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中國通海國際金融有限公司
CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 952)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the "Board" or "Directors") of China Tonghai International Financial Limited (the "Company") presents the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2019, together with the comparative figures, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**Six months ended 30 June 2019 HK$'000 (Unaudited)**	Six months ended 30 June 2018 HK$'000 (Unaudited)
Fee and commission income	4	**127,417**	167,642
Interest income	4		
— Calculated using the effective interest method		**140,207**	75,163
— Others		**137,338**	96,539
Net investment income/(loss)	4	**54,560**	(71,243)
Total revenue	4	**459,522**	268,101
Other income/(loss)	5	**(3,907)**	8,917
Direct cost		**(83,544)**	(100,451)
Staff cost	6	**(101,397)**	(85,396)
Depreciation and amortisation	6	**(20,523)**	(5,046)
Impairment loss		**(111,401)**	(153)
Finance cost		**(56,370)**	(11,921)
Share of results of joint ventures		**62**	397
Other operating expenses		**(25,070)**	(36,935)
Profit before tax	6	**57,372**	37,513
Tax expense	7	**(7,131)**	(6,755)
Profit attributable to equity holders of the Company		**50,241**	30,758
		HK cent(s)	HK cent(s)
Earnings per share for profit attributable to equity holders of the Company			
— Basic and diluted	8	**0.813**	0.495
Dividend per share	9	**Nil**	Nil

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2019			As at 31 December 2018		
	Notes	**Current HK$'000 (Unaudited)**	**Non-current HK$'000 (Unaudited)**	**Total HK$'000 (Unaudited)**	Current HK$'000 (Audited)	Non-current HK$'000 (Audited)	Total HK$'000 (Audited)
ASSETS							
Cash and cash equivalents		**242,367**	**—**	**242,367**	357,300	—	357,300
Bank balances held on behalf of clients		**1,367,097**	**—**	**1,367,097**	1,321,371	—	1,321,371
Financial assets held for trading and market making activities		**1,703,896**	**202,990**	**1,906,886**	1,740,555	228,891	1,969,446
Investment securities		**190,600**	**8,196**	**198,796**	278,710	55,715	334,425
Derivative financial instruments		**15,554**	**—**	**15,554**	10,000	—	10,000
Loans to margin clients	10	**2,219,612**	**—**	**2,219,612**	2,810,720	—	2,810,720
Advances to customers for merger and acquisition activities		**21,318**	**—**	**21,318**	—	—	—
Other loans	11	**3,086,379**	**—**	**3,086,379**	2,570,621	37,410	2,608,031
Accounts receivable	12	**477,130**	**—**	**477,130**	600,288	—	600,288
Prepayments, deposits and other receivables		**75,082**	**—**	**75,082**	26,808	—	26,808
Interests in joint ventures		**—**	**41,419**	**41,419**	—	41,444	41,444
Goodwill and other intangible assets		**—**	**19,104**	**19,104**	—	20,376	20,376
Other assets		**—**	**31,935**	**31,935**	—	19,004	19,004
Investment property		**—**	**11,200**	**11,200**	—	11,200	11,200
Property and equipment		**—**	**122,351**	**122,351**	—	21,285	21,285
Deferred tax assets		**—**	**38,642**	**38,642**	—	25,915	25,915
TOTAL ASSETS		**9,399,035**	**475,837**	**9,874,872**	9,716,373	461,240	10,177,613

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at 30 June 2019			As at 31 December 2018		
	Notes	**Current HK$'000 (Unaudited)**	**Non-current HK$'000 (Unaudited)**	**Total HK$'000 (Unaudited)**	Current HK$'000 (Audited)	Non-current HK$'000 (Audited)	Total HK$'000 (Audited)
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable	13	**1,790,247**	**—**	**1,790,247**	1,846,261	—	1,846,261
Obligations under repurchase agreement		**—**	**—**	**—**	34,634	—	34,634
Bank and other borrowings		**2,021,413**	**—**	**2,021,413**	2,308,573	50,000	2,358,573
Contract liabilities		**8,032**	**—**	**8,032**	8,886	—	8,886
Lease liabilities		**30,795**	**69,814**	**100,609**	—	—	—
Accrual and other payables		**85,318**	**—**	**85,318**	110,122	—	110,122
Tax payables		**39,809**	**—**	**39,809**	22,523	—	22,523
TOTAL LIABILITIES		**3,975,614**	**69,814**	**4,045,428**	4,330,999	50,000	4,380,999
Equity							
Share capital				**20,657**			20,657
Reserves				**5,808,787**			5,775,957
TOTAL EQUITY				**5,829,444**			5,796,614
TOTAL LIABILITIES AND EQUITY				**9,874,872**			10,177,613
Net current assets				***5,423,421***			*5,385,374*

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

HKFRS 16, Lease

The Group has initially adopted HKFRS 16 Lease from 1 January 2019. HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases — incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease.

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

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

3. SEGMENT INFORMATION

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

The Group has identified the following reportable segments:

(a) the brokerage and interest income segment engages in discretionary and non-discretionary dealing services for securities, futures and options, margin financing and money lending services, insurance broking and wealth management services, and interest income arising from debt instruments;

(b) the corporate finance segment engages in securities placing and underwriting services, corporate finance advisory and general advisory services;

(c) the asset management segment engages in fund management, discretionary portfolio management and portfolio management advisory services;

(d) the investments segment engages in investing and trading of various investment products; and

(e) the others segment represents financial media services and other insignificant operating segments.

Six months ended 30 June 2019 (Unaudited)

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

Six months ended 30 June 2018 (Unaudited)

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

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

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

4. REVENUE

	Six months ended 30 June 2019 HK$'000 (Unaudited)	Six months ended 30 June 2018 HK$'000 (Unaudited)
Brokerage business		
Fee and commission income:		
— Commission on dealings in securities		
— Hong Kong securities	**32,638**	38,042
— Other than Hong Kong securities	**4,068**	4,914
— Commission on dealings in futures and options contracts	**40,123**	67,645
— Handling, custodian and other service fee income	**11,258**	7,313
	88,087	117,914
Interest income business		
Interest income from loans to margin clients:	**100,539**	74,982
Interest income calculated using the effective interest method:		
— Interest income from other loans	**123,392**	61,675
— Interest income from cash clients receivables	**1,294**	761
— Interest income from trust bank deposits	**5,405**	5,126
— Interest income from initial public offering loans	**138**	594
— Interest income from house money bank deposits and others	**9,978**	7,007
Interest income from bonds measured at fair value through profit or loss and others:	**36,799**	21,557
	277,545	171,702
Corporate finance business		
Fee and commission income:		
— Placing and underwriting commission income	**12,553**	7,604
— Financial and compliance advisory services fee income	**9,947**	21,865
	22,500	29,469
Asset management business		
Fee and commission income:		
— Management fee income	**9,405**	8,594
— Performance fee income	**1,661**	4,277
	11,066	12,871
Investments and others business		
Fee and commission income:		
— Financial media service fee income	**5,764**	7,388
Net investment income:		
— Net investment income/(loss) on financial assets measured at fair value through profit or loss	**51,837**	(75,350)
— Dividend from financial assets measured at fair value through profit or loss	**2,723**	4,023
— Dividend from financial assets measured at fair value through other comprehensive income	**—**	84
	60,324	(63,855)
Total revenue	**459,522**	268,101

5. OTHER INCOME/(LOSS)

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

6. PROFIT BEFORE TAX

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

7. TAX EXPENSE

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

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

8. EARNINGS PER SHARE

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

Earnings

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

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

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

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

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

9. DIVIDENDS

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

10. LOANS TO MARGIN CLIENTS

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

Note:

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

11. OTHER LOANS

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

Notes:

(a) The loans bear interest at fixed rate ranging from 5.0% to 20.0% (31 December 2018: from 5.0% to 9.5%) per annum. HK$1,297,330,000 (31 December 2018: HK$919,152,000) of the carrying amounts of the loans are from fellow subsidiaries, and HK$88,476,000 (31 December 2018: HK$100,257,000) of the carrying amounts of the loans are from a company in which the ultimate controlling shareholder of the Company has shareholding less than 10%.

(b) As at 30 June 2019, the collaterals held by the Group for the secured loans mainly include shares of listed companies, notes and assets of private companies.

12. ACCOUNTS RECEIVABLE

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

Notes:

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

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

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

13. ACCOUNTS PAYABLE

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

Notes:

(a) Accounts payable to brokers, clearing house and cash clients are repayable on demand up to the settlement dates of their respective transactions (normally two or three business days after the respective trade dates).

(b) Accounts payable to margin clients are repayable on demand except for the required margin deposits received from clients for their trading of futures and options contracts.

(c) No ageing analysis in respect of accounts payable is disclosed as, in the opinion of the Board, the ageing analysis does not give additional value in view of the business nature.

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO ENVIRONMENT

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

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

HONG KONG STOCK MARKET

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

RESULTS AND OVERVIEW

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

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

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

The adjustment items include:

1) Impairment provision on our US$14 million historic investment cost in China Energy Reserve public bond. By considering the decrease in fair value of the bond, there was roughly HK$2 million incremental provision recorded in interim 2019 and there was no impairment recorded in interim 2018. This item has been shown as an adjustment item in full year 2018 annual report.

2) Fair value adjustments on our proprietary investment in one leading Chinese financial institution H-share with carrying value around HK$264 million. There had been some sales and purchase of this stock during interim 2019 and all net realised gain has been booked in interim 2019 and has not been adjusted here. Our shareholding has been reduced as a result of these trading transactions as at interim end 2019 when compared to year end 2018. The fair value gain shown in interim 2019 was HK$25 million (interim 2018: HK$75 million loss). This item has also been shown as an adjustment item in full year 2018 annual report.

3) Revaluation loss of our seed funding investment in our private equity fund. We have invested US$20 million in this private equity fund from the beginning and there has been significant valuation ups-and-downs due to its nature. The revaluation loss shown in interim 2019 was HK$26 million (interim 2018: NIL). This item has also been shown as an adjustment item in full year 2018 annual report.

4) Specific provision made against one other loan to a Mainland Chinese privately-owned listed property developer. This other loan's principal amount is around HK$180 million (HK$189 million with accrued interest) and we have made around 40% accumulative provision for its carrying amount in interim 2019 which amounts to around HK$76 million (interim 2018: NIL), representing an increase of HK$70 million in provision for the interim period. In early 2019, this property developer has gone into a status of credit default and is undergoing a debt restructuring negotiation with all of its creditors at this moment without a definitive plan yet.

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

The Board resolved not to declare the payment of interim dividend.

BUSINESS REVIEW

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

FINANCIAL REVIEW

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

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

Brokerage Business

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

Interest Income Business

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

Corporate Finance Business

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

HK$21.87 million in interim 2018 to HK$9.95 million in interim 2019. Sponsorship fee, financial advisor fee and independent financial advisory fee have dropped across the two interim periods due to a lesser number of projects completed during the period.

Asset Management Business

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

Investments and Others Business

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

Expenses

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

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

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

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

PROSPECTS

1. **Increase fee-based income** — The Company will deploy more resources to increase its fee-based income. Our investments in strengthening our institutional clients securities business and capital markets are bearing fruit. The Company has recently strengthened the sales and marketing efforts in its securities, corporate finance and asset management businesses in order to gain business volume. We are determined to expand our market share in securities brokerage, corporate finance and asset management.

2. **Prudent loan management** — Due to the continuing liquidity squeeze in the private enterprises in the PRC, we were negatively impacted during this interim period. Certain enterprises that owed us money have encountered liquidity problems and we have made provisions in this interim period. We are working closely with these borrowers and their respective creditor groups on the debt restructuring plans to maximize our recoverability. We face this macro economy issue with a pragmatic approach by reducing our pace of loan portfolio expansion coupled with strengthening our risk management measures to mitigate the downside risks.

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

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

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

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

* *For identification purposes only*

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

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

CHARGES ON THE GROUP'S ASSETS

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

EMPLOYEES AND REMUNERATION POLICIES

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

RISK MANAGEMENT

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

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

Credit Risk

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

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

Market Risk

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

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

Liquidity Risk

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

Operational Risk

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

Regulatory Compliance Risk

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

INTERIM DIVIDEND

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE REVIEW

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The announcement of unaudited interim results for the six months ended 30 June 2019 of the Group is published on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.tonghaifinancial.com respectively. The Interim Report 2019 of the Company will be despatched to the shareholders of the Company and made available on the above websites before the time limit as required by the Listing Rules.

On behalf of the Board
China Tonghai International Financial Limited
HAN Xiaosheng
Chairman

Hong Kong, 5 August 2019

As at the date of this announcement, the Board of the Company comprises:

Executive Directors:
Mr. HAN Xiaosheng *(Chairman)*
Mr. ZHANG Bo *(Deputy Chairman)*
Mr. ZHANG Xifang
Mr. FENG Henian
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing

Non-executive Directors:
Mr. Bernard POULIOT
Mr. LIU Bing
Mr. ZHAO Yingwei
Mr. ZHAO Xiaoxia

Independent Non-executive Directors:
Mr. Roy LO Wa Kei
Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun