on-year decline in the average size of secured margin loans. For the six months ended 30 June 2020, the Group's revenue from loans and financing business was HK\$78.90 million (2019: HK\$142.76 million), representing a year-on-year decrease of 44.73%.

Financial products and investments

Given the financial market volatility in the first half of 2020, the Group's revenue from financial products and investments for the six months ended 30 June 2020 dropped by 54.22% year-on-year to HK\$149.15 million (2019: 325.79 million).

FINANCIAL POSITION

As at 30 June 2020, the total assets of the Group increased by 3.84% to HK\$25,239.10 million (31 December 2019: HK\$24,304.67 million). As at 30 June 2020, the total liabilities of the Group increased by 5.96% to HK\$21,685.30 million (31 December 2019: HK\$20,465.03 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 30 June 2020, the net current assets of the Group decreased by 11.40% to HK\$6,855.84 million (31 December 2019: HK\$7,737.91 million). As at 30 June 2020, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year/period) was 1.4 times (31 December 2019: 1.5 times).

For the six months ended 30 June 2020, the net cash outflow of the Group was HK\$518.71 million (31 December 2019: HK\$3,842.72 million). As at 30 June 2020, the bank balance of the Group was HK\$4,841.24 million (31 December 2019: HK\$5,359.95 million).

As at 30 June 2020, the Group's bank and other borrowings in aggregate decreased by 23.27% to HK\$7,608.51 million (31 December 2019: HK\$9,915.83 million).

Management Discussion and Analysis



As at 30 June 2020, the Group did not have notes outstanding (31 December 2019: HK\$31.30 million). As at 30 June 2020, the Group's bonds outstanding amounted to HK\$2,165.98 million (31 December 2019: HK\$2,173.67 million) and its shareholder loan amounted to HK\$2,286.46 million (31 December 2019: Nil). As at 30 June 2020, the gearing ratio of the Group (defined as the sum of bank borrowings, other borrowings, notes outstanding and bonds, and shareholder loan divided by total equity) increased by approximately 7.51% to 3.394 (31 December 2019: 3.157).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK\$3,553.80 million as at 30 June 2020 (31 December 2019: HK\$3,839.64 million).

PROSPECTS AND FUTURE PLAN

Looking ahead, the investment environment in the second half of the year remains challenging. While many governments have begun to relax their anti-epidemic measures, the global economy is still very fragile, and the timing and speed of recovery remain highly uncertain. Geopolitical developments and the risk of resurgence of Pandemic also add to uncertainties surrounding the markets. The economic outlook and business environment of Hong Kong and mainland China are expected to be more challenging in the second half of 2020. Although the government of the Hong Kong Special Administrative Region has taken a series of relief measures to address the challenges posed by the Pandemic outbreak, it is expected that Hong Kong's economic recovery will be slow, hence its sluggish GDP growth and high unemployment rate will remain for a long period of time.

Under the current complex and volatile market environment, the Group will take a more prudent attitude to carry out business activities. We will increase efforts mainly in the following three aspects:

First, we will adjust and optimize business mix. The Group will accelerate business transformation by building a business system driven by wealth management and large institutional business and cautiously developing capital-consuming business.

Second, we will improve our compliance risk control system and build a long-term internal control mechanism. The Group will continue to improve its governance structure for comprehensive risk management and optimize its comprehensive risk management system.

Looking ahead, we will continue to be united and dedicated to strive for the benefits of the Company and all shareholders, as evidenced by the recent hard work of the whole Group in combat with the Pandemic. We would create desirable return to all shareholders.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions or disposals of subsidiaries and associated companies by the Group for the six months ended 30 June 2020.

CHARGES ON GROUP ASSETS

For the six months ended 30 June 2020, the Group's assets pledged were mainly collaterals pledged as debt securities for repurchase agreements and other borrowings.



Management Discussion and Analysis

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2020, the Group had 219 full-time employees (30 June 2019: 212 full-time employees), including the Directors. Total remuneration for the six months ended 30 June 2020 was HK\$79.20 million (2019: HK\$90.34 million). The Group will review its remuneration policy from time to time in accordance with market practice. While the bonus will be distributed with reference to individual performance appraisal, prevailing market condition, and the Group's financial performance. Other employee benefits include contributions to the Mandatory Provident Fund Scheme, medical care insurance etc.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities for the six months ended 30 June 2020 and as of the date of this report.

EVENT AFTER THE REPORTING PERIOD

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

RISK MANAGEMENT

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

Credit risks

The Group has established the risk management committee responsible for reviewing and monitoring the implementation of risk management policies for credit business of principal business units, identifying risks, and updating relevant risk management policies in response to changes. It has also established an investment and financing business assessment committee responsible for inspecting and reviewing credit approval related policies, trading limit and credit limit;

The Group has implemented "know-your-client" procedures and credit check to ascertain the background of potential clients. The Group also performs credit assessment on potential clients (especially in loans and financing business), and requires loans and financing clients to provide margin deposit or acceptable collateral (as the case may be) to minimize risk;

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

Management Discussion and Analysis



Liquidity risks

The Group has in place liquidity risk management procedures to identify, treat, monitor and control potential liquidity risk and maintains the liquidity and financial resources requirements as specified under applicable laws and regulations, such as Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong);

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

The Group meets its funding requirements primarily through bank borrowings from multiple banks. The Group obtained financing capital by issuing bonds for the first time in 2019, expanding its financing channels. The Group has also adopted stringent liquidity management measures to ensure that the Group has satisfied the capital requirements under the applicable laws.

Compliance and Legal Risks

The Group has established a sound compliance and legal risk management framework and formulated relevant policies, procedures and models in various aspects. While keeping abreast of the laws and regulations concerning the current business environment, the Group assesses the severity and causes of identified legal and compliance risks and formulates long-term and comprehensive plans for remedies and rectification measures, so as to mitigate the risks and take reasonable remedies when necessary.

The Group's compliance department is responsible for compliance monitoring, providing compliance opinion for various business plans and affairs, strictly monitoring the operation of the Group's licensed business and ensuring its compliance with relevant regulatory requirements. Meanwhile, in order to foster a compliance culture of the Group and strengthen compliance awareness, the compliance department arranges continuous professional training on topics from time to time, such as combating money laundering, for the employees of the Group and ensures that the Group's business activities comply with various regulations including those related to anti-money laundering.

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

Market risks

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

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

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



Management Discussion and Analysis

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

The Group assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and profitability of different types of bonds, and controls the investment horizon of debt securities investment; the Group monitors investments on a timely basis, including trading positions, unrealised profit or loss, risk exposure and trading activities, and establishes mechanisms that set pre-determined points to halt profit or loss on an overall basis or on a single bond.

Foreign currency risks

The Group's exposure to foreign currency risks is primarily related to transactions denominated in a currency other than Hong Kong dollars. The Group's financial products and investments business primarily comprises investment in bonds and other fixed income products denominated in US dollars. The Group has been monitoring closely the exchange rate trend and adopts hedging measures when appropriate, so as to prevent significant foreign exchange risk arising from US dollar denominated monetary items.

Interest rate risks

The interest rate risks of the Group mainly come from fixed-rate loans receivable and fixed-rate debt securities. For debt securities included in financial assets, their prices at fair value are subject to the effect of market interest rate. The Group has adopted the US Treasury bond futures and other instruments to hedge against interest rate risks;

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

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

Operational risks

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

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

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

As at 30 June 2020, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

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

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage
Huang Yilin	Beneficial owner	2,264,384	0.06%
Wang Xiang	Beneficial owner	8,131,197	0.20%
Zeng Yanxia	Beneficial owner	7,204,858	0.18%

Save as disclosed above, as at 30 June 2020, none of the Directors or Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



Other Information

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

So far as the Directors and the Chief Executives are aware, as at 30 June 2020, the following persons/corporations (other than a Director or the Chief Executives) had interests or short positions in the Shares and the underlying Shares, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name	Nature of Interest	No. of Shares held	Approximate percentage of Shareholding
Industrial Securities (Hong Kong) Financial Holdings Limited	Beneficial owner	2,077,337,644	51.93%
Industrial Securities Co., Ltd.* (Note 1)	Interest of controlled corporation	2,077,337,644	51.93%
Harvest Capital Management Co., Ltd (Note 2)	Investment manager	293,232,000	7.33%
Harvest Fund Management Co., Ltd. (Note 2)	Interest of controlled corporation	293,232,000	7.33%
China Credit Trust Co., Ltd. (Note 2)	Interest of controlled corporation	293,232,000	7.33%
Hao Kang Financial Holdings (Group) Limited	Beneficial owner	205,853,089	5.15%
Apex Trade Holdings Limited	Interest of controlled corporation	205,853,089	5.15%
Chen Jiaquan (Note 3)	Interest of controlled corporation	205,853,089	5.15%
Yang Zhiying (Note 4)	Interest of spouse	205,853,089	5.15%

Notes:

- Industrial Securities Co., Ltd.* holds the entire issued share capital of Industrial Securities (Hong Kong) Financial Holdings Limited. Therefore, Industrial Securities Co., Ltd.* is deemed or taken to be interested in all the Shares held by Industrial Securities (Hong Kong) Financial Holdings Limited for the purposes of the SFO.
- China Credit Trust Co., Ltd holds 40% of the entire issued share capital of Harvest Fund Management Co., Ltd., and Harvest Fund Management Co., Ltd. holds 75% of the entire issued share capital of Harvest Capital Management Co., Ltd. Therefore, China Credit Trust Co., Ltd and Harvest Fund Management Co., Ltd. are deemed or taken to be interested in all the Shares held by Harvest Capital Management Co., Ltd for the purposes of the SFO.
- Chen Jiaquan holds 70% of the total issued share capital of Apex Trade Holdings Limited and is the sole director of Hao Kang Financial Holdings (Group) Limited and therefore is deemed or taken to be interested in all the Shares held by Apex Trade Holdings Limited and Hao Kang Financial Holdings (Group) Limited for the purpose of the SFO.
- Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the Shares in which Chen Jiaquan is interested.

* For identification purpose only

Other Information



Save as disclosed above, as at 30 June 2020, the Company has not been notified by any persons, other than the Directors and the Chief Executives who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

COMPETING INTERESTS

Save for the continuing connected transactions as disclosed in the section headed "Relationship with the controlling shareholders" and "Connected transactions" in the prospectus of the Company dated 30 September 2016, none of the Directors or the controlling shareholders of the Company nor their respective close associates as defined in the Listing Rules had any interest in business that competed or might compete with business of the Group during the six months ended 30 June 2020.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2019 annual report of the Company are set out below:

Director	Details of Change
Wang Xiang	The monthly remuneration has been revised to HK\$180,000 with effect from 1 July 2020
Zeng Yanxia	The monthly remuneration has been revised to HK\$160,000 with effect from 1 July 2020

CONTINUING DISCLOSURE OBLIGATION UNDER RULE 13.21 OF THE LISTING RULES

On 15 May 2019, the Company as borrower entered into a facility letter (the "Facility Letter") with a bank as lender in relation to an uncommitted revolving loan facility of HK\$200,000,000. As a condition of the Facility Letter, it shall be an event of default if Industrial Securities Co., Ltd.* ("Industrial Securities"), the controlling shareholder of the Company ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain the absolute management control over the Company.

* For identification purpose only



Other Information

On 26 February 2020, regarding the Company as borrower entered into a facility letter (the aforesaid “Facility Letter”) with a bank as lender in relation to an uncommitted revolving loan facility of HK\$200,000,000 on 15 May 2019, the borrower confirmed the acceptance of the Facility Letter issued by the bank revising the Facility Letter up to an aggregate of HK\$300,000,000. As a condition of the Facility Letter, it shall be an event of default if Industrial Securities ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain the absolute management control over the Company.

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

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the Model Code. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the “CG Code”) as contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2020.

AUDIT COMMITTEE

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

The Group’s unaudited condensed consolidated results for the six months ended 30 June 2020 have been reviewed by the Audit Committee, which was of the opinion that such results have complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements and that adequate disclosures have been made.