

恒投证券

HENGTOU SECURITIES

(a joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name "恒泰证券股份有限公司" and carrying on business in Hong Kong as "恒投證券" (in Chinese) and "HENGTOU SECURITIES" (in English))

Stock Code: 1476

2020
INTERIM REPORT

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Important Notice

The Board, Supervisory Committee, Directors, Supervisors and senior management of the Company warrant that the contents of this report are true, accurate and complete without any false representation, misleading statement or material omission, and assume several and joint liability in respect thereof.

This report has been considered and approved at the seventh meeting of the fourth session of the Board and the seventh meeting of the fourth session of the Supervisory Committee where all the Directors and Supervisors were present, respectively. None of the Directors, Supervisors or senior management of the Company has declared that they could not guarantee or had any objection to the truthfulness, accuracy and completeness of this report.

The interim financial information for the six months ended 30 June 2020 is prepared by the Company in accordance with the International Financial Reporting Standards, and has been reviewed by Grant Thornton Hong Kong Limited in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. All amounts set out in this report are stated in RMB unless otherwise stated.

Mr. Pang Jiemin (the chairman of the Board), Mr. Niu Zhuang (the president) and Mr. Sun Hang (the chief financial officer) declared that they warrant the truthfulness, accuracy and completeness of the interim financial information contained in this report.

The forward-looking statements including future plans and development strategies set out in this report do not constitute the Company's substantive commitment to investors. The investors are advised to pay attention to investment risks.

Section I Definitions

In this report, unless the context otherwise requires, the following terms and expressions have the meanings set forth below:

APP	application, which generally refers to mobile applications
Articles of Association	the articles of association of the Company, as amended from time to time
Baotou Huazi	Baotou Huazi Industry Co., Ltd. (包頭華資實業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600191) and a substantial shareholder of the Company
Board	the board of directors of the Company
Company or Hengtou Securities	a company established as a limited liability company in the PRC on 28 December 1998 and converted into a joint stock company with limited liability under the PRC laws on 3 November 2008 under the corporate name “恒泰证券股份有限公司” (Hengtai Securities Co., Ltd), and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES”(in English) as approved by and registered with the Hong Kong Companies Registry on 27 April 2015, and whose H Shares are listed on the Main Board of the Hong Kong Stock Exchange
Corporate Governance Code	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Director(s)	director(s) of the Company
Domestic Share(s)	ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as paid-up in RMB
end of the Reporting Period	30 June 2020
Finance Street Capital	Beijing Finance Street Capital Management Centre (北京金融街資本運營中心), which holds 100% equity interest in Huarong Infrastructure
Finance Street Investment	Beijing Finance Street Investment (Group) Co., Ltd. (北京金融街投資(集團)有限公司), formerly known as Beijing Finance Street Construction Group Co., Ltd. (北京金融街建設集團), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Finance Street Xihuan Properties	Beijing Finance Street Xihuan Properties Co., Ltd. (北京金融街西環置業有限公司), formerly known as Beijing Xihuan Properties Co., Ltd. (北京西環置業有限公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
GDP	Gross Domestic Product
Group	the Company and its subsidiaries

Section I Definitions

H Share(s)	overseas listed foreign ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Hong Kong Stock Exchange
Hangzhou Ruisi	Hangzhou Ruisi Industrial Co., Ltd. (杭州瑞思實業有限公司), which holds 98.67% equity interest in Shaanxi Tianchen
Hengtai Capital	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司), the 100% equity interest of which is held by the Company
Hengtai Changcai	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司), the 100% equity interest of which is held by the Company
Hengtai Futures	Hengtai Futures Co., Ltd. (恒泰期貨股份有限公司), 80% and 20% equity interest of which are held by the Company and Hengtai Capital, respectively
Hengtai Pioneer	Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司), the 100% equity interest of which is held by the Company
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hongzhi Huitong	Beijing Hongzhi Huitong Industrial Co., Ltd. (北京鴻智慧通實業有限公司), a shareholder of the Company
Huarong Infrastructure	Beijing Huarong Infrastructure Investment Co., Ltd. (北京華融基礎設施投資有限責任公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Huarong Investment	Beijing Huarong Comprehensive Investment Co., Ltd. (北京華融綜合投資有限公司), which holds 90% equity interest in Finance Street Xihuan Properties
Huifa Investment	Tibet Dazi Huifa Investment Co., Ltd. (西藏達孜滙發投資有限公司), formerly known as Shenzhen City Huifa Investment Co., Ltd. (深圳市滙發投資有限公司), and a shareholder of the Company
IPO	Initial Public Offering
Listing	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange on 15 October 2015
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange

Section I Definitions

margin financing and securities lending	a collateral-backed operating activity in which securities firms provide clients with monies to buy listed securities or with listed securities for sale
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
NEEQ	National Equities Exchange and Quotations
New China Fund	New China Fund Management Co., Ltd. (新華基金管理股份有限公司), 58.62% equity interest of which is held by the Company
PRC or China	for the purpose of this report, the People's Republic of China (excluding Hong Kong, Macau Special Administration Region of the PRC and Taiwan)
Prospectus	the H Shares prospectus of the Company dated 30 September 2015
Reporting Period	the six months ended 30 June 2020
RMB	Renminbi, the lawful currency of China, the basic unit of which is Yuan
REITs	Real Estate Investment Trusts
SASAC Xicheng District	The State-owned Assets Supervision and Administration Commission of Xicheng District People's Government of Beijing Municipality (北京市西城區人政府國有資產監督管理委員會), which holds 100% equity interest in each of Huarong Investment, Finance Street Capital and Finance Street Investment
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shaanxi Tianchen	Shaanxi Tianchen Technology Trading Co., Ltd. (陝西天宸科貿有限公司), which holds 97.08% equity interest in Hongzhi Huitong
stock pledged repurchase transaction	a transaction in which a qualified borrower pledges his shares or other securities held as collaterals to obtain financing funds from a qualified lender, and agrees to repay the funds on a future date to release the pledge
substantial shareholder(s)	has the meaning ascribed thereto under the Listing Rules
Supervisor(s)	supervisor(s) of the Company
Supervisory Committee	the supervisory committee of the Company
Suzhou Bingtai	Suzhou Bingtai Trading Co., Ltd. (蘇州秉泰貿易有限公司), which holds 94% equity interest in Hangzhou Ruisi

Section I Definitions

this report	the 2020 interim report of the Company
Tomorrow Holding	Tomorrow Holding Limited Company (明天控股有限公司), which holds approximately 54% equity interest in Baotou Huazi, one of the substantial shareholders of the Company
Wind Info	Wind Info Co., Ltd. (上海萬得信息技術股份有限公司), a joint stock company incorporated in the PRC with limited liability and a service provider of financial data, information and software, being a third party independent of the Company

Section II Company Profile

1. NAME OF COMPANY

Chinese name: 恒泰证券股份有限公司, being the corporate name in the PRC (carrying on business in Hong Kong as “恒投證券”)

English name: HENGTAI SECURITIES CO., LTD, being English translation of the corporate name in the PRC (carrying on business in Hong Kong as “HENGTOU SECURITIES”)

2. LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Pang Jiemin

3. BOARD OF DIRECTORS

Executive Directors

Mr. Pang Jiemin (*Chairman*)

Mr. Wu Yigang (*Vice Chairman*)

Non-executive Directors

Mr. Yu Lei

Mr. Wang Linjing

Ms. Dong Hong

Ms. Gao Liang

Independent Non-executive Directors

Dr. Lam Sek Kong

Mr. Xie Deren

Mr. Dai Genyou

Special Committees of the Board

Strategy and Investment Committee

Mr. Pang Jiemin (*Chairman of the Committee*)

Mr. Yu Lei

Dr. Lam Sek Kong

Risk Control and Supervisory Committee

Mr. Pang Jiemin (*Chairman of the Committee*)

Mr. Wu Yigang

Mr. Dai Genyou

Section II Company Profile

3. BOARD OF DIRECTORS (CONTINUED)

Audit Committee

Mr. Xie Deren (*Chairman of the Committee*)

Mr. Wang Linjing

Dr. Lam Sek Kong

Remuneration and Nomination Committee

Mr. Xie Deren (*Chairman of the Committee*)

Mr. Pang Jiemin

Dr. Lam Sek Kong

4. SUPERVISORY COMMITTEE

Mr. Guo Liwen (*Chairman of the Supervisory Committee*)

Mr. Chen Feng

Mr. Wang Hui

5. SECRETARY OF THE BOARD

Mr. Zhang Jingshun

Tel: +86 10 8327 0999

Fax: +86 10 8327 0998

Email: zhangjingshun@cnht.com.cn

Correspondence address: 11/F, China Life Centre, No. 17 Finance Street, Xicheng District, Beijing, the PRC (post code: 100033)

6. JOINT COMPANY SECRETARIES

Mr. Zhang Jingshun, Ms. Leung Wing Han Sharon

7. AUTHORIZED REPRESENTATIVES

Mr. Pang Jiemin, Ms. Leung Wing Han Sharon

8. HEAD OFFICE IN CHINA

Registered address: Manshishangdu Office and Commercial Complex, Hailaer East Street, Xincheng District, Hohhot, Inner Mongolia Autonomous Region, the PRC (post code : 010051)
Head office address: 11/F, China Life Centre, No. 17 Finance Street, Xicheng District, Beijing, the PRC (post code: 100033)
Website: www.cnht.com.cn
Email: dongban@cnht.com.cn

9. PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

10. AUDITORS

International accounting firm: Grant Thornton Hong Kong Limited
Domestic accounting firm: Grant Thornton Certified Public Accountants

11. HONG KONG LEGAL ADVISOR

Luk & Partners
In Association with
Morgan, Lewis & Bockius

12. H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

13. STOCK CODE (H SHARES)

01476

Section III Summary of Accounting Data and Financial Indexes

I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES

(Accounting data and financial indexes set out in this report are prepared in accordance with the International Financial Reporting Standards)

Item	1 January 2020 to 30 June 2020	1 January 2019 to 30 June 2019	Increase/ (decrease) from last period
Operating results (RMB'000)			
Total revenue and other income	1,609,646	2,193,730	(26.63%)
Profit before tax	152,583	806,613	(81.08%)
Profit for the period – attributable to ordinary shareholders of the Company	138,928	590,235	(76.46%)
Net cash generated from operating activities	2,593,285	860,150	201.49%
Earnings per share (RMB/share)			
Basic earnings per share ¹	0.03	0.21	(85.71%)
Diluted earnings per share ¹	0.03	0.21	(85.71%)
Profitability index			
Weighted average rate of return on net assets (%) ²	1.03	6.54	Decreased by 5.51 percentage points
Item	30 June 2020	31 December 2019	Increase/ (decrease) from the end of last year
Scale indicators (RMB'000)			
Total assets	31,079,940	29,526,981	5.26%
Total liabilities	21,972,783	18,948,568	15.96%
Accounts payable to brokerage clients	11,140,295	9,071,688	22.80%
Equity attributable to ordinary shareholders and holders of perpetual capital securities	8,703,860	10,174,947	(14.46%)
Total share capital (000 shares)	2,604,567	2,604,567	0.00%
Net assets per share attributable to ordinary shareholders³ (RMB/share)	3.34	3.33	0.30%
Gearing ratio (%)⁴	54.33	48.29	Increased by 6.04 percentage points

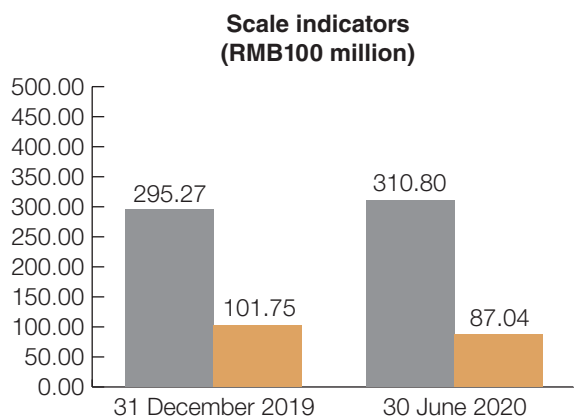
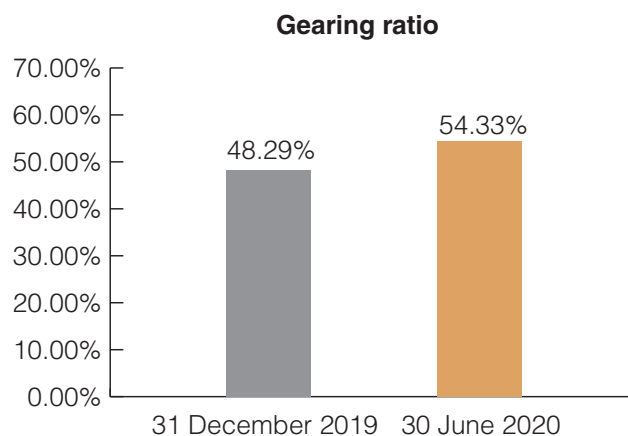
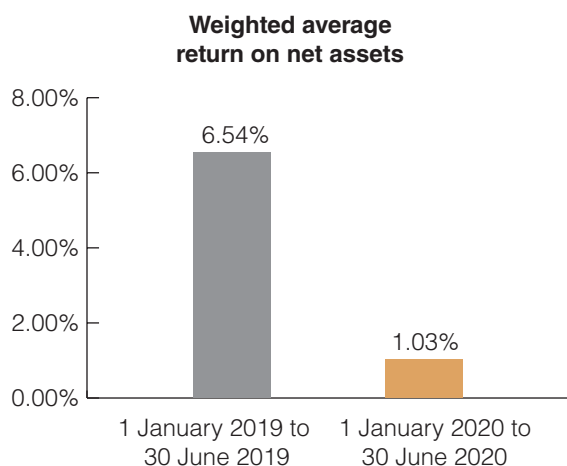
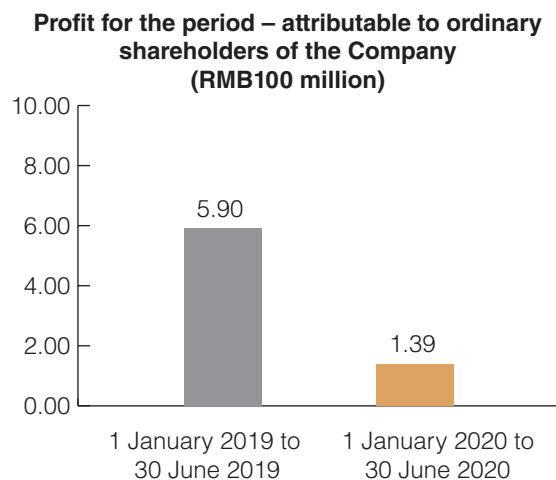
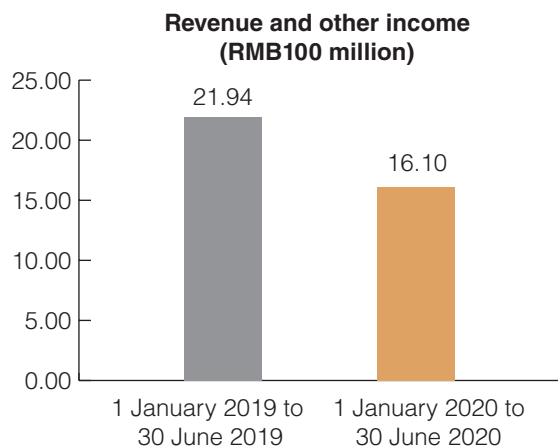
Section III Summary of Accounting Data and Financial Indexes

I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES (CONTINUED)

Notes:

1. The index is calculated based on the assumption of deducting the dividends of the holders of cumulative perpetual capital securities.
2. Weighted average rate of return on net assets (%) = $P / (E_o + P \div 2 + E_i \times M_i \div M_o - E_j \times M_j \div M_o)$, in which P represents net profit attributable to ordinary shareholders of the Company during the Reporting Period; E_o represents net assets attributable to ordinary shareholders of the Company at the beginning of the period; E_i represents additional net assets from issuance of new shares or from debt to equity attributable to ordinary shareholders of the Company during the Reporting Period; E_j represents reduced net assets from repurchase or from cash dividend attributable to ordinary shareholders of the Company during the Reporting Period; M_o represents the number of months of the Reporting Period; M_i represents the accumulative number of months calculated from the month following the additional net assets to the end of the Reporting Period; M_j represents the accumulative number of months calculated from the month following the reduced net assets to the end of the Reporting Period.
3. Net assets per share attributable to ordinary shareholders = (equity attributable to ordinary shareholders and holders of perpetual capital securities – perpetual capital securities) \div total share capital
4. Gearing ratio (%) = (total liabilities – account payables to brokerage clients) / (total assets – account payables to brokerage clients)

Section III Summary of Accounting Data and Financial Indexes



Total assets
 Equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities

Section III Summary of Accounting Data and Financial Indexes

II. NET CAPITAL AND OTHER RISK CONTROL INDEXES OF THE COMPANY

As at 30 June 2020, the Company's net capital amounted to RMB5,799.01 million, representing an increase of RMB292.68 million as compared with RMB5,506.33 million as at the end of 2019. During the Reporting Period, the net capital and related risk control indexes of the Company met the regulatory requirements.

Unit: in RMB'000

Item	30 June 2020	31 December 2019	Regulatory standard
Net capital	5,799,010	5,506,325	N/A
Including: Net core capital	5,799,010	5,506,325	N/A
Net supplement capital	0	0	N/A
Net assets	8,142,597	9,429,021	N/A
Total risk capital provision	3,636,339	1,885,006	N/A
Total assets on and off statement of financial position	17,448,029	17,659,192	N/A
Risk coverage ratio	159.47%	292.11%	≥100%
Capital leverage ratio	33.24%	31.18%	≥8%
Liquidity coverage ratio	1,968.61%	840.47%	≥100%
Net stable funding ratio	150.03%	166.26%	≥100%
Net capital/net assets	71.22%	58.40%	≥20%
Net capital/liabilities	63.19%	67.67%	≥8%
Net assets/liabilities	88.72%	115.87%	≥10%
Proprietary equity securities and securities derivatives/net capital	21.41%	33.04%	≤100%
Proprietary non-equity securities and securities derivatives/net capital	104.37%	108.21%	≤500%

Section IV Management Discussion and Analysis

I. ECONOMIC AND MARKET ENVIRONMENT DURING THE REPORTING PERIOD

During the Reporting Period, the sudden outbreak of COVID-19 pandemic had a serious impact on China's economic and social development. Under the strong leadership of the Central Committee of the Communist Party of China, major strategic achievements have been made in epidemic prevention and control and the order of production and livelihood has been quickly restored. In the first half of 2020, China's GDP decreased by 1.6% and fixed asset investment and consumption growth slowed down as compared to the same period in 2019. Such decrease and decline narrowed month by month in the second quarter of 2020. The profit growth rate of industrial enterprises recorded a tendency of "lower at first and higher in the end and turning fall into rise", and achieved positive growth in the second quarter of 2020. In particular, the hi-tech manufacturing business was the industry segment with the highest profit growth rate in the second quarter of 2020. During the Reporting Period, broad money growth increased by 11.1%, which was 2.6 percentage points higher than that of the same period in 2019. The growth of the size of social financing rose by 12.8% as compared to the same period in 2019, showing reasonable and sufficient domestic liquidity. During the Reporting Period, the COVID-19 pandemic had a severe impact on the global economy and the international financial market was extremely volatile. The current global epidemic and world economic situation were still severe and complicated with many uncertainties.

During the Reporting Period, China's securities market fluctuated in choppy with increased trading volumes in the market as compared with the same period in the previous year. In the first half of 2020, Shanghai Composite Index decreased by 2.15% and Shenzhen Component Index increased by 14.97%. At the same time, the turnover of stocks and funds on both stock exchanges totaled RMB94,701,783 million. In particular, the total turnover of stocks and funds on Shanghai Stock Exchange amounted to RMB39,350,011 million, representing an increase of 15.16% as compared with the same period in 2019; the total turnover of stocks and funds on Shenzhen Stock Exchange was RMB55,351,772 million, representing an increase of 39.60% as compared with the same period in 2019. (Sources: websites of National Bureau of Statistics, The People's Bank of China, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, Wind Info)

II. ANALYSIS OF PRINCIPAL BUSINESSES

During the Reporting Period, the Group recorded revenue and other income of RMB1,609.65 million and a net profit of RMB145.96 million, representing a decrease of 26.63% and 76.18% as compared with the same period of 2019, respectively.

(I) Brokerage and Wealth Management Business

During the Reporting Period, the revenue and other income from brokerage and wealth management business amounted to RMB750.08 million, representing an increase of 6.83% as compared with the same period of 2019.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(I) Brokerage and Wealth Management Business (Continued)

1. Securities brokerage

During the Reporting Period, the Company took customer development as the core, actively expanded offline channels and strengthened the cooperation of online channels, so that the number of customers of the Company increased rapidly; at the same time, in order to enhance the self-research capabilities of information systems of the Company, the Company increased investment in financial technology. The launch of the “Hengtai 9:30” APP has significantly improved customer experience. In terms of the management and supervision of the securities business department, the Company continued to strengthen the process management of the securities business department and steadily promoted the establishment of a long-term personnel training mechanism at the same time to further improve the quality of customer service, thereby further enhancing the service concept of “customer-centric”.

During the Reporting Period, the number of new accounts opened reached 139,600, and total number of clients reached 2,502,000, representing an increase of 5.58% as compared with the end of 2019. The total assets under custody for clients reached RMB122,076 million, representing an increase of 3.76% as compared with the end of 2019. The turnover of stocks and funds reached RMB891,383 million, representing a decrease of 6.23% as compared with the same period of 2019, while the market share of stocks and funds was 0.4708%, representing a decrease of 26.96% as compared with the same period of 2019.

2. Futures brokerage

During the Reporting Period, guided by the principles of “institution-orientation, production development and professional operation” in business transformation, Hengtai Futures adhered to the development strategy of serving financial institutions and industrial institutions, focused on promoting the development of financial institutions represented by private equity, actively promoted the development and service of industrial customers, established a full-fledged derivative platform systems by building up technology and researching core competitiveness, achieving the continuous increase of business scale. During the Reporting Period, Hengtai Futures has seen a further improved customer structure and an increase in the proportion of institutional clients, with 2,160 new-added clients.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(I) Brokerage and Wealth Management Business (Continued)

3. Wealth management

During the Reporting Period, the Company focused on the transformation of the wealth management business, comprehensively adjusted the organizational structure of the brokerage business line, and established a new retail business headquarters to serve the mass customer base, a private wealth headquarters to serve high-net-worth customers, and an institutional business headquarters dedicated to serve institutional customers. The headquarters provides multi-dimensional one-stop exclusive wealth management services for different types of customers. During the Reporting Period, the Company sold 67 financial products and recorded sales of RMB4,500.24 million. As at the end of the Reporting Period, the existing size of its financial products is RMB8,515.23 million.

4. Capital-based intermediary

During the Reporting Period, the size of the margin financing and securities lending business of the Company increased from the end of 2019. Meanwhile, to control margin financing and securities lending business risks, the Company adjusted the credit lines and set more rigorous concentration management indicators to enhance the routine management of customers with larger financing size. As at the end of the Reporting Period, the balance of the margin financing and securities lending business amounted to RMB4,240.16 million, and the balance of stock pledged repurchase transaction amounted to RMB559.01 million.

5. Asset custody

During the Reporting Period, the Company upgraded the business systems of the custody business valuation accounting system, custody business clearing system, custody business investment supervision system, fund service business valuation accounting system and institutional service platform, and further optimized customer service processes. It further enhanced the market development of products issued by mainstream financial institutions and thereby achieving continuous growth in asset custody business. As at the end of the Reporting Period, the Company provided custody services for 1,091 funds, fund services for 328 funds and fund raising supervision services for 401 funds. The total size of asset custody, fund services and fund raising supervision increased to RMB177,344 million, representing an increase of RMB4,627 million as compared with that at the end of 2019.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(II) Investment Banking Business

During the Reporting Period, the revenue and other income from investment banking business amounted to RMB91.45 million, representing a decrease of 45.53% as compared with the same period of 2019.

1. Equity financing

During the Reporting Period, in order to further promote the direct financing function of the capital market, the CSRC has successively issued a series of reform measures, including the gradual implementation of reform policies of the Sci-Tech innovation board, the GEM and the NEEQ Select Tier, and the refinancing. Seizing actively the opportunity of capital market reform, Hengtai Changcai carried out layout both in IPO and refinancing business by maintaining and consolidating core customers, and completed the declaration of one IPO project.

2. Debt financing

During the Reporting Period, by constructing core regions, Hengtai Changcai provided comprehensive financing services for issuers in those regions, and actively expanded business scope by capitalizing on its existing advantages and making use of selected experience. During the COVID-19 pandemic period, it experienced a significant increase in reserve projects, and a gradual increase in the proportion of quality projects. The innovative bonds businesses such as the infrastructure REITs were actively expanded. As the lead underwriter, it completed 6 bonds projects, with a financing amount of RMB3,200 million.

3. Business of listing on the NEEQ

During the Reporting Period, there were 98 NEEQ listing projects in total, declining by 35.95% as compared with the same period in 2019 (data source: Oriental Fortune choice Financial Terminal). Under such fierce competition, the Company maintained both quality and quantity of the NEEQ listing business and made steady promotion. With the continuous development of high-quality projects and the in-depth exploration of the capital market demand of the NEEQ listing companies, the Company saw a steady increase in the business volume. During the Reporting Period, the Company completed 7 listing projects, 11 targeted capital increase projects, and 2 merger and reorganization projects. It provided continuous steering services for 132 listed companies.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(III) Investment Management Business

During the Reporting Period, the revenue and other income from investment management business amounted to RMB313.94 million, representing a decrease of 38.52% as compared with the same period of 2019.

1. Assets management

During the Reporting Period, the performance of the Company's collective management schemes with fixed returns ranked high among similar products in the industry during the same period and the equity-focused collective management schemes managed by the Company also recorded outstanding performance. During the Reporting Period, in order to overcome the adverse impact brought by the COVID-19 epidemic on the market, the Company launched 7 new products in the asset management business, which further enriched its asset management product line and steadily increased the scale of the collective asset management business compared with the end of 2019. During the Reporting Period, the investment managers of the asset management business actively communicated with customers through online question and answer and live broadcasting, which improved the customer experience and initially formed a good foundation for online interaction.

As at the end of the Reporting Period, the total size of asset management business was RMB29,891.67 million, of which the size of collective asset management schemes amounted to RMB2,807.77 million, the size of targeted asset management schemes amounted to RMB3,863.50 million, the size of the asset-backed securities special schemes amounted to RMB23,220.40 million.

As at the end of the Reporting Period, the numbers of subsisting products of the collective, targeted asset management schemes and the asset-backed securities special schemes were 45, 15 and 13, respectively.

2. Fund management

During the Reporting Period, New China Fund implemented the reform of investment research grouping, kept enhancing its investment research capacity. The performance of its equity funds and fixed income funds achieved relatively outstanding results. In the first half of 2020, the overall yield of equity funds ranked among the top 1/3 of the industry, and that of fixed income funds ranked in the top 1/4. During the Reporting Period, New China Fund completed the fund raising of 2 fund products, with an initial offering in an aggregate amount of approximately RMB2.922 billion. It continued to enhance compliance management to level up risk control standard and strengthened the management of middle and back offices to promote business development.

As at the end of the Reporting Period, New China Fund had 48 publicly-raised funds with total management size amounting to RMB31,612 million, representing an increase of RMB8,156 million or 34.77% as compared to the end of 2019. The size of asset management with special accounts reached RMB27,221 million, representing a decrease of RMB13,334 million or 32.88% as compared to the end of 2019.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(III) Investment Management Business (Continued)

3. Private equity investment

During the Reporting Period, as required by the relevant regulatory authorities, Hengtai Capital continued to implement rectification. It gradually scaled down the directly invested business, strengthened the post-investment management and exit of the existing business on the one hand and identified a number of pipeline projects and actively developed a number of new projects on the other hands. At the same time, Hengtai Capital and its partners continued to actively explore new business models.

As at the end of the Reporting Period, Hengtai Capital invested in 10 direct investment projects for an investment size of RMB740.08 million, and managed 8 private equity funds with a total size of RMB9,666.25 million.

4. Alternative investment

During the Reporting Period, Hengtai Pioneer continued to focus on the post-investment management of the projects, prepared to exit from 1 equity investment project; continued to follow the investment in film funds, and pay attention to the impact of the COVID-19 epidemic on the film industry; properly managed cash while maintaining the stable operation of the Company.

As at the end of the Reporting Period, Hengtai Pioneer invested in 9 direct investment projects with its own funds for an investment size of RMB108 million.

(IV) Proprietary Trading Business

During the Reporting Period, the revenue and other income from the proprietary trading business amounted to RMB402.54 million, representing a decrease of 43.91% as compared with the same period of 2019.

During the Reporting Period, affected by the COVID-19 epidemic at home and abroad and the downward pressure on the domestic economy, China's securities market showed an overall turbulent trend. Among them, the medical, consumer and technology sectors maintained sound financial position. In the second half of 2020, the Company will strengthen macro research and analysis, follow the overall investment direction, continue to optimize the investment direction from the bottom up and optimize position structure, so as to effectively improve the overall profitability.

Section IV Management Discussion and Analysis

II. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

(IV) Proprietary Trading Business (Continued)

In terms of stock investment, the overall income declined compared to the same period of last year as a result of the market volatility caused by the COVID-19 epidemic. However, the Company concentrated its energy and funds to deeply explore the investment value in key sectors and individual stocks, seized the investment opportunities created by the competitive sectors and the competitive and weak switching sectors, adhered to basic investment strategies and seized structural investment opportunities.

In terms of fixed income investment business, due to the impact of the COVID-19 epidemic and subsequent macro policy stimulus and other factors, the domestic bond market first rose and then fell with the large overall volatility. In response to the uncertainties brought about by the epidemic and the dynamic changes in unconventional monetary policies, the Company adjusted its investment strategies in a flexibly manner, and accurately understood the structured performance of the bond market in the first half of 2020, resulting in results superior to the market performance.

In terms of the share transfer market-making business, the NEEQ market tended to be improving as the implementation of “publishing the selective layer, introducing the public funds” and other reform policies, so as its liquidity. The Company has strengthened its research on stocks meeting the requirements of selective layer, and actively developed investment opportunities therein.

(V) International Business

During the Reporting Period, the Company continued to push ahead its international business by proactively contacting the potential cooperative institutions and establishing communications and cooperation with them. Meanwhile, it explored overseas business opportunities, understood the demand of its clients from overseas markets and carried out relevant matching work. Further, it maintained communication and contacts with the regulatory authorities, which will lay the foundation for the development of future businesses.

Section IV Management Discussion and Analysis

III. PROSPECTS AND FUTURE PLANS

(I) Development Prospect of the Industry

With great achievements in the overall planning of pandemic prevention and control, China's economic development has steadily recovered. In the first half of 2020, China's securities market went downward and then upward in a brisk trade. The turnover of stocks and funds on both stock exchanges increased by 28.29% as compared with the same period in 2019. Under the requirements of promoting the reform of the market-oriented resource allocation, a number of changes were made in China's securities market in the first half of 2020, which are mainly as follows: (i) the financial industry's capability of serving the real economy has been further improved, featured by the steady progress of the reform of registration system for the ChiNext Market, the establishment of Selective Layer (精選層) the opening of transfer channels on the NEEQ, and the loosening of new regulations of refinancing; (ii) the basic regulatory infrastructure of the secondary market, featured by rules of improving trading and delisting; and (iii) the regulatory changes, including liberalizing the foreign shareholdings held by securities companies, supporting securities companies to increase their capital strength through multiple channels, strengthening investor protection, and applying "zero tolerance" for illegal activities in the capital market. Looking forward to the second half of 2020, the brokerage business and margin financing and securities lending businesses are expected to be further improved on the premise that the market remains relatively active. The implementation of registration system for the ChiNext Market and the Selective Layer of the NEEQ will bring new development opportunities for investment banking business. Securities companies with superior investment capabilities are expected to continue to expand their competitive advantages in asset management business and proprietary business.

(II) Development Plan of the Company

The Company will continue to improve the compliance management mechanism, deepen the construction of the risk management system, and accelerate the transformation of various businesses by taking the improvement of system as a guarantee. It will create characteristics in specific professional fields, and build differentiated core competitive advantages. The Company will continue to increase investment in information technology and technological innovation, further strengthen the construction of the talent team, and improve the synergy effect of the front and back offices, so as to comprehensively enhance the overall competitiveness of the Company. With focus on wealth management, brokerage business will continue to build a wealth management research system and product system and improve system service capabilities; the Company will further strengthen collaboration between brokerage business and other departments of the Company based on technology empowerment, and build an integrated service system to satisfy customer needs; at the same time, the Company will further increase the construction of the information system, strengthen the development of institutional customers, and increase the proportion of business with institutional customers, so as to achieve the rapid development of the brokerage business of the Company. In terms of investment banking business, the Company will insist on building a "professional and efficient" investment banking brand, adhere to the customer-centered orientation, promote the transformation and development of investment banking business, and continuously improve the operation mechanism and internal control system of investment banking business. In terms of asset management business, the Company will continue to strengthen the investment and research integration mechanism, strengthen its style and highlight features, so as to provide high-quality products and services to more high-net-worth customers. In terms of proprietary business, the Company will pay attention to the impact of registration system for the ChiNext Market and the investment opportunities of the transfer of NEEQ, strengthen research on the stock market and bond market, and exploit quantitative investment, Shanghai/Shenzhen-Hong Kong Connect, bulk commodity transaction and other investment approaches to improve overall income levels.

Section IV Management Discussion and Analysis

IV. FINANCIAL STATEMENTS ANALYSIS

(I) Analysis on Profitability during the Reporting Period

During the Reporting Period, the Group recorded revenue and other income of RMB1,609.65 million in aggregate, representing a decrease of 26.63% as compared with the same period of 2019. Net profit attributable to shareholders of the Company amounted to RMB138.93 million, representing a decrease of 76.46% as compared with the same period of 2019. Earnings per share amounted to RMB0.03, representing a decrease of 85.71% as compared with the same period of 2019. Weighted average return on net assets was 1.03%, representing a decrease of 5.51 percentage points as compared with the same period of 2019.

(II) Asset Structure and Asset Quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB31,079.94 million, increased by 5.26% as compared to RMB29,526.98 million as at the end of 2019. Total liabilities amounted to RMB21,972.78 million, increased by 15.96% as compared to RMB18,948.57 million as at the end of 2019. Equity attributable to ordinary shareholders and holders of perpetual capital securities of the Company amounted to RMB8,703.86 million, decreased by 14.46% as compared with RMB10,174.95 million as at the end of 2019.

The Group's asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held on behalf of brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB13,910.00 million, representing 45% of the Group's total assets; margin assets, which primarily included margin accounts receivable and financial asset held under resale agreements, amounted to RMB5,097.75 million, representing 16% of the Group's total assets; financial investment assets, amounted to RMB10,197.71 million, representing 33% of the Group's total assets; and property, equipment and other operating assets, which primarily included property, equipment, investment properties, intangible assets, rights-of-use assets, amounted to RMB1,874.48 million, representing 6% of the Group's total assets.

The Group's gearing ratio and financial leverage ratio remained relatively stable. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients amounted to RMB10,832.49 million, representing an increase of RMB955.61 million or 9.68% as compared with that at the end of 2019. The gearing ratio of the Group was 54.33%, increased by 6.04 percentage points from 48.29% as at the end of 2019 (Note: gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)). Financial leverage ratio was 2.29 folds, increased by 13.93% from 2.01 folds as at the end of 2019 (Note: financial leverage ratio = (total assets – accounts payable to brokerage clients)/equity attributable to ordinary shareholders and holders of perpetual capital securities of the Company).

Section IV Management Discussion and Analysis

IV. FINANCIAL STATEMENTS ANALYSIS (CONTINUED)

(III) Financing Channels and Financing Ability

During the Reporting Period, the Company met its operating capital requirement through debt financing. Debt financing of the Company included the issuance of beneficiary certificates, and margin and securities refinancing.

During the Reporting Period, the Company raised accumulated proceeds of RMB1,200.00 million from issuance of beneficiary certificates. Meanwhile, the Company received comprehensive credit line with greater limit granted by several banks.

(IV) Liquidity Management

The Company focuses on its liquidity management. It has established a specific department responsible for liquidity management. The Company's liquidity management focused on the organic combination of the security, liquidity and profitability of capital. As requested by the CSRC, the Company established sound management system and contingency measure for liquidity risk. The Company has prepared monthly liquidity monitor statement. The liquidity monitor index of the Company in each month throughout the Reporting Period complied with the regulatory requirements.

(V) Cash Flow

During the Reporting Period, net cash flow arising from operating activities amounted to RMB2,593.29 million, increased by RMB1,733.14 million from RMB860.15 million in the corresponding period of 2019; net cash flow arising from investment activities amounted to RMB-1,609.47 million, decreased by RMB1,157.55 million from RMB-451.92 million in the corresponding period of 2019; net cash flow arising from financing activities amounted to RMB-1,260.43 million, increased by RMB537.47 million from RMB-1,797.90 million in the corresponding period of 2019. Cash and cash equivalents as at the end of the Reporting Period amounted to RMB2,504.09 million, decreased by RMB104.95 million from RMB2,609.04 million in the corresponding period in 2019.

(VI) Changes in Significant Accounting Policies

During the Reporting Period, no changes in significant accounting policies of the Company have been made.

Section IV Management Discussion and Analysis

V. BRANCHES AND SUBSIDIARIES

(I) Branch Offices and Securities Branches

As at the end of the Reporting Period, the Company had 2 branch offices and 144 securities branches.

1. Establishment of securities branches and changes in securities branches

(1) Newly-established securities branches

None in the Reporting Period.

(2) Relocation of securities branches

During the Reporting Period, 7 securities branches of the Company were relocated, details of which are as follows:

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
1	Hengtai Securities Co., Ltd Erdos Xuejiawan Junggar Road Securities Branch (恒泰证券股份有限公司鄂尔多斯薛家湾准格爾路證券營業部)	Hengtai Securities Co., Ltd Erdos Xuejiawan Junggar Road Securities Branch (恒泰证券股份有限公司鄂尔多斯薛家湾准格爾路證券營業部) ¹	2/F, Building 1, Re-employment Center, North Junggar Banner, Junggar Road, Yingze Avenue, Junggar Banner, Erdos, Inner Mongolia (內蒙古自治區鄂爾多斯市准格爾旗迎澤街道准格爾路北准格爾旗再就業中心1號樓2層)
2	Hengtai Securities Co., Ltd Xilinhot Tuanjie Avenue Securities Branch (恒泰证券股份有限公司錫林浩特團結大街證券營業部)	Hengtai Securities Co., Ltd Xilinhot Tuanjie Avenue Securities Branch (恒泰证券股份有限公司錫林浩特團結大街證券營業部) ¹	No. 270, Tuanjie Avenue, Xilinhot, Xilin Gol League, Inner Mongolia (內蒙古自治區錫林郭勒盟錫林浩特市團結大街270號)
3	Hengtai Securities Co., Ltd. Chengdu Renmin South Road Securities Branch (恒泰证券股份有限公司成都人民南路證券營業部)	Hengtai Securities Co., Ltd. Chengdu Tianfu Avenue Securities Branch (恒泰证券股份有限公司成都天府大道證券營業部)	No. 2707, No. 2708, 27/F, Building 3, No. 1199 North Section of Tianfu Avenue, High-tech Industrial Development Zone, Chengdu, China (Sichuan) Pilot Free Trade Zone (中國(四川)自由貿易試驗區成都市高新區天府大道北段1199號3棟27層2707、2708號)

Section IV Management Discussion and Analysis

V. BRANCHES AND SUBSIDIARIES (CONTINUED)

(I) Branch Offices and Securities Branches (Continued)

1. Establishment of securities branches and changes in securities branches (Continued)

(2) Relocation of securities branches (Continued)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
4	Hengtai Securities Co., Ltd. Hangzhou Jiangnan Avenue Securities Branch (恒泰证券股份有限公司杭州江南大道證券營業部)	Hengtai Securities Co., Ltd. Hangzhou Jiangnan Avenue Securities Branch (恒泰证券股份有限公司杭州江南大道證券營業部) ¹	Rooms 1203, 1205, 12th Floor, Main Building, No.588 Jiangnan Avenue, Changhe Street, Binjiang District, Hangzhou, Zhejiang (浙江省杭州市濱江區長河街道江南大道588號主樓12層1203室、1205室)
5	Hengtai Securities Co., Ltd. Hangzhou Wujiang Road Securities Branch (恒泰证券股份有限公司杭州婺江路證券營業部)	Hengtai Securities Co., Ltd. Hangzhou Wujiang Road Securities Branch (恒泰证券股份有限公司杭州婺江路證券營業部) ¹	Rooms 1601, 1602 and 1603, Building 1, No. 217 Wujiang Road, Shangcheng District, Hangzhou, Zhejiang (浙江省杭州市上城區婺江路217號1號樓1601、1602、1603室)
6	Hengtai Securities Co., Ltd. Shanghai Qihe Road Securities Branch (恒泰证券股份有限公司上海齊河路證券營業部)	Hengtai Securities Co., Ltd. Shanghai Xianxia Road Securities Branch (恒泰证券股份有限公司上海仙霞路證券營業部)	Room 19B, No.137 Xianxia Road, Changning District, Shanghai (上海市長寧區仙霞路137號19B室)
7	Hengtai Securities Co., Ltd. Beijing Dongsanhuan Central Road Securities Branch (恒泰证券股份有限公司北京東三環中路證券營業部)	Hengtai Securities Co., Ltd. Beijing Dongsanhuan Securities Branch (恒泰证券股份有限公司北京東三環證券營業部)	Room 308, 3/F, Building 1 (East Ring 18 International Building), No. 18 Dongsanhuan Central Road, Chaoyang District, Beijing (北京市朝陽區東三環中路18號院1號樓(東環18國際大廈)3層308)

Note:

1. Name of the securities branch remained unchanged after relocation.

Section IV Management Discussion and Analysis

V. BRANCHES AND SUBSIDIARIES (CONTINUED)

(I) Branch Offices and Securities Branches (Continued)

1. Establishment of securities branches and changes in securities branches (Continued)

(3) Deregistration of securities branches

None in the Reporting Period.

2. Establishment of new branch offices and changes in branch offices

None in the Reporting Period.

(II) Subsidiaries of the Company

During the Reporting Period, no change in the Company's major subsidiaries.

VI. MAJOR FINANCING

(I) Equity Financing

None in the Reporting Period.

(II) Major Debt Financing

1. Issue of beneficiary certificates

During the Reporting Period, the Company issued three tranches of beneficiary certificates, raising approximately RMB1.2 billion in aggregate. As of 30 June 2020, the outstanding balance of beneficiary certificates amounted to RMB1.977 billion. During the Reporting Period, particulars of issue of beneficiary certificates by the Company are as follows:

Abbreviation	Size of the Issuance (RMB'00 million)	Interest rate	Term (day)	Issue date	Expiry date
Hengchuangtaifu No. 23	10.00	4.25%	365	28 April 2020	28 April 2021
Hengfu No. 28	1.00	4.50%	363	6 February 2020	3 February 2021
Hengfu No. 29	1.00	4.00%	362	24 June 2020	21 June 2021

2. Issue of subordinated bonds by the Company

No subordinated bonds were issued by the Company during the Reporting Period. As at 30 June 2020, the outstanding balance of subordinated bonds amounted to RMB1.5 billion, which were issued by the Company on 1 November 2017 and will mature on 1 November 2022.

Section IV Management Discussion and Analysis

VII. MAJOR INVESTMENT

None in the Reporting Period.

VIII. USE OF PROCEEDS

On 15 October 2015, the Company raised total proceeds of HK\$1,767,316,320 through public issue of 450,846,000 H Shares on the Hong Kong Stock Exchange. The actual proceeds finally received by the Company (deducting the Listing related expenses and the amount directly transferred into the national treasury pool due to share selling by the selling shareholders (namely reduction of state-owned shares)) was RMB1,306,244,936.55 due to the impact arising from foreign exchange gains or losses, interest and other related fees.

The funds raised as specified in the Prospectus shall be used as the following purposes:

1. about 50% of the funds will be used for the Company's capital-based intermediary business, including margin financing and securities lending and stock pledged repurchase transaction business and for the development of online margin financing and securities lending and stock pledged repurchase transaction services.
2. about 30% of the funds will be used for the development of the NEEQ market-making business.
3. about 20% of the funds will be used for the development and enhancement of the internet-based finance business of the Company.

On 22 December 2017, the resolution in relation to "Change of the Use of Proceeds of the Company" was considered and approved at the 2017 first extraordinary general meeting of the Company to change the use of the remaining available proceeds for NEEQ market-making business and use RMB320 million thereof for the Company's capital-based intermediary business and replenishing working capital.

On 7 February 2020, the resolution in relation to the "Change of the Use of Proceeds of the Company" was considered and approved at the 2020 first extraordinary general meeting of the Company, pursuant to which it was approved to change the use of the remaining available proceeds and use all the balance to replenish the Company's working capital.

The use of the proceeds of the Company was detailed in the table below:

Use of proceeds as specified in the Prospectus	50% of the funds being used for the capital-based intermediary business	30% of the funds being used for the NEEQ market-making business	20% of the funds being used for the internet-based finance business	Total
Amount of proceeds available for use before change (<i>RMB</i>)	653,122,468.27	391,873,480.97	261,248,987.31	1,306,244,936.55
Use of proceeds upon change on 22 December 2017	For the capital-based intermediary business and replenishing working capital	For the NEEQ market-making business	For the internet-based finance business	Total
Amount of proceeds available for use upon change (<i>RMB</i>)	973,122,468.27	71,873,480.97	261,248,987.31	1,306,244,936.55

Section IV Management Discussion and Analysis

VIII. USE OF PROCEEDS (CONTINUED)

Use of proceeds upon change on 7 February 2020	replenishing working capital	For the capital-based intermediary business and replenishing working capital	For the NEEQ market-making business	For the internet-based finance business	Total
Amount of proceeds available for use upon change (RMB)	138,293,027.16	970,902,777.78	50,000,000.00	147,049,131.61	1,306,244,936.55
Accumulated amount of proceeds used as of 30 June 2020 (RMB)	20,100,000.00	970,902,777.78	50,000,000.00	147,049,131.61	1,188,051,909.39
Remaining amount of proceeds available for use (RMB)	118,193,027.16	0.00	0.00	0.00	118,193,027.16
Expected timeline for use of the remaining proceeds available for use	The balance is expected to be fully utilised by the end of 2023	-	-	-	-

The proceeds were used and are proposed to be used according to the intentions previously disclosed.

IX. ACQUISITION OR DISPOSAL OF MATERIAL ASSETS, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES

During the Reporting Period, there was no acquisition and disposal of the Company's material assets and business merger, nor any external guarantee, mortgage, pledge, material contingent liabilities that may affect the Company's financial position and operating results.

X. RISK MANAGEMENT

(I) Major Risks and Countermeasures relating to Operation of the Company

1. Credit Risk

Credit risk is the possibility of loss caused by our counterparty's failure to perform a contract or a change in its credit rating or ability to perform. Credit risk of the Company is mainly generated from two aspects: (i) financing business such as margin financing and securities lending and stock pledged repurchase transaction; and (ii) proprietary credit bond investment business.

Credit risk from financing activities can be controlled by (i) determination of reasonable credit line which is managed through client suitability management, daily mark to market, risk reminders and forced liquidation of client's positions upon credit investigation via the internal credit rating system; and (ii) conducting sufficient due diligence on the financier and analysis on the fundamentals of pledge target prior to the implementation of securities pledged projects to reasonably determine key risk factors including pledge rate and performance guarantee proportion, and maintaining constant risk monitoring over projects in performance to address problems once detected. Investment credit risks can be controlled by establishing securities pool, internal rating, risk indicator limit, regular follow-up upon investment and other measures.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(I) Major Risks and Countermeasures relating to Operation of the Company (Continued)

2. Market Risk

Market risk refers to risk of unexpected potential value losses of the financial assets held by the Company resulting from adverse changes in securities price, interest rate and exchange rate. In particular, risk of adverse price fluctuations refers to the risk that the stock market may fluctuate and cause the prices of stocks and other securities products to change, which may incur losses for the Company. Interest rate risk refers to the risk arising from changes in market interest rates and credit spread that could result in changes in the prices of bonds and other fixed-income securities. Exchange rate risk refers to possibility that the Company may incur losses due to changes in exchange rates during operating activities involving possession or use of foreign exchanges. Market risk of the Company mainly derives from proprietary businesses including equity securities investment, fixed income securities investment, financial derivatives investment and NEEQ market making business.

Market risk is mainly managed by the Company through implementation of limit management, securities pool system, daily mark to market, stress test, monitoring and warning, stop-loss and stop-profit, risk hedge, risk report and other systems and measures. Based on risk tolerance preferences, the Company sets the annual overall limits of market risk for proprietary businesses which are decomposed and assigned to the respective business departments level by level. The Company has established a market risk indicator system including Value at Risk (VaR), Basis Point Value (DV01) and Max Drawdown. The risk management department conducts a daily monitoring over the proprietary position risk and regularly carries out stress test to estimate the losses under extreme circumstances and timely make risk warning and urge relevant business department to handle it when the risk control indicator exceeds the warning threshold.

3. Liquidity Risk

Liquidity risk refers to risk where the Company fails to obtain sufficient funds in time at reasonable costs in order to repay mature debts, fulfill other payment obligations and satisfy the funding needs for carrying on normal business. The planning and financing department of the Company is responsible for liquidity risk management. The Company constantly monitors Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and other liquidity risk control indicators and conducts semi-annual liquidity risk stress tests through which its liquidity risk level under the extreme circumstance is evaluated and the risk emergency plans are established. The Company has set threshold values for liquidity risk control indicators, and a risk warning will be sent to the relevant responsible person of the Company once such threshold values are exceeded. The Company monitors and analyzes the matching of the Company's assets and liabilities from various time periods under both normal and stressed situations, the diversification and stability of the Company's capital resources, the cashability of high-quality liquid assets and market liquidity and at the same time strengthens the management of the Company's liquidity during operating hours and makes reasonable arrangements for financing activities to maintain adequate intraday liquidity position.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(I) Major Risks and Countermeasures relating to Operation of the Company (Continued)

4. Compliance Risk

Compliance risk refers to risk of a securities company being subject to legal sanctions, regulatory measures and self-discipline penalties due to violations of laws, regulations or rules in its business activities or employee conducts. The Company has established an effective and sound compliance management system and compliance management framework. The compliance management department of the Company manages compliance risk through compliance review, compliance monitoring, compliance examination, compliance supervision and compliance training.

5. Operational Risk

Operational risk is possibility of losses caused by the failures of internal systems and procedures, improper employee behaviors, information system defect and the influence of external events. The Company has formulated operational risk management system and internal management system of various businesses and regulated its business activities. It has established an identification, assessment and control system for operational risk that fully covers the Company's business activities. The Company mainly managed operational risks through self-appraisal of risks and control (RCSA), loss data collection (LDC), key risk indicator (KRI) monitoring, and other measures.

6. Reputational Risk

Reputational risk is the risk of negative assessment or comments on the Company from stakeholders as a result of its operation, management and other companies or external events. Reputational risk management refers to the process and method for ensuring the achievement of the overall objective of reputational risk management based on the reputational risk management objective and planning, through the establishment and improvement of the reputational risk management system and through daily reputational risk management and proper handling of reputational events. The Company has established a sound reputation risk management system and workflow, to provide guarantee for the improvement of the all-round risk management system, the enhancement of the reputation risk management capability and the maintenance and promotion of the reputation and image of the Company.

(II) Construction of Risk Management System and Comprehensive Risk Management Implementation of the Company

During the Reporting Period, the Company actively implemented various requirements of the Norms for the All-round Risk Management of Securities Companies (《證券公司全面風險管理規範》), conducted routine risk management and various key projects based on the requirements of full coverage, monitorability, measurability, analysis and risk-response ability on risk management and continuously improved the comprehensive risk management system.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(II) Construction of Risk Management System and Comprehensive Risk Management Implementation of the Company (Continued)

1. Management System

The Company established the Measures for All-round Risk Management of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司全面風險管理辦法》), which set out overall requirements on the comprehensive risk management. It has established special risk management systems on liquidity risks, market risks, credit risks, operation risks, reputation risks and other risks. It also specified the risk management requirements on various businesses, including but not limited to the risk identification, evaluation, measurement, monitoring and response in relevant businesses, by constantly improving relevant systems.

2. Organization Framework

The Company established a four-level risk management system including the Board, the management, the risk management department and business departments. It specified the responsibilities of the Board, the Supervisory Committee, the management, all departments, branches and subsidiaries in performing the comprehensive risk management and established a multi-layered and inter-connected operation mechanism with effective balances. Meanwhile, the Company has incorporated all subsidiaries into the comprehensive risk management system and guided subsidiaries in establishing and improving the governance structure, setting risk preference and perfecting the risk monitoring, reporting and response mechanism. It specified the responsible person for the risk management of subsidiaries and the chief risk officer of the Company conducts appraisal on the responsible person.

3. Information Technology

The Company has, based on its business practice, established a securities risk monitoring and management platform with the integration of dynamic risks monitoring on net capitals, market risk management, credit risk management, operation risk management, liquidity risk management, abnormal transaction monitoring and other functions. It supports the collection, identification, measurement, appraisal, monitoring and reporting of various risk information and can meet the demands of the Company in risk management and decision-making.

4. Indicator System

The Company has established a risk preference indicator system with net capital and liquidity as the core covering concentration risks, market risks, credit risks and operation risks. The risk preference of the Company can cover all business line, including proprietary investment business, asset management business, securities brokerage business and investment banking business. Based on the development strategy, operation targets and financial conditions of the Company, it has set management and control quota on major risks, including but not limited to risk quota, business size, value at risk, sensitivity indicator, concentration, stop-loss and stop-profit. It also regularly appraises the risk tolerance through stress test and other methods and guides resources allocation.

Section IV Management Discussion and Analysis

X. RISK MANAGEMENT (CONTINUED)

(II) Construction of Risk Management System and Comprehensive Risk Management Implementation of the Company (Continued)

5. Talent Team

The risk management department of the Company has established four professional teams under secondary departments on market risk, credit risk, operation risk and comprehensive risks. The planning and financial department and the board office designate special persons to be responsible for the management of liquidity risks and reputation risks. Currently, risk management staff with over three years of relevant working experience account for over 2% of the total staff at the head office of the Company, which provided talent guarantees to effectively conducting the comprehensive risk management work. In addition, all business and functional departments of the Company have set business risk management positions as an integral part of the risk management system. They accept the business guidance of the risk management department and serve as the bridge link.

6. Response Mechanism

The Company established a working mechanism on regular reporting and stress test to identify significant potential risks in the business process in a timely manner and actively take prevention and response measures. The Company also has risk emergency plans on significant risks and emergencies, specified the emergency triggering conditions, the organizational system, measures, methods and procedures in risk disposal and continuously improved them through emergency exercises and other mechanisms. The Company has established a performance appraisal and accountability mechanism linked to risk management results. It regularly appraises the risk management performance of all business departments and branches and the appraisal results are included in the performance appraisal system. Meanwhile, the audit department regularly appraises the comprehensive risk management system to guarantee the effectiveness of the comprehensive risk management.

Section V Other Material Particulars

I. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PLAN

(I) Implementation of the 2019 Profit Distribution Plan

The Company held the 2019 annual general meeting on 25 May 2020 to consider and approve the resolution in relation to the 2019 Profit Distribution Plan, pursuant to which, the Company did not conduct profit distribution for the year ended 31 December 2019.

(II) The 2020 Interim Profit Distribution Plan

The Company did not have any profit distribution plan for the first half of 2020.

II. SHARE OPTION SCHEME OR EQUITY INCENTIVE SCHEME

During the Reporting Period, the Company did not adopt nor implement any share option scheme or equity incentive scheme.

III. SIGNIFICANT LAWSUITS AND ARBITRATIONS

(I) New Significant Lawsuits and Arbitration Cases in the Reporting Period

None in the Reporting Period.

(II) Subsequent Progress of the Significant Lawsuits and Arbitration Cases in the Previous Year

1. The dispute with regard to the Qinghui Leasing asset-backed special scheme Phase I under the management of the Company

For details of the case, please refer to II. Significant Lawsuits and Arbitrations in Section 7 Other Material Particulars of the 2018 annual report and the 2019 annual report of the Company.

(1) The lawsuit filed by the Company against Hongyuan Petrochemical and Qinghui Leasing

The case that the Company instituted a proceeding against the single lessee Xianyang Hongyuan Petrochemical Co., Ltd. (咸陽鴻元石油化工有限責任公司) (“Hongyuan Petrochemical”) and the equity originator Qinghui Leasing Co., Ltd. (慶匯租賃有限公司) (“Qinghui Leasing”) of the Qinghui Leasing asset-backed special scheme Phase I (the “Special Scheme”) was heard at the People’s High Court of Beijing on 19 August 2020. No judgment has been handed down in the case.

III. SIGNIFICANT LAWSUITS AND ARBITRATIONS (CONTINUED)

(II) Subsequent Progress of the Significant Lawsuits and Arbitration Cases in the Previous Year (Continued)

1. The dispute with regard to the Qinghui Leasing asset-backed special scheme Phase I under the management of the Company (Continued)

(2) The lawsuits filed by the preferential holders of the Special Scheme against the Company

On 14 January 2020, 14 January 2020 and 24 February 2020, Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. refiled lawsuits to the Second Intermediate People's Court of Beijing against the Company, respectively, claiming for the repayment of the outstanding principals (i.e., RMB60 million, RMB130 million and RMB100 million, respectively), and the interest payable and relevant charges by the Company. On 7 May 2020, the above three lawsuits were heard at the Second Intermediate People's Court of Beijing. No judgment has been handed down in the case.

On 7 May 2020, the Company received the civil claims brought by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd., in which the above three companies refiled lawsuits to the People's Court of Xicheng District, Beijing against the Company, claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB40 million and RMB35 million, respectively), and the interest payable and relevant charges by the Company. Currently, the lawsuits have not been heard yet.

2. The lawsuit filed by the Company against Ms. Li Shuyang, a client, in relation to margin financing and securities lending transaction

For details of the case, please refer to II. Significant Lawsuits and Arbitrations in Section 7 Other Material Particulars of the 2019 annual report of the Company.

On 4 December 2019, the Intermediate People's Court of Hohhot issued the Civil Ruling Paper and ruled that the appeal be rejected and the original verdict by the People's Court of Xincheng District of Hohhot be upheld. Now the case has been transferred to and filed in the People's Court of Shenhe District of Shenyang, where Ms.Li Shuyang is located.

III. SIGNIFICANT LAWSUITS AND ARBITRATIONS (CONTINUED)

(II) Subsequent Progress of the Significant Lawsuits and Arbitration Cases in the Previous Year (Continued)

3. The lawsuit filed by the Company against six clients in relation to stock pledged repurchase transaction

For details of the case, please refer to II. Significant Lawsuits and Arbitrations in Section 7 Other Material Particulars of the 2019 annual report of the Company.

On 16 June 2020, the Intermediate People's Court of Hohhot made its first instance judgement on the lawsuit filed by the Company against Mr. He Lin, Mr. Jiang Dehu and Guangzhou Ruide Jinsheng Investment Management Partnership (Limited Partnership). The verdict was in favor of the Company's claims.

IV. SIGNIFICANT CONTRACTS AND CONTRACT FULFILLMENT

The Company entered into a property lease contract with China Life Real Estate Co., Limited on 1 March 2016, pursuant to which the Company leased from China Life Real Estate Co., Limited the space of the Unit 1101, 11/F, China Life Centre, Financial Street, Xicheng District, Beijing, China for a term of 3 years commencing from 1 March 2016. The property lease contract was renewed on 1 March 2019 for a term of 3 three years commencing from 1 March 2019. The rental paid by the Company for the Reporting Period was approximately RMB13,705,000.

V. ENGAGEMENT OF AUDITORS

During the Reporting Period, the Company re-appointed Grant Thornton Certified Public Accountants as its domestic auditor for the year 2020 for providing relevant audit service based on China Accounting Standards for Business Enterprises. The Company also re-appointed Grant Thornton Hong Kong Limited as its international auditor for the year 2020 for providing relevant audit and review services based on the International Financial Reporting Standards.

VI. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company exerts its effort in maintaining high quality corporate governance in order to protect the interest of its shareholders and enhance its corporate value and accountability. During the Reporting Period, the Company has been in strict compliance with all the code provisions of Corporate Governance Code (if applicable). The Company will continue to review and enhance its corporate governance practice so as to ensure the compliance with the Corporate Governance Code.

Section V Other Material Particulars

VII. CORPORATE GOVERNANCE

(I) General Meeting

The Articles of Association and the Rules of Procedure for General Meetings of the Company have stipulated the rights and obligations of shareholders and the convocation, voting and proposal of general meetings. During the Reporting Period, the Company convened 3 general meetings.

(II) Operation of the Board and its Special Committees

The Board comprises 9 Directors, including 2 executive Directors (Mr. Pang Jiemin (*Chairman*) and Mr. Wu Yigang (*Vice Chairman*)), 4 non-executive Directors (Mr. Yu Lei, Mr. Wang Linjing, Ms. Dong Hong and Ms. Gao Liang) and 3 independent non-executive Directors (Dr. Lam Sek Kong, Mr. Xie Deren and Mr. Dai Genyou).

The Board consists of 4 special committees, including Strategy and Investment Committee, Risk Control and Supervisory Committee, Audit Committee and Remuneration and Nomination Committee. The special committees of the Board shall, within their terms of reference specified in the rules of respective procedures, conduct work and be accountable to the Board.

Composition of special committees of the Board:

Strategy and Investment Committee:	Mr. Pang Jiemin (<i>Chairman</i>), Mr. Yu Lei and Dr. Lam Sek Kong
Risk Control and Supervisory Committee:	Mr. Pang Jiemin (<i>Chairman</i>), Mr. Wu Yigang and Mr. Dai Genyou
Audit Committee:	Mr. Xie Deren (<i>Chairman</i>), Mr. Wang Linjing and Dr. Lam Sek Kong
Remuneration and Nomination Committee:	Mr. Xie Deren (<i>Chairman</i>), Mr. Pang Jiemin and Dr. Lam Sek Kong

During the Reporting Period, the Board convened 11 meetings to consider 46 proposals; each of the Risk Control and Supervisory Committee convened 1 meeting, the Audit Committee convened 2 meetings, and the Remuneration and Nomination Committee convened 4 meetings.

The Audit Committee has reviewed and confirmed this report.

VII. CORPORATE GOVERNANCE (CONTINUED)

(III) Operation of the Supervisory Committee

Supervisory Committee consists of 3 members, namely, Mr. Guo Liwen, the chairman, Mr. Chen Feng, the shareholder representative Supervisor, and Mr. Wang Hui, the employee representative Supervisor. During the Reporting Period, the Supervisory Committee convened 2 meetings to consider 10 proposals. The Supervisors performed their duties diligently and supervised the operation of the Company in accordance with relevant laws and regulations and the relevant requirements of the Articles of Association, so as to protect the legitimate interests of the Company, shareholders and investors.

VIII. COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code as its code of conduct regarding securities transactions by the Directors and Supervisors. The Company has made specific enquiry with all Directors and Supervisors, and all Directors and Supervisors confirmed that they had complied with the required standards set out in the Model Code during the Reporting Period.

IX. DIRECTOR AND SUPERVISOR SERVICE CONTRACT

No Directors or Supervisors entered into any service contract with the Company or its subsidiaries which shall be compensated (except for statutory compensation) upon termination within one year.

X. DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES OR DEBENTURES

During the Reporting Period, no Directors, Supervisors of the Company or their respective spouse or children under the age of 18 purchased the shares or debentures of the Company to obtain rights, or such persons exercised any such right; or no arrangements have been made by the Company or any of its subsidiaries to entitle such right to the Company's Directors, Supervisors or their respective spouse or children under the age of 18 in any other body corporate.

Section V Other Material Particulars

XI. MAJOR PUNISHMENT AND RECTIFICATION

On 24 June 2020, the CSRC issued the Notice of Rectification Measures on Hengtai Securities Co., Ltd. (Notice on Administrative Regulatory Measures [2020] No. 24) (《關於對恒泰證券股份有限公司採取責令改正措施的決定》(行政監管措施決定書[2020] 24號)), confirming that the Company has the following problems in the process of conducting margin financing and securities lending business in the first half of 2018: that it provided convenience and services for margin financing and securities lending activities between customers and customers, and between customers and third parties; provided customers' credit capital accounts and credit securities accounts for the use of third parties; and failed to effectively monitor the management of customers' evasion of margin financing and securities lending targets. The CSRC will take administrative supervision measures to order corrections thereof.

The Company paid high attention to the problems revealed in the notice and conducted overall rectification. At present, the Company has dismissed some of the personnel involved, checked the margin financing and securities lending accounts, and sorted out and standardized related procedures. The Company will further strengthen personnel and business control, carry out compliance training and self-inspection, continue to improve employees' awareness of compliance and risk control, and will strictly implement relevant business procedures to resolutely prevent the occurrence of such problems.

Section VI Changes in Shareholdings and Particulars about Shareholders

I. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2020, to the knowledge of the Directors after having made reasonable enquiries, the following persons (excluding the Directors, Supervisors or chief executives of the Company) had interests or short positions in shares or underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Approximate percentage of total number of issued shares of the Company ¹ (%)	Approximate percentage of the Company's total issued Domestic Shares/ H Shares ¹ (%)	Long position/ short position/ shares available for lending
Huarong Infrastructure ²	Domestic Shares	Beneficial owner	155,079,698	5.95	7.20	Long position
Finance Street Capital ²	Domestic Shares	Interests of controlled corporation	155,079,698	5.95	7.20	Long position
Finance Street Investment ³	Domestic Shares	Beneficial owner	165,418,345	6.35	7.68	Long position
Finance Street Xihuan Properties ⁴	Domestic Shares	Beneficial owner	211,472,315	8.12	9.82	Long position
Huarong Investment ⁴	Domestic Shares	Interests of controlled corporation	211,472,315	8.12	9.82	Long position
SASAC Xicheng District ^{2, 3, 4}	Domestic Shares	Interests of controlled corporation	531,970,358	20.42	24.70	Long position
Baotou Huazi ⁵	Domestic Shares	Beneficial owner	308,000,000	11.83	14.30	Long position
Tomorrow Holding ⁵	Domestic Shares	Interests of controlled corporation	308,000,000	11.83	14.30	Long position
Huifa Investment ⁶	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15	Long position
Ms. Chen Shan ⁶	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Mr. Shen Weimin ⁶	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long position
Hongzhi Huitong ^{7, 9}	Domestic Shares	Beneficial owner	123,500,000	4.74	5.73	Long position
Shaanxi Tianchen ^{7, 9}	Domestic Shares	Interests of controlled corporation	123,500,000	4.74	5.73	Long position
Hangzhou Ruisi ^{7, 9}	Domestic Shares	Interests of controlled corporation	123,500,000	4.74	5.73	Long position
Suzhou Bingtai ^{7, 9}	Domestic Shares	Interests of controlled corporation	123,500,000	4.74	5.73	Long position
Mr. Zhang Li ^{7, 9}	Domestic Shares	Interests of controlled corporation	123,500,000	4.74	5.73	Long position

Section VI Changes in Shareholdings and Particulars about Shareholders

I. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Name of substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Approximate	Approximate	Long position/ short position/ shares available for lending
				percentage of total number of issued shares of the Company ¹ (%)	percentage of the Company's total issued Domestic Shares/ H Shares ¹ (%)	
Guotai Fund Management Co., Ltd. (國泰基金管理有限公 司)	H Shares	Investment manager	72,161,000	2.77	16.01	Long position
Pohua JT Private Equity Fund L.P. ⁸	H Shares	Beneficial owner	67,880,000	2.61	15.05	Long position
Pohua JT Capital Partners Limited ⁸	H Shares	Interests of controlled corporation	67,880,000	2.61	15.05	Long position
Tianfeng Securities Co., Ltd. ⁹	Domestic Shares	Beneficial owner	781,365,375	29.99	36.28	Long position

Notes:

- As at 30 June 2020, the Company has issued a total of 2,604,567,412 shares, including 2,153,721,412 Domestic Shares and 450,846,000 H Shares.
- Huarong Infrastructure is wholly-owned by Finance Street Capital, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Finance Street Capital and SASAC Xicheng District is deemed to be interested in 155,079,698 Domestic Shares held by Huarong Infrastructure.
- Finance Street Investment is wholly-owned by SASAC Xicheng District. Therefore, SASAC Xicheng District is deemed to be interested in 165,418,345 Domestic Shares held by Finance Street Investment.
- 90.00% of the equity interest in Finance Street Xihuan Properties is held by Huarong Investment, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Huarong Investment and SASAC Xicheng District is deemed to be interested in 211,472,315 Domestic Shares held by Finance Street Xihuan Properties.
- Approximately 54.32% of the equity interest in Baotou Huazi is held by Tomorrow Holding. Therefore, Tomorrow Holding is deemed to be interested in 308,000,000 Domestic Shares held by Baotou Huazi.
- 53.33% and 46.67% of the equity interest in Huifa Investment are held by Mr. Shen Weimin and Ms. Chen Shan, respectively. Therefore, each of Mr. Shen Weimin and Ms. Chen Shan is deemed to be interested in 154,000,000 Domestic Shares held by Huifa Investment.
- 97.08% of the equity interest in Hongzhi Huitong is held by Shaanxi Tianchen. 98.67% of the equity interest in Shaanxi Tianchen is held by Hangzhou Ruisi. 94.00% of the equity interest in Hangzhou Ruisi is held by Suzhou Bingtai. 81.82% of the equity interest in Suzhou Bingtai is held by Mr. Zhang Li. Therefore, each of Shaanxi Tianchen, Hangzhou Ruisi, Suzhou Bingtai and Mr. Zhang Li is deemed to be interested in 123,500,000 Domestic Shares held by Hongzhi Huitong.

Section VI Changes in Shareholdings and Particulars about Shareholders

I. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes: (Continued)

8. Pohua JT Private Equity Fund L.P. is wholly-owned by Pohua JT Capital Partners Limited. Therefore, Pohua JT Capital Partners Limited is deemed to be interested in 67,880,000 H Shares held by Pohua JT Private Equity Fund L.P.
9. On 17 June 2019, Beijing Qingyun Intercontinental Technology Co., Ltd., Beijing Huijin Jiaye Investment Co., Ltd., Hongzhi Huitong, Jinan Bojie Narong Information Technology Co., Ltd., Zhongchang Hengyuan Holdings Limited, Shanghai Yida Technology Investment Co., Ltd, Weifang Keyu Technology Co., Ltd., Beijing Huacheng Hongtai Industrial Co., Ltd. and Beijing Huifutong International Investment Co., Ltd. (collectively, the "Domestic Shares Sellers") entered into an equity transfer agreement (股權轉讓協議書) (the "Equity Transfer Agreement") with Tianfeng Securities Co., Ltd. ("Tianfeng Securities"), pursuant to which the Domestic Shares Sellers agreed to sell, and Tianfeng Securities agreed to purchase a total of 781,365,375 Domestic Shares, representing approximately 29.99% of the total issued share of the Company. The Equity Transfer Agreement is subject to approval by shareholders of Tianfeng Securities and the relevant regulatory approvals including but not limited to the approval from the CSRC. On 13 April 2020, the transfer procedures of the lawful transfer to Tianfeng Securities of 690,015,375 Domestic Shares of the Company, representing approximately 26.49% of the total issued shares of the Company, had been completed. For details, please refer to the Company's announcements dated 29 May 2019, 17 June 2019, 9 March 2020, 12 March 2020, 8 April 2020 and 13 April 2020.

Save as disclosed above, as at 30 June 2020, the Company is not aware of any other persons (excluding the Directors, Supervisors and chief executives of the Company) having the interests or short positions in the Shares or underlying Shares of the Company required to be recorded in the register under Section 336 of the SFO.

II. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 June 2020, based on the information acquired by the Company and to the knowledge of the Directors, the Directors, Supervisors and chief executives of the Company have no (i) interests and short positions (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Sections 7 and 8 of Part XV under the SFO, or (ii) interests or short positions which shall be recorded in the interests register in accordance with section 352 of the SFO, or (iii) interest and short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO).

III. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the Reporting Period.

Section VII Directors, Supervisors, Senior Management and Employees

I. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save for the followings, there was no change in details of Directors and Supervisors which are required to be disclosed pursuant to Rule 13.51B of the Listing Rules as compared with those disclosed in the 2019 annual report :

(I) Changes in Directors

1. On 20 September 2019, the 2019 second extraordinary general meeting considered and approved the resolution on the election of Mr. Xie Deren (謝德仁) as an independent non-executive Director. However, the qualification of Mr. Xie Deren as Director is still subject to approval by the relevant governmental authorities of the PRC. On 21 January 2020, the Inner Mongolia Securities Regulatory Bureau of CSRC issued the Approval on Approving the Qualification of Xie Deren as an Independent Director of Securities Company (Nei Zheng Jian Xu Ke [2020] No.2) (《關於核准謝德仁證券公司獨立董事任職資格的批覆》(內證監許可[2020]2號)), pursuant to which, Mr. Xie Deren's qualification as an independent director of securities company was approved. Thus, the appointment of Mr. Xie Deren as an independent non-executive Director of the fourth session of the Board of Directors has become effective from 21 January 2020.
2. On 20 September 2019, the 2019 second extraordinary general meeting considered and approved the resolution on the election of Mr. Dai Genyou (戴根有) as an independent non-executive Director. However, the qualification of Mr. Dai Genyou as Director is still subject to approval by the relevant governmental authorities of the PRC. On 21 January 2020, the Inner Mongolia Securities Regulatory Bureau of CSRC issued the Approval on Approving the Qualification of Dai Genyou as an independent Director of Securities Company (Nei Zheng Jian Xu Ke [2020] No.1) (《關於核准戴根有證券公司獨立董事任職資格的批覆》(內證監許可[2020]1號)), pursuant to which, Mr. Dai Genyou's qualification as an independent director of securities company was approved. Thus, the appointment of Mr. Dai Genyou as an independent non-executive Director of the fourth session of the Board of Directors has become effective from 21 January 2020.
3. Ms. Zhou Jianjun (周建軍) resigned as an independent non-executive Director, the chairman of the Audit Committee and the Remuneration and Nomination Committee due to the need to focus on her personal career development with effect from 21 January 2020.
4. Mr. Lv Wendong (呂文棟) resigned as an independent non-executive Director due to the need to focus on his personal career development with effect from 21 January 2020.

Section VII Directors, Supervisors, Senior Management and Employees

I. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

(II) Changes in Supervisors

1. On 20 September 2019, the second extraordinary general meeting in 2019 considered and approved the resolution on the election of Mr. Chen Feng as a shareholder representative Supervisor, but Mr. Chen Feng's qualification as a Supervisor will be subject to the approval by the relevant governmental authorities of the PRC. On 21 January 2020, the Inner Mongolia Securities Regulatory Bureau of CSRC issued the Approval on Approving the Qualification of Chen Feng as a Supervisor of Securities Company (Nei Zheng Jian Xu Ke [2020] No.3) (《關於核准陳風證券公司監事任職資格的批覆》(內證監許可[2020]3號)), pursuant to which, Mr. Chen Feng's qualification as a Supervisor of securities company was approved. Thus, the appointment of Mr. Chen Feng as a shareholder representative Supervisor of the fourth session of the Supervisory Committee has become effective from 21 January 2020.
2. Ms. Pei Jingjing resigned as the shareholder representative Supervisor due to the need to focus on her personal career development, with effect from 21 January 2020.

(III) Changes in Senior Management

1. At the 30th extraordinary meeting of the fourth session of the Board on 22 April 2020, the resolution on the resignation of Mr. Zhang Wei as the secretary of the Board of the Company was considered and approved, Mr. Zhang Wei has resigned as the secretary of the Board of the Company due to the work re-arrangement of the Company.
2. At the 30th extraordinary meeting of the fourth session of the Board on 22 April 2020, the resolution on the resignation of Ms. Yang Shufei as the chief financial officer of the Company was considered and approved, Ms. Yang Shufei has resigned as the chief financial officer of the Company due to the work re-arrangement of the Company.
3. At the 30th extraordinary meeting of the fourth session of the Board on 22 April 2020, the resolution on the appointment of Ms. Yang Shufei as the vice president of the Company was considered and approved, Ms. Yang Shufei was appointed as the vice president of the Company, with term of office commencing from 22 April 2020.
4. At the 30th extraordinary meeting of the fourth session of the Board on 22 April 2020, the resolution on the appointment of Mr. Sun Hang as the chief financial officer of the Company was considered and approved, Mr. Sun Hang was appointed as the chief financial officer of the Company, with term of office commencing from 22 April 2020.
5. At the 30th extraordinary meeting of the fourth session of the Board on 22 April 2020, the resolution on the appointment of Mr. Liu Zhanjun as the chief compliance officer of the Company was considered and approved, Mr. Liu Zhanjun was appointed as the chief compliance officer of the Company, with term of office commencing from 22 April 2020.

Section VII Directors, Supervisors, Senior Management and Employees

I. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

(III) Changes in Senior Management (Continued)

6. At the 30th extraordinary meeting of the fourth session of the Board on 22 April 2020, the resolution on the appointment of Mr. Zhang Jingshun as the secretary of the Board of the Company was considered and approved, Mr. Zhang Jingshun was appointed as the secretary of the Board of the Company, with term of office commencing from 22 April 2020.
7. At the 30th extraordinary meeting of the fourth session of the Board on 22 April 2020, the resolution on the appointment of Mr. Zhao Peiwu as the chief information officer of the Company was considered and approved, Mr. Zhao Peiwu was appointed as the chief information officer of the Company, with term of office commencing from 22 April 2020.
8. At the 32nd extraordinary meeting of the fourth session of the Board on 29 May 2020, the resolution on the resignation of Mr. Zhao Peiwu as the chief information officer of the Company was considered and approved, Mr. Zhao Peiwu has resigned as the chief information officer of the Company due to the work re-arrangement of the Company.
9. At the 32nd extraordinary meeting of the fourth session of the Board on 29 May 2020, the resolution on the appointment of Mr. Tang Jun as the vice president of the Company was considered and approved, Mr. Tang Jun was appointed as the vice president of the Company, with term of office commencing from 29 May 2020.
10. At the 32nd extraordinary meeting of the fourth session of the Board on 29 May 2020, the resolution on the appointment of Mr. Sun Jiafeng as the chief information officer of the Company was considered and approved, Mr. Sun Jiafeng was appointed as the chief information officer of the Company, with term of office commencing from 29 May 2020.

(IV) Change in Directors' information

Ms. Dong Hong, a non-executive Director, served as an arbitrator of Beijing Arbitration Committee (北京仲裁委員會) since January 2020; and as a member and the secretary of the Party Committee of Huarong Infrastructure since February 2020.

II. CHANGES IN JOINT COMPANY SECRETARY

Mr. Zhang Wei resigned from his position as a joint company secretary of the Company due to work arrangement with effect from 30 June 2020. Mr. Zhang Jingshun has been appointed as a joint company secretary of the Company by the Board with effect from 30 June 2020.

Section VII Directors, Supervisors, Senior Management and Employees

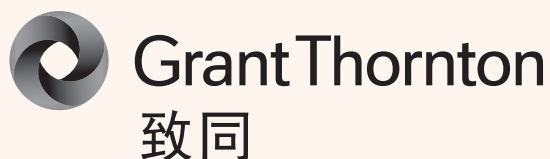
III. EMPLOYEES, REMUNERATION POLICY AND TRAINING

As at the end of the Reporting Period, the Group had 2,087 employees in total, including 1,583 employees of the Company and 504 employees of its subsidiaries.

The remuneration of the Company's employees comprises of basic wage, allowances, benefits and others. The Company has made contributions to schemes such as social insurance and housing provident fund on behalf of employees in accordance with relevant requirements of the PRC. The Company has strictly observed the Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China and other applicable laws and regulations, and has established a sound human resources management system and process to bring its hiring under regulation, thus effectively protecting the rights and interests of the employees.

The Company has always paid special attention to staff training. The Company made investigations and surveys in respect of training needs for the ordinary staff, middle management and senior management of the Company through interviews and questionnaires at the beginning of the year and compiled the annual training plan in accordance with the results of investigations and surveys. During the Reporting Period, 12 online courses regarding compliance, risks and wealth management were organized and carried out, with training coverage of 100%. The "Learning Free (暢學)" service, which is the follow-up training system of the Securities Association of China, was opened for all staff so that the staff can learn all of the courses in the follow-up training system of the Securities Association of China for free. The "Gold Medal Wealth Consultant Training Camp (金牌財富顧問訓練營)" was organized and planned to continuously improve the professional skills of 1,500 employees in branches of the Company. The selection and training of internal trainers were carried out, and 248 internal trainers in total were authorized. The online learning platform of the Company was improved, with expanded concurrent capacity and enhanced curriculum system.

Independent Review Report



To the Board of Directors of Hengtou Securities

(a joint stock company incorporated in the People's Republic of China with limited liabilities under the Chinese corporate name “恒泰证券股份有限公司” and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English))

INTRODUCTION

We have reviewed the interim financial information of Hengtou Securities (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 48 to 88, which comprises the condensed consolidated statement of financial position as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

21 August 2020

Chiu Wing Ning

Practising Certificate No.: P04920

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Fees and commission income	3	800,674	919,838
Interest income	4	322,582	324,600
Net investment income	5	464,307	419,134
Other income and gains	6	22,083	530,158
Total operating income		1,609,646	2,193,730
Fees and commission expenses	7	(91,067)	(100,071)
Interest expenses	8	(201,473)	(279,672)
Staff costs	9	(446,817)	(530,490)
Depreciation and amortisation	10	(94,831)	(78,891)
Taxes and surcharges		(9,000)	(9,155)
Other operating expenses	11	(213,213)	(250,142)
Impairment losses	12	(111,708)	(102,193)
Fair value losses from financial assets at fair value through profit or loss		(288,954)	(36,877)
Total operating expenses		(1,457,063)	(1,387,491)
Operating profit		152,583	806,239
Share of profits of associates		–	374
Profit before tax		152,583	806,613
Income tax expense	13	(6,622)	(193,782)
Profit for the period		145,961	612,831
Other comprehensive loss:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Debt investments at fair value through other comprehensive income			
– Net change in fair value		(10,687)	–
– Income tax impact		2,672	–
Other comprehensive loss for the period, net of tax		(8,015)	–
Total comprehensive income for the period		137,946	612,831

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Profit for the period attributable to:			
Ordinary shareholders of the Company		138,928	590,235
Non-controlling interests		7,033	22,596
		<u>145,961</u>	<u>612,831</u>
Total comprehensive income for the period attributable to:			
Ordinary shareholders of the Company		130,913	590,235
Non-controlling interests		7,033	22,596
		<u>137,946</u>	<u>612,831</u>
Earnings per share			
Basic and diluted	14	<u>RMB0.03</u>	RMB0.21

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	<i>Notes</i>	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Non-current assets			
Property and equipment	16	543,907	536,041
Right-of-use assets	17	153,642	157,857
Investment properties		39,797	40,784
Goodwill		43,739	43,739
Intangible assets		110,784	129,696
Refundable deposits		785,946	448,059
Deferred tax assets		249,112	205,287
Other non-current assets	18	43,824	46,237
Total non-current assets		1,970,751	1,607,700
Current assets			
Margin account receivables	19	4,215,536	3,969,330
Other current assets	20	677,917	716,325
Financial assets held under resale agreements	21	882,211	760,800
Financial assets at fair value through other comprehensive income	22	1,648,151	–
Financial assets at fair value through profit or loss	23	8,549,558	10,726,761
Cash held on behalf of brokerage clients	24	10,775,039	8,824,504
Clearing settlement funds	25	768,159	800,821
Cash and bank balances	25	1,580,850	2,108,972
		29,097,421	27,907,513
Assets classified as held for sale		11,768	11,768
Total current assets		29,109,189	27,919,281
Total assets		31,079,940	29,526,981

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	<i>Notes</i>	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Current liabilities			
Debt instruments	26	2,026,468	1,609,985
Placements from a financial institution		1,500,000	1,500,000
Account payables to brokerage clients	27	11,140,295	9,071,688
Employee benefit payables		345,810	466,913
Contract liabilities		18,177	34,322
Lease liabilities		68,193	67,106
Other current liabilities	28	1,178,743	1,270,105
Current tax liabilities		39,765	19,578
Financial assets sold under repurchase agreements	29	4,009,108	3,189,085
Total current liabilities		20,326,559	17,228,782
Net current assets		8,782,630	10,690,499
Total assets less current liabilities		10,753,381	12,298,199
Non-current liabilities			
Debt instruments	26	1,500,000	1,500,000
Lease liabilities		81,831	87,718
Deferred tax liabilities		64,393	132,068
Total non-current liabilities		1,646,224	1,719,786
Net assets		9,107,157	10,578,413

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	<i>Notes</i>	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Equity			
Share capital	30	2,604,567	2,604,567
Share premium		1,665,236	1,665,236
Perpetual capital securities	31	–	1,500,000
Reserves		4,434,057	4,405,144
Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities		8,703,860	10,174,947
Non-controlling interests		403,297	403,466
Total equity		9,107,157	10,578,413

Approved by the Board of Directors on 21 August 2020 and are signed on its behalf by:

Pang Jiemin

Chairman of Board of Directors

Wu Yigang

Vice Chairman of Board of Directors

Sun Hang

Chief Financial Officer

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities										
	Share capital	Share premium	Perpetual capital securities	Surplus reserve	General risk reserve	Transaction risk reserve	Investment revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	2,604,567	1,665,236	1,500,000	557,218	819,026	664,879	-	2,364,021	10,174,947	403,466	10,578,413
Profit for the period	-	-	-	-	-	-	-	138,928	138,928	7,033	145,961
Other comprehensive loss for the period	-	-	-	-	-	-	(8,015)	-	(8,015)	-	(8,015)
Total comprehensive income for the period	-	-	-	-	-	-	(8,015)	138,928	130,913	7,033	137,946
Dividend paid ^(Note 15)	-	-	-	-	-	-	-	(102,000)	(102,000)	(7,202)	(109,202)
Redemption of perpetual capital securities ^(Note 31)	-	-	(1,500,000)	-	-	-	-	-	(1,500,000)	-	(1,500,000)
Appropriation to general risk reserve	-	-	-	-	9,645	-	-	(9,645)	-	-	-
Change in equity for the period	-	-	(1,500,000)	-	9,645	-	(8,015)	27,283	(1,471,087)	(169)	(1,471,256)
At 30 June 2020 (unaudited)	2,604,567	1,665,236	-	557,218	828,671	664,879	(8,015)	2,391,304	8,703,860	403,297	9,107,157
At 1 January 2019	2,604,567	1,665,236	1,500,000	509,130	734,385	611,124	-	1,911,967	9,536,409	408,412	9,944,821
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	590,235	590,235	22,596	612,831
Dividend paid ^(Note 15)	-	-	-	-	-	-	-	(102,000)	(102,000)	(19,548)	(121,548)
Change in equity for the period	-	-	-	-	-	-	-	488,235	488,235	3,048	491,283
At 30 June 2019 (unaudited)	2,604,567	1,665,236	1,500,000	509,130	734,385	611,124	-	2,400,202	10,024,644	411,460	10,436,104

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Net cash from operating activities		2,593,285	860,150
Cash flows from investing activities			
Proceeds from disposal of property and equipment and intangible assets		–	1,156
Purchases of property and equipment, intangible assets and other non-current assets		(40,243)	(43,975)
Purchases of financial assets at fair value through other comprehensive income		(1,642,000)	–
Decrease/(Increase) in time deposits with original maturities exceeding three months		72,700	(409,100)
Other investing activities		70	–
Net cash used in investing activities		(1,609,473)	(451,919)
Cash flows from financing activities			
Proceeds from issuance of debt instruments		1,200,000	756,620
Repayments of debt instruments		(765,150)	(2,301,070)
Redemption of perpetual capital securities		(1,500,000)	–
Interest paid for financing activities		(53,718)	(104,838)
Dividends paid to perpetual capital securities		(102,000)	(102,000)
Dividends paid to non-controlling interests		(7,202)	(19,548)
Payment of lease liabilities		(32,358)	(25,347)
Other financing activities		–	(1,715)
Net cash used in financing activities		(1,260,428)	(1,797,898)
Net decrease in cash and cash equivalents		(276,616)	(1,389,667)
Cash and cash equivalents at beginning of period		2,780,256	3,998,650
Effect of foreign exchange rate changes		449	61
Cash and cash equivalents at end of period	25	2,504,089	2,609,044

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

These condensed consolidated financial statements (the “Interim Financial Information”) of the Company’s and its subsidiaries (together, referred to as the “Group”) for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by International Accounting Standards Board and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Interim Financial Information does 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 2019. The accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in the annual financial statements for the year ended 31 December 2019 except as stated below.

The Interim Financial Information are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

2.1 New and amended IFRSs that are effective for annual periods beginning or after 1 January 2020

The Interim Financial Information have been prepared in accordance with the accounting policies adopted in the Group’s annual financial statements for the year ended 31 December 2019, except for the adoption of the following new and amended IFRSs effective as of 1 January 2020. The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3	Definition of Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material

The adoption of these newly effective amended IFRSs has no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

2.2 Issued but not yet effective IFRSs

At the date of authorisation of the Interim Financial Information, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IFRS 17	Insurance Contracts ³
Amendments to IFRS 3	Reference to the Conceptual Framework ⁵
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IFRS 16	Covid-19-Related Rent Concessions ¹
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020 ²
Amendments to IAS 1	Classification of Liabilities As Current or Non-current ³

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ Effective date not yet determined

⁵ Effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The Group is still assessing the impact of these new and amended IFRSs and there are no significant updates to the information provided in the last annual financial statements about the possible impacts of the new and amended standards issued but not yet effective which may have a significant impact on the Group's Interim Financial Information.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. FEES AND COMMISSION INCOME

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Fees and commission income arising from:		
– Securities brokerage business	458,450	466,977
– Assets management business	204,308	247,298
– Underwriting and sponsoring business	69,535	63,860
– Future brokerage business	28,116	21,150
– Financial advisory business	15,461	96,919
– Investment advisory business	2,822	3,290
– Custody business	21,982	20,344
Revenue from contracts with customers within the scope of IFRS 15	800,674	919,838

The following table shows revenue disaggregation by timing of revenue recognition:

	Securities and futures brokerage businesses RMB'000	Assets management, financial and investment advisory businesses RMB'000	Underwriting and sponsoring business RMB'000	Custody business RMB'000	Total RMB'000
For the six months ended 30 June 2020					
– Over time	–	222,591	–	21,982	244,573
– Point in time	486,566	–	69,535	–	556,101
For the six months ended 30 June 2019					
– Over time	–	347,507	–	20,344	367,851
– Point in time	488,127	–	63,860	–	551,987

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. INTEREST INCOME

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Interest income arising from:		
– Margin financing	154,126	149,068
– Deposits in financial institutions	137,814	143,423
– Financial assets held under resale agreements	18,621	32,109
– Financial assets at fair value through other comprehensive income (“FVTOCI”)	12,021	–
	322,582	324,600

5. NET INVESTMENT INCOME

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Dividend income from financial assets at fair value through profit or loss (“FVTPL”)	137,145	182,354
Net realised gains from disposal of financial assets at FVTPL and derivative financial instruments	327,162	236,866
Net losses on disposal of financial assets at FVTOCI	–	(85)
Others	–	(1)
	464,307	419,134

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Foreign exchange gains, net	449	61
Rental income	1,590	875
Government grants (<i>note</i>)	5,242	4,659
Gain on disposal of property and equipment and intangible assets	–	651
Fair value gain from financial assets at FVTPL and derivate financial instruments	14,769	523,750
Others	33	162
	22,083	530,158

Note: Government grants were received from several local government authorities for supporting the Group's operation, of which the entitlement was unconditional.

7. FEES AND COMMISSION EXPENSES

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Expenses arising from:		
– Securities brokerage business	91,020	90,637
– Investment advisory business	47	9,434
	91,067	100,071

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

8. INTEREST EXPENSES

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Interest expenses arising from:		
– Account payables to brokerage clients	17,816	17,568
– Placements from a financial institution	25,268	11,664
– Financial assets sold under repurchase agreements	39,931	54,893
– Finance charges on lease liabilities	4,536	3,647
– Debts instruments	84,333	127,029
– Other investors of consolidated asset management schemes	29,589	64,086
– Others	–	785
	201,473	279,672

9. STAFF COSTS

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Short-term benefits	432,796	492,581
Severance payment	353	–
Defined contribution plan	13,668	37,909
	446,817	530,490

The Group is required to participate in pension schemes in the People's Republic of China ("PRC") whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the contributions described above.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

10. DEPRECIATION AND AMORTISATION

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Depreciation of:		
– property and equipment	24,073	23,083
– investment properties	987	987
– right-of-use assets	40,619	25,597
Amortisation of:		
– intangible assets	23,149	21,222
– leasehold improvements, long-term prepaid expenses and other foreclosed assets	6,003	8,002
	94,831	78,891

11. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Business entertainment expenses	6,645	10,413
Business travel expenses	5,540	13,802
Consulting fees	23,994	21,848
Donations	12,800	20
Electronic equipment operating expenses	42,020	34,065
Miscellaneous office expenses	1,600	2,898
Other commission expenses	28,277	30,721
Outsourcing fee	32,142	37,255
Postal and communication expenses	6,600	5,938
Lease charges for short-term leases (2019: Lease charges for short-term leases with lease term shorter than 12 months as at initial application of IFRS 16)	13,579	27,812
Securities investor protection funds	7,145	33,651
Utilities and building management fees	6,347	7,240
Others	26,524	24,479
	213,213	250,142

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. IMPAIRMENT LOSSES

	Six months ended 30 June	
	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
Impairment losses on:		
– margin financing	3,719	5,184
– financial assets held under resale agreements	89,189	29,973
– financial assets at FVTOCI	3,067	–
– other current assets	15,733	67,036
	111,708	102,193

13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
Current tax	115,450	41,820
Deferred tax	(108,828)	151,962
Total income tax expense	6,622	193,782

The provision for the PRC corporate income tax is calculated based on the statutory income tax rate of 25% (six months ended 30 June 2019: 25%).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to ordinary shareholders of the Company	138,928	590,235
Less: Dividends for cumulative perpetual capital securities	(50,022)	(50,581)
	<u>88,906</u>	<u>539,654</u>
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation (in thousands)	<u>2,604,567</u>	<u>2,604,567</u>

For the six months ended 30 June 2020 and 2019, there were no dilutive potential ordinary shares, hence the diluted earnings per share equals to the basic earnings per share.

15. DIVIDENDS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividend paid to holders of perpetual capital securities	<u>102,000</u>	<u>102,000</u>

The dividend paid during the six months ended 30 June 2020 was RMB102,000,000 (six months ended 30 June 2019: RMB102,000,000), being dividend calculated at 6.80% p.a. on the nominal value of perpetual capital securities.

The directors do not recommend the payment of dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property and equipment of approximately RMB34,166,000 (six months ended 30 June 2019: RMB34,727,000)

17. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group entered into 21 new lease agreements in respect of properties for initial periods ranging from one to five years. These leases do not contain any option to renew the lease and subject to monthly fixed rental payment. For the six months ended 30 June 2020, the total additions to right-of-use assets amounted to RMB37,564,000 (six months ended 30 June 2019: RMB14,209,000).

18. OTHER NON-CURRENT ASSETS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Leasehold improvements, long-term prepaid expenses and other foreclosed assets (<i>note</i>)	37,120	40,266
Prepayments	6,704	5,971
	43,824	46,237

Note:

The movements of leasehold improvements, long-term prepaid expenses and other foreclosed assets are as below:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
At beginning of the period/year	40,266	32,710
Transfer	2,093	4,704
Additions	764	17,729
Amortisation	(6,003)	(14,877)
At the end of the period/year	37,120	40,266

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. MARGIN ACCOUNT RECEIVABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Individual receivables	4,228,315	3,851,795
Institution receivables	11,843	138,438
Less: Accumulated impairment losses	<u>(24,622)</u>	<u>(20,903)</u>
	<u>4,215,536</u>	<u>3,969,330</u>

The fair value of collaterals for margin account receivables is analysed as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Equity securities	620,110	530,414
Cash	<u>12,588,856</u>	<u>11,672,014</u>
	<u>13,208,966</u>	<u>12,202,428</u>

As at 30 June 2020, the margin account receivables carried interests at 6.0% to 8.6% (31 December 2019: 7.0% to 8.6%) per annum.

20. OTHER CURRENT ASSETS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Accounts receivable (note a)	230,140	387,021
Interest receivables (note b)	245,130	230,878
Prepaid expenses	29,050	10,312
Income tax recoverable	24,181	19,157
Other receivables (note c)	<u>149,416</u>	<u>68,957</u>
	<u>677,917</u>	<u>716,325</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

20. OTHER CURRENT ASSETS (CONTINUED)

Notes:

(a) Accounts receivable

At the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date, is as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within one year	449,245	602,538
Over one year	357	733
Less: Accumulated impairment losses	<u>(219,462)</u>	<u>(216,250)</u>
	<u>230,140</u>	<u>387,021</u>

(b) Interest receivables

Interest receivables arising from:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Financial assets at FVTOCI	26,210	–
Financial assets at FVTPL	181,911	179,880
Margin financing	53,964	60,953
Bank deposits	1,868	6,552
Financial assets held under resale agreements	49,971	39,033
Less: Accumulated impairment losses	<u>(68,794)</u>	<u>(55,540)</u>
	<u>245,130</u>	<u>230,878</u>

(c) Other receivables

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Other receivables	223,713	143,987
Less: Accumulated impairment losses	<u>(74,297)</u>	<u>(75,030)</u>
	<u>149,416</u>	<u>68,957</u>

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For the six months ended 30 June 2020

21. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Analysis by collateral type:		
Equity securities	559,008	559,008
Debt securities	593,840	383,240
Less: Accumulated impairment losses	(270,637)	(181,448)
	882,211	760,800
Analysis by market:		
Shenzhen Stock Exchange	518,700	208,600
Shanghai Stock Exchange	634,148	634,148
Interbank	–	95,000
Others	–	4,500
Less: Accumulated impairment losses	(270,637)	(181,448)
	882,211	760,800

As at 30 June 2020, the fair values of the collaterals were amounted to RMB854,179,000 (31 December 2019: RMB886,315,000).

As at 30 June 2020, the financial assets held under resale agreements carried interests at 1.9% to 8.0% (31 December 2019: 1.0% to 8.0%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Analysis by collateral type:		
Debt securities	1,648,151	–
Analysis into:		
Listed outside Hong Kong	242,311	–
Unlisted	1,405,840	–
	1,648,151	–
Accumulated impairment losses	3,067	–

Financial assets at FVTOCI comprise debt securities equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Held for trading:		
Debt securities	5,331,423	5,728,934
Equity securities	2,349,949	3,106,255
Investment funds	648,662	1,530,226
Assets management schemes	199,303	361,346
Collective trust schemes	20,221	–
	8,549,558	10,726,761
Analysis into:		
Listed in Hong Kong	80,010	120,841
Listed outside Hong Kong	4,548,535	6,241,190
Unlisted	3,921,013	4,364,730
	8,549,558	10,726,761

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

24. CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified their brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the condensed consolidated statement of financial position, and recognised the corresponding account payables to the respective brokerage clients on the grounds that the Group is liable for any loss or misappropriation of their brokerage clients' monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions in accordance with China Securities Regulatory Commission ("CSRC") regulations.

25. CASH AND CASH EQUIVALENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Cash on hand	53	51
Bank balances	1,580,797	2,108,921
Cash and bank balances per the condensed consolidated statement of financial position	1,580,850	2,108,972
Add: Clearing settlement funds	768,159	800,821
Add: Financial assets held under resale agreements with original maturity within three months	593,840	383,240
Less: Time deposits with original maturities exceeding three months	(159,000)	(231,700)
Less: Restricted bank deposits	(279,760)	(281,077)
Cash and cash equivalents per the condensed consolidated statement of cash flows	2,504,089	2,780,256

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

26. DEBT INSTRUMENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Beneficiary certificates	2,026,468	1,609,985
Subordinated bond	1,500,000	1,500,000
	3,526,468	3,109,985
Analysis by remaining maturity:		
Current		
Within one year	2,026,468	1,609,985
Non-current		
Between two years and five years	1,500,000	1,500,000
	3,526,468	3,109,985

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

26. DEBT INSTRUMENTS (CONTINUED)

Beneficiary certificates:

Name	Par value RMB'000	Issuance date	Due date	Interest rate	30 June 2020 (unaudited)					
					Par value			Accrued interest		Book value as at 30 June 2020 RMB'000
					As at 1 January 2020 RMB'000	Issuance RMB'000	Redemption RMB'000	As at 30 June 2020 RMB'000	RMB'000	
恒創泰富No.19	300,000	16.11.2018	16.11.2020	5.75%	319,424	-	-	319,424	8,601	328,025
恒富No.16	140,140	11.04.2018	13.04.2020	6.20%	155,137	-	(155,137)	-	-	-
恒富No.18	148,350	11.07.2018	08.01.2020	5.80%	161,056	-	(161,056)	-	-	-
恒富No.20	85,090	26.12.2018	21.12.2020	5.00%	89,414	-	-	89,414	2,122	91,536
恒富No.21	31,980	27.12.2018	22.12.2020	5.00%	33,600	-	-	33,600	798	34,398
恒創泰富No.20	200,000	01.03.2019	28.02.2020	5.00%	200,000	-	(200,000)	-	-	-
恒創泰富No.21	200,000	19.04.2019	21.10.2020	5.20%	207,323	-	-	207,323	5,186	212,509
恒富No.24	160,420	12.06.2019	15.06.2020	4.80%	164,703	-	(164,703)	-	-	-
恒富No.25	116,240	13.06.2019	16.06.2020	4.80%	119,328	-	(119,328)	-	-	-
恒富No.26	160,000	15.08.2019	10.08.2020	4.90%	160,000	-	-	160,000	-	160,000
恒富No.28	100,000	06.02.2020	03.02.2021	4.50%	-	100,000	-	100,000	-	100,000
恒創泰富No.23	1,000,000	28.04.2020	28.04.2021	4.25%	-	1,000,000	-	1,000,000	-	1,000,000
恒富No.29	100,000	24.06.2020	21.06.2021	4.00%	-	100,000	-	100,000	-	100,000
					<u>1,609,985</u>	<u>1,200,000</u>	<u>(800,224)</u>	<u>2,009,761</u>	<u>16,707</u>	<u>2,026,468</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

26. DEBT INSTRUMENTS (CONTINUED)

Beneficiary certificates: (Continued)

Name	Par value RMB'000	Issuance date	Due date	Interest rate	31 December 2019 (audited)					
					Par value			Accrued interest		Book value
					As at 1 January 2019 RMB'000	Issuance RMB'000	Redemption RMB'000	As at 31 December 2019 RMB'000	31 December 2019 RMB'000	31 December 2019 RMB'000
恒創泰富No.6	100,000	24.02.2017	22.02.2019	5.70%	110,557	-	(110,557)	-	-	-
恒創泰富No.13	500,000	14.03.2018	14.03.2019	6.20%	500,000	-	(500,000)	-	-	-
恒創泰富No.14	500,000	04.07.2018	04.07.2019	5.85%	500,000	-	(500,000)	-	-	-
恒創泰富No.15	500,000	25.07.2018	25.07.2019	5.50%	500,000	-	(500,000)	-	-	-
恒創泰富No.16	80,000	31.08.2018	28.11.2019	5.40%	81,456	-	(81,456)	-	-	-
恒創泰富No.17	300,000	27.09.2018	26.09.2019	5.40%	300,000	-	(300,000)	-	-	-
恒創泰富No.19	300,000	16.11.2018	16.11.2020	5.75%	302,174	-	-	302,174	17,250	319,424
恒富No.14	60,130	18.01.2018	17.01.2019	5.50%	60,130	-	(60,130)	-	-	-
恒富No.16	140,140	11.04.2018	13.04.2020	6.20%	146,448	-	-	146,448	8,689	155,137
恒富No.17	140,940	27.06.2018	26.06.2019	5.60%	140,940	-	(140,940)	-	-	-
恒富No.18	148,350	11.07.2018	08.01.2020	5.80%	152,452	-	-	152,452	8,604	161,056
恒富No.19	160,000	25.07.2018	24.07.2019	5.60%	160,000	-	(160,000)	-	-	-
恒富No.20	85,090	26.12.2018	21.12.2020	5.00%	85,160	-	-	85,160	4,254	89,414
恒富No.21	31,980	27.12.2018	22.12.2020	5.00%	32,001	-	-	32,001	1,599	33,600
恒創泰富No.20	200,000	01.03.2019	28.02.2020	5.00%	-	200,000	-	200,000	-	200,000
恒創泰富No.21	200,000	19.04.2019	21.10.2020	5.20%	-	200,000	-	200,000	7,323	207,323
恒富No.22	39,990	29.05.2019	27.08.2019	4.40%	-	39,990	(39,990)	-	-	-
恒富No.23	39,990	30.05.2019	26.11.2019	4.60%	-	39,970	(39,970)	-	-	-
恒富No.24	160,420	12.06.2019	15.06.2020	4.80%	-	160,420	-	160,420	4,283	164,703
恒富No.25	116,240	13.06.2019	16.06.2020	4.80%	-	116,240	-	116,240	3,088	119,328
恒富No.26	160,000	15.08.2019	10.08.2020	4.90%	-	160,000	-	160,000	-	160,000
					<u>3,071,318</u>	<u>916,620</u>	<u>(2,433,043)</u>	<u>1,554,895</u>	<u>55,090</u>	<u>1,609,985</u>

Notes to the Condensed Consolidated Financial Statements

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26. DEBT INSTRUMENTS (CONTINUED)

Subordinated bond:

Name	Par value RMB'000	Issuance date	Due date	Nominal interest rate	Book value	
					30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
恒泰证券股份有限公司2017次級債	1,500,000	01.11.2017 (with early redemption option on 01.11.2020)	01.11.2022	5.90%	1,500,000	1,500,000

27. ACCOUNT PAYABLES TO BROKERAGE CLIENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Clients' deposits for:		
– margin financing	619,693	551,801
– other brokerage business	10,520,602	8,519,887
	11,140,295	9,071,688

Account payables to brokerage clients represent the monies received from and repayable to brokerage clients. Account payables to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the account payables balances are repayable on demand except where certain account payables to brokerage clients represent monies received from clients for the margin financing activities under normal course of business. Only the amounts in excess of the required amount of margin deposits and cash collateral are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

Notes to the Condensed Consolidated Financial Statements

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28. OTHER CURRENT LIABILITIES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Third-party interests in consolidated asset management schemes (note)	883,282	1,050,410
Future risk reserve	22,297	20,890
Other payables	150,135	127,023
Interest payables	83,066	32,095
Taxes and surcharges payables	12,156	14,907
Provision of compensation	27,807	24,780
	1,178,743	1,270,105

Note: Third-party interests in consolidated asset management schemes consist of third-party unit holders' interests in these consolidated structured entities which are recognised as a liability since they can be put back to the Group for cash.

29. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Analysis by collateral type:		
Equity securities	4,009,108	3,189,085
Analysis by market:		
Inter-bank market	2,195,560	1,772,460
Shanghai Stock Exchange	1,540,849	1,291,380
Shenzhen Stock Exchange	175,700	100,000
Banks and other financial institutions	96,999	25,245
	4,009,108	3,189,085
Analysis by transaction type:		
Pledged	4,009,108	3,189,085

As at 30 June 2020, the financial assets sold under repurchase agreements carried interests at 1.60% to 5.81% (31 December 2019: 3.0% to 5.0% per annum).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

29. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

As at 30 June 2020 and 31 December 2019, the carrying amount of the financial assets that had been placed as financial assets sold under repurchase agreements are as below:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Financial assets at FVTPL	3,615,943	3,730,458
Financial assets at FVTOCI	893,529	–
	<u>4,509,472</u>	<u>3,730,458</u>

30. SHARE CAPITAL

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	Number of shares (in thousands)	RMB'000
At 1 January 2019, 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited)	<u>2,604,567</u>	<u>2,604,567</u>

31. PERPETUAL CAPITAL SECURITIES

The Group issued a perpetual subordinated debt (the "Debt") with nominal value of RMB1,500,000,000 on 29 June 2015. The Debt is undated and bears a 6.80% coupon rate until the first redemption date on 29 June 2020. The coupon rate will be reset every five years if the Debt is not redeemed.

The Group does not have any contractual obligation to deliver cash or other financial assets to redeem the Debt. The redemption of the Debt is solely at the discretion of the Group.

During the six months ended 30 June 2020, the Debt of RMB1,500,000,000 were fully redeemed by the Group.

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32. COMMITMENTS

(a) Capital commitments

At the reporting date, the capital commitments outstanding not provided for in the Interim Financial Information are as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Acquisition of property and equipment	355,950	355,950
Acquisition of intangible assets and other non-current assets	349,430	211,310
	705,380	567,260

(b) Lease commitments

The Group as lessee

At the reporting date, the lease commitments for short-term leases are as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Properties – within 1 year	4,647	8,076

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32. COMMITMENTS (CONTINUED)

(b) Lease commitments (Continued)

The Group as lessor

At the reporting date, the total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 1 year (inclusive)	5,110	3,250
Later than 1 year and not later than 2 years	5,151	3,280
Later than 2 year and not later than 3 years	5,151	3,280
Later than 3 year and not later than 4 years	4,669	3,300
Later than 4 year and not later than 5 years	4,268	2,358
After 5 years	10,422	11,324
	34,771	26,792

(c) Underwriting commitments

As at 30 June 2020, according to the relevant underwriting agreements, underwriting commitments taken but not provided for by the Group are amounted to RMB60,493,000,000 (31 December 2019: RMB60,580,000,000).

Notes to the Condensed Consolidated Financial Statements

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33. CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, the Group involved in the following lawsuits:

- (i) Lawsuits with regard to the Qinghui Leasing asset-backed special scheme Phase I (the “Special Scheme”)

Since June 2018, the Company has successively received the civil indictments brought by Xinyuan Fund Management Limited (鑫元基金管理有限公司), Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金匯證券資產管理有限公司), Goldstate Capital Fund Management Co., Ltd. (金元順安基金管理有限公司), Bank of Nanjing Co., Ltd. (南京銀行股份有限公司), Chuangjin Hexin Fund Management Limited (創金合信基金管理有限公司) and Tianhong Asset Management Co., Ltd. (天弘基金管理有限公司), the preferential holders (collectively the “Plaintiffs”) of the Special Scheme, claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB60 million, RMB130 million, RMB100 million, RMB40 million and RMB35 million, respectively), and the interest payable and relevant charges from the Company. The Plaintiffs claimed that the Company, as the manager of the Special Scheme, had failed to perform its responsibilities in accordance with the laws and regulations as well as the requirements under the agreements and documents in relation to the Special Scheme, and therefore shall be liable for compensation to the Plaintiffs. Since August 2018, the Company has made counterplea against the Plaintiffs at the competent courts according to the time schedule of the competent courts in succession.

The first instance court ruled and rejected the lawsuit filed by Galaxy Jinhui Securities Asset Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. In 2018, the three companies have filed an appeal to the People’s High Court of Beijing. As of 31 December 2019, all three companies above have withdrawn their lawsuits.

In 2018, the lawsuit against the Company filed by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd. was heard at the Finance Street People’s Court of the People’s Court of the Xicheng District in Beijing. As of 31 December 2019, all three companies above have withdrawn their lawsuits.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

33. CONTINGENT LIABILITIES (CONTINUED)

- (i) Lawsuits with regard to the Qinghui Leasing asset-backed special scheme Phase I (the “Special Scheme”) (Continued)

In addition, on 1 March 2019, the Company received a lawsuit brought by China Resources SZITIC Trust Co., Ltd. (華潤深國投信託有限公司), another holder of the Special Scheme, claiming for the repayment of the outstanding principals of RMB30.0 million and the interest payable and relevant charges from the Company. The Company has filed a jurisdictional objection to the People’s Court of Futian District of Shenzhen. The People’s Court of Futian District of Shenzhen has ruled that the case will be transferred to the People’s Court of Xicheng District, Beijing for handling. On 31 May 2019, China Resources SZITIC Trust Co., Ltd. has filed an appeal to the Intermediate People’s Court of Shenzhen. On 25 July 2019, the Intermediate People’s Court of Shenzhen ruled that the case was under the jurisdiction of the People’s Court of Futian District of Shenzhen. On 12 October 2019, the People’s Court of Futian District of Shenzhen ruled and rejected the lawsuit filed by the plaintiff.

During the six months ended 30 June 2020, Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. have respectively filed their appeals to the Beijing Second Intermediate People’s Court claiming for the repayment of the outstanding principals (i.e. RMB60 million, RMB130 million and RMB100 million, respectively), and the interest payable and relevant charges from the Company. On 7 May 2020, the Beijing Second Intermediate People’s Court opened a court session for the cases mentioned above on, the Company has defended the cases, but no decision has been made up to the reporting date.

On 7 May 2020, the Company received the civil indictments brought by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd., in which the above three companies refiled lawsuits to the People’s Court of Xicheng District, Beijing against the Company, claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB40 million and RMB35 million, respectively), and the interest payable and relevant charges by the Company. Up to the reporting date, the cases have not been heard.

- (ii) Lawsuits with regard to the the asset custody business in which the Company was involved as the second respondent

Beijing Han Fu Rongxin Asset Management Partnership (Limited Partnership) (北京漢富融信資產管理合夥企業(有限合夥)), as the manager, set up the fund product Zhaoyang Zengli No. 8 private investment fund (the “No. 8 Private Investment Fund”) on 28 June 2017, the fund product Zhaoyang Zengli No. 10 private investment fund (the “No. 10 Private Investment Fund”) on 24 October 2017 and the fund product Zhaoyang Zengli No. 11 private investment fund (the “No. 11 Private Investment Fund”) on 5 December 2017. The Company was the custodian of the No. 8 Private Investment Fund, No. 10 Private Investment Fund and No. 11 Private Investment Fund. As the investment targets of the abovementioned three funds failed to achieve full realisation, the three funds failed to be fully settled on time upon expiry.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

33. CONTINGENT LIABILITIES (CONTINUED)

- (ii) Lawsuits with regard to the the asset custody business in which the Company was involved as the second respondent (Continued)

On 27 May 2019, Beijing Arbitration Commission issued a notice to the Company on its acceptance of the application in relation to three arbitration cases filed by Mr. Liu Chaoyang, an investor of the No. 8 Private Investment Fund, No. 10 Private Investment Fund and No. 11 Private Investment Fund, claiming joint repayment investment principal of RMB50 million and relevant income by Beijing Han Fu Rongxin Asset Management Partnership (Limited Partnership), as the first respondent, and the Company, as the second respondent. On 28 August 2019, Beijing Arbitration Commission opened a court session for the three arbitration cases mentioned above on, the Company has defended the cases, but no decision has been made up to the reporting date.

Based on the assessment of the Group's internal legal advisors, the management considers it is probable that the judgement regarding to the above cases will be in its favour and has therefore not recognised a provision in relation to these claims.

34. RELATED PARTY TRANSACTIONS AND BALANCES

- (i) Transactions/balances between the Group and major shareholders:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Balances at the end of the period/year		
– Account payables to brokerage clients	1,156	24,802
	Six months ended 30 June 2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Transactions during the period		
– Fees and commission income	29	25
– Interest expenses	3	19
– Lease charges	3,840	4,343

Notes to the Condensed Consolidated Financial Statements

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34. RELATED PARTY TRANSACTIONS AND BALANCES

(ii) Key management personnel remuneration

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the Board of Directors, board of supervisors and other members of the senior management.

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Fees, salaries, allowance and bonus	8,022	5,903
Contributions to pension scheme	91	333
	8,113	6,236

35. SEGMENT REPORTING

	Brokerage and wealth management RMB'000	Investment banking RMB'000	Proprietary trading RMB'000	Investment management RMB'000	Others RMB'000	Total RMB'000
Six months ended 30 June 2020 (unaudited)						
Revenue						
– External	745,692	91,159	402,218	299,576	48,918	1,587,563
– Inter-segment	(5)	–	5	–	–	–
Other income and gains	4,395	291	312	14,362	2,723	22,083
Segment revenue and other income	750,082	91,450	402,535	313,938	51,641	1,609,646
Segment expenses	(662,065)	(71,610)	(206,062)	(414,069)	(103,257)	(1,457,063)
Segment operating profit/(loss)	88,017	19,840	196,473	(100,131)	(51,616)	152,583
Share of profits of associates	–	–	–	–	–	–
Profit/(Loss) before tax	88,017	19,840	196,473	(100,131)	(51,616)	152,583

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35. SEGMENT REPORTING (CONTINUED)

	Brokerage and wealth management RMB'000	Investment banking RMB'000	Proprietary trading RMB'000	Investment management RMB'000	Others RMB'000	Total RMB'000
Six months ended 30 June 2020 (unaudited) (continued)						
Other segment information:						
- Interest income	254,080	6,162	20,590	5,170	36,580	322,582
- Interest expenses	(82,274)	(348)	(81,883)	(35,710)	(1,258)	(201,473)
- Depreciation and amortisation	(58,352)	(1,861)	(905)	(13,366)	(20,347)	(94,831)
- Impairment losses	(106,142)	776	(3,334)	(3,239)	231	(111,708)
- Capital expenditure	19,057	68	55	3,127	18,989	41,296
- Right-of-use assets additions	37,564	-	-	-	-	37,564
Six months ended 30 June 2019 (unaudited)						
Revenue						
- External	699,695	167,779	351,426	353,934	90,738	1,663,572
- Inter-segment	(3)	-	3	-	-	-
Other income and gains	2,422	107	366,193	156,684	4,752	530,158
Segment revenue and other income						
	702,114	167,886	717,622	510,618	95,490	2,193,730
Segment expenses						
	(586,140)	(123,174)	(238,505)	(291,926)	(147,746)	(1,387,491)
Segment operating profit/(loss)						
	115,974	44,712	479,117	218,692	(52,256)	806,239
Share of profits of associates						
	-	-	-	-	374	374
Profit/(Loss) before tax						
	115,974	44,712	479,117	218,692	(51,882)	806,613
Other segment information:						
- Interest income	211,394	7,001	4,682	10,785	90,738	324,600
- Interest expenses	(95,355)	(414)	(110,454)	(72,143)	(1,306)	(279,672)
- Depreciation and amortisation	(48,412)	(1,868)	(91)	(13,844)	(14,676)	(78,891)
- Impairment losses	(36,356)	(92)	(65,745)	-	-	(102,193)
- Capital expenditure	24,366	973	55	4,390	15,887	45,671
- Right-of-use assets additions	13,015	-	-	1,194	-	14,209

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

35. SEGMENT REPORTING (CONTINUED)

	Brokerage and wealth management <i>RMB'000</i>	Investment banking <i>RMB'000</i>	Proprietary trading <i>RMB'000</i>	Investment management <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
As at 30 June 2020 (unaudited):						
Segment assets	17,353,464	566,605	8,020,165	3,782,041	1,108,553	30,830,828
Deferred tax assets						249,112
Total assets						<u>31,079,940</u>
Segment liabilities	14,341,054	103,484	5,582,201	1,624,132	257,519	21,908,390
Deferred tax liabilities						64,393
Total liabilities						<u>21,972,783</u>
As at 31 December 2019 (audited):						
Segment assets	15,947,895	602,555	2,847,614	4,107,803	5,815,827	29,321,694
Deferred tax assets						205,287
Total assets						<u>29,526,981</u>
Segment liabilities	12,141,840	167,058	4,487,051	1,679,350	341,201	18,816,500
Deferred tax liabilities						132,068
Total liabilities						<u>18,948,568</u>

36. FAIR VALUE MEASUREMENTS

(a) Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three level inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

36. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Fair value hierarchy (Continued)

Disclosures of level in fair value hierarchy:

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Recurring fair value measurements:				
As at 30 June 2020 (unaudited)				
Financial assets at FVTPL:				
– Debt securities	1,574,964	3,726,836	29,623	5,331,423
– Equity securities	2,202,324	5,255	142,370	2,349,949
– Investment funds	447,611	136,445	64,606	648,662
– Asset management schemes	–	199,303	–	199,303
– Collective trust schemes	–	20,221	–	20,221
	<u>4,224,899</u>	<u>4,088,060</u>	<u>236,599</u>	<u>8,549,558</u>
Financial assets at FVTOCI:				
– Debt securities	29,760	1,618,391	–	1,648,151
	<u>4,254,659</u>	<u>5,706,451</u>	<u>236,599</u>	<u>10,197,709</u>
As at 31 December 2019 (audited)				
Financial assets at FVTPL:				
– Debt securities	1,021,617	4,646,850	60,467	5,728,934
– Equity securities	2,111,516	868,558	126,181	3,106,255
– Investment funds	423,260	1,052,014	54,952	1,530,226
– Asset management schemes	–	361,346	–	361,346
	<u>3,556,393</u>	<u>6,928,768</u>	<u>241,600</u>	<u>10,726,761</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

36. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Fair value hierarchy (Continued)

There were no significant transfers between level 1, level 2 and level 3 of the fair value hierarchy except for:

As at 30 June 2020 (unaudited)

Two equity securities with fair value of RMB658,647,000 were transferred from level 2 to level 1 upon the expiry of lock-up period.

As at 31 December 2019 (audited)

Ten equity securities with fair value of RMB240,595,000 were transferred from level 3 to level 1 due to resumption of public trading.

(b) Fair value of the financial instruments that are not presented at fair value

The carrying amount and fair value of debt instruments which are not presented at fair value are as below:

	30 June 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Carrying amount of financial liabilities:				
– subordinated bonds	<u>1,500,000</u>	<u>1,558,667</u>	<u>1,500,000</u>	<u>1,516,590</u>

Except as disclosed above, the directors of the Company considers that the carrying amount of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

36. FAIR VALUE MEASUREMENTS (CONTINUED)

- (c) Valuation process used by the Group and valuation techniques and inputs used in fair value measurements

The Group's financial market department is responsible for the fair value measurements of financial assets and liabilities required for financial reporting purposes. The financial market department reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial market department and the Board of Directors periodically.

Level 1

Fair value of financial instruments under level 1 fair value measurement is based on quoted prices (unadjusted) reflected in active markets.

Level 2

As at 30 June 2020, the Group's financial assets at FVTPL and FVTOCI under level 2 fair value measurements consist of debt securities, equity securities, investment funds, assets management schemes and collective trust schemes and their fair value measurements were determined as follows:

Debt securities of RMB5,345,227,000 (31 December 2019: RMB4,646,850,000), of which value are available on China bond pricing system on the valuation date, fair values are determined by using the latest valuation results published by China bond pricing system.

For equity securities of RMB5,255,000 (31 December 2019: RMB868,558,000), fair values are determined by using the latest valuation results published by the relevant pricing systems.

For investment funds, assets management schemes and collective trust schemes of RMB136,445,000 (31 December 2019: RMB1,052,014,000), RMB199,303,000 (31 December 2019: RMB361,346,000) and RMB20,221,000 (31 December 2019: Nil), respectively, fair values are determined based on the quoted prices of the underlying investments in each portfolio.

During the six months ended 30 June 2020, there were no significant changes of valuation techniques for level 2 fair value measurements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

36. FAIR VALUE MEASUREMENTS (CONTINUED)

- (c) Valuation process used by the Group and valuation techniques and inputs used in fair value measurements (Continued)

Level 3

For financial instruments under level 3 fair value measurements, prices are determined using valuation methodologies such as market comparable method, discounted cash flow models or other similar techniques. The fair value measurements of these financial instruments may involve unobservable inputs such as price to book ratio, price to earnings ratio, liquidity discount, etc. Fair value change resulting from changes in the unobservable inputs was not significant. The financial market department periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial instruments in level 3 fair value measurements.

The quantitative information of fair value measurements for level 3 is as follows:

Description	Fair value as at		Valuation technique	Unobservable inputs	Relationship of unobservable input(s) to fair value
	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000			
Unlisted equity investments	142,370	126,181	Market comparable companies	Discount rate for lack of marketability – 40% (2019: 40%)	The higher the discount rate, the lower the fair value
Unlisted investment fund	64,606	54,952	Market comparable companies	Discount rate for lack of marketability – 40% (2019: 40%)	The higher the discount rate, the lower the fair value
Debt securities	29,623	60,467	Discounted cash flow	Risk adjusted discount rate – 6.5% (2019: 5.0% – 7.5%)	The higher the discount rate, the lower the fair value
	236,599	241,600			

During the six months ended 30 June 2020, there were no significant changes of valuation techniques for level 3 fair value measurements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

36. FAIR VALUE MEASUREMENTS (CONTINUED)

- (d) Reconciliation of financial assets measured at fair value under level 3 fair value measurements:

	Financial assets at FVTPL RMB'000
At 1 January 2020	241,600
Changes in fair value recognised in profit or loss	15,814
Purchases	10,029
Sales and settlements	<u>(30,844)</u>
At 30 June 2020 (unaudited)	<u>236,599</u>
Total gains included in profit or loss during the period	<u>15,814</u>
At 1 January 2019	363,674
Changes in fair value recognised in profit or loss	99,927
Purchases	78,359
Transfer	(240,595)
Sales and settlements	<u>(59,765)</u>
At 31 December 2019 (audited)	<u>241,600</u>
Total gains included in profit or loss during the year	<u>99,927</u>

37. APPROVAL OF FINANCIAL STATEMENTS

The Interim Financial Information were approved and authorised for issue by the Board of Directors on 21 August 2020.