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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 2020**

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 2020, together with the comparative figures, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June 2020	Six months ended 30 June 2019
	<i>Notes</i>	HK\$’000 (Unaudited)	HK\$’000 (Unaudited)
Fee and commission income	4	119,835	127,417
Interest income	4		
— Calculated using the effective interest method		201,396	140,207
— Calculated using other method		128,711	137,338
Net investment (loss)/income	4	(177,669)	54,560
Total revenue	4	272,273	459,522

		Six months ended 30 June 2020	Six months ended 30 June 2019
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Other income/(loss)	5	4,410	(3,907)
Direct cost		(86,019)	(83,544)
Staff cost	6	(123,737)	(101,397)
Depreciation and amortisation	6	(23,094)	(20,523)
Impairment loss		(121,255)	(111,401)
Finance cost			
— Interest on borrowings and repurchase agreements		(59,337)	(53,962)
— Interest on lease liabilities		(2,151)	(2,408)
Share of results of an associate		(32)	—
Share of results of joint ventures		498	62
Other operating expenses		(25,630)	(25,070)
		<hr/>	<hr/>
(Loss)/profit before tax	6	(164,074)	57,372
Tax credit/(expense)	7	2,455	(7,131)
		<hr/>	<hr/>
(Loss)/profit attributable to equity holders of the Company		(161,619)	50,241
		<hr/> <hr/>	<hr/> <hr/>
		HK cent(s)	HK cent(s)
(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company			
— Basic and diluted	8	(2.630)	0.813
Dividend per share	9	Nil	Nil

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
(Loss)/profit attributable to equity holders of the Company	<u>(161,619)</u>	<u>50,241</u>
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	<u>(649)</u>	<u>(105)</u>
Other comprehensive income, including reclassification adjustments and net of tax	<u>(649)</u>	<u>(105)</u>
Total comprehensive income attributable to equity holders of the Company	<u><u>(162,268)</u></u>	<u><u>50,136</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2020			As at 31 December 2019		
		Current	Non-current	Total	Current	Non-current	Total
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)
ASSETS							
Cash and cash equivalents		284,304	—	284,304	182,449	—	182,449
Bank balances held on behalf of clients		1,436,019	—	1,436,019	1,253,410	—	1,253,410
Financial assets held for trading and market making activities		1,719,159	139,020	1,858,179	1,630,972	188,022	1,818,994
Financial assets not held for trading and market making activities		346,018	6,073	352,091	152,059	6,073	158,132
Derivative financial instruments		106,609	—	106,609	17,119	—	17,119
Loans to margin clients	10	1,668,216	—	1,668,216	1,977,795	—	1,977,795
Advances to customers for merger and acquisition activities	11	159,558	—	159,558	54,813	166,588	221,401
Other loans	12	3,227,867	113,786	3,341,653	3,204,578	62,513	3,267,091
Accounts receivable	13	441,978	—	441,978	498,162	—	498,162
Prepayments, deposits and other receivables		46,894	—	46,894	59,975	—	59,975
Interest in an associate		—	2,078	2,078	—	2,110	2,110
Interests in joint ventures		—	38,482	38,482	—	38,615	38,615
Goodwill and other intangible assets		—	18,697	18,697	—	19,558	19,558
Other assets		—	26,585	26,585	—	23,275	23,275
Investment property		—	11,700	11,700	—	11,700	11,700
Property and equipment		—	115,428	115,428	—	110,468	110,468
Deferred tax assets		—	89,723	89,723	—	65,790	65,790
TOTAL ASSETS		9,436,622	561,572	9,998,194	9,031,332	694,712	9,726,044
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable	14	1,805,183	—	1,805,183	1,664,961	—	1,664,961
Bank and other borrowings		2,353,090	—	2,353,090	2,037,029	—	2,037,029
Contract liabilities		5,026	—	5,026	4,988	—	4,988
Lease liabilities		35,951	61,400	97,351	31,626	58,642	90,268
Accruals and other payables		76,925	—	76,925	86,629	—	86,629
Tax payables		39,333	—	39,333	58,615	—	58,615
TOTAL LIABILITIES		4,315,508	61,400	4,376,908	3,883,848	58,642	3,942,490
Equity							
Share capital				20,657			20,657
Reserves				5,600,629			5,762,897
TOTAL EQUITY				5,621,286			5,783,554
TOTAL LIABILITIES AND EQUITY				9,998,194			9,726,044
<i>Net current assets</i>				5,121,114			5,147,484

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 (“HKICPA”) 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 2019, 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 and Interpretations.

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group. The adoption of these new or amended HKFRSs does not have significant impact on the Group’s unaudited interim financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2020 (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	85,844	8,279	21,546	—	4,166	119,835
Interest income	330,107	—	—	—	—	330,107
Net investment loss	(74,903)	—	—	(102,766)	—	(177,669)
Segment revenue from external customers	341,048	8,279	21,546	(102,766)	4,166	272,273
Inter-segment revenue	2	800	1,471	—	508	2,781
Reportable segment revenue	341,050	9,079	23,017	(102,766)	4,674	275,054
Fee and commission income by timing of revenue recognition:						
Point in time	85,844	6,388	13,677	—	1,176	107,085
Over time	—	1,891	7,869	—	2,990	12,750
Fee and commission income	85,844	8,279	21,546	—	4,166	119,835
Reportable segment result	(35,153)	(7,613)	4,998	(123,059)	(791)	(161,618)

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	<u>365,632</u>	<u>22,750</u>	<u>12,704</u>	<u>54,560</u>	<u>6,459</u>	<u>462,105</u>
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	<u>88,087</u>	<u>22,500</u>	<u>11,066</u>	<u>—</u>	<u>5,764</u>	<u>127,417</u>
Reportable segment result	<u>26,579</u>	<u>4,198</u>	<u>895</u>	<u>27,655</u>	<u>666</u>	<u>59,993</u>

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

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Reportable segment result	(161,618)	59,993
Other operating income	—	267
Share of results of an associate	(32)	—
Share of results of joint ventures	498	62
Unallocated corporate expenses	<u>(2,922)</u>	<u>(2,950)</u>
(Loss)/profit before tax	<u>(164,074)</u>	<u>57,372</u>

4. REVENUE

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Corporate finance business		
<i>Fee and commission income:</i>		
— Placing and underwriting commission income	6,388	12,553
— Financial and compliance advisory services fee income	1,891	9,947
	<u>8,279</u>	<u>22,500</u>
Asset management business		
<i>Fee and commission income:</i>		
— Management fee income	7,869	9,405
— Performance fee income	13,677	1,661
	<u>21,546</u>	<u>11,066</u>
Brokerage business		
<i>Fee and commission income:</i>		
— Commission on dealings in securities		
— Hong Kong securities	28,851	32,638
— Other than Hong Kong securities	3,496	4,068
— Commission on dealings in futures and options contracts	43,916	40,123
— Handling, custodian and other service fee income	9,581	11,258
	<u>85,844</u>	<u>88,087</u>
Interest income business		
<i>Interest income calculated using the effective interest method:</i>		
— Interest income from other loans	172,272	123,392
— Interest income from cash clients receivables	853	1,294
— Interest income from trust bank deposits	7,833	5,405
— Interest income from initial public offering loans	541	138
— Interest income from house money bank deposits and others	19,897	9,978
<i>Interest income calculated using other method:</i>		
— Interest income from loans to margin clients	87,404	100,539
— Interest income from bonds measured at fair value through profit or loss and others	41,307	36,799
	<u>330,107</u>	<u>277,545</u>
Investments and others business		
<i>Fee and commission income:</i>		
— Financial media service fee income	4,166	5,764
<i>Net investment (loss)/income:</i>		
— Net realised and unrealised (loss)/gain on financial assets measured at fair value through profit or loss	(183,100)	51,837
— Dividend income from financial assets measured at fair value through profit or loss	5,431	2,723
	<u>(173,503)</u>	<u>60,324</u>
Total revenue	<u><u>272,273</u></u>	<u><u>459,522</u></u>

5. OTHER INCOME/(LOSS)

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Changes in net asset value attributable to other holders of a consolidated investment fund	2,379	(5,929)
Exchange (loss)/gains, net	(936)	1,204
Government grants	2,209	—
Sundry income	758	818
	<u>4,410</u>	<u>(3,907)</u>

6. (LOSS)/PROFIT BEFORE TAX

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
(Loss)/profit before tax is arrived at after charging:		
Staff cost		
— Fees, salaries, allowances, bonuses and benefits in kind	119,603	96,104
— Employee sales commission	1,640	2,277
— Retirement benefits scheme contributions	2,291	2,316
— Other staff benefits	203	700
	<u>123,737</u>	<u>101,397</u>
Depreciation and amortisation		
— Other intangible assets	909	1,307
— Property and equipment	22,185	19,216
	<u>23,094</u>	<u>20,523</u>

7. TAX (CREDIT)/EXPENSE

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

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

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 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Current tax — Hong Kong profits tax		
— Current period	21,478	19,881
— Over provision in prior year	—	(23)
	<u>21,478</u>	<u>19,858</u>
Deferred tax	<u>(23,933)</u>	<u>(12,727)</u>
Total tax (credit)/expense	<u>(2,455)</u>	<u>7,131</u>

8. (LOSS)/EARNINGS PER SHARE

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

(Loss)/earnings

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
For purpose of basic and diluted (loss)/earnings per share	<u>(161,619)</u>	<u>50,241</u>

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

	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
For purpose of basic and diluted (loss)/earnings per share	<u>6,145,877,218</u>	<u>6,181,499,207</u>

(Loss)/earnings per share for (loss)/profit attributable to equity holders of the Company

	Six months ended 30 June 2020 HK cents (Unaudited)	Six months ended 30 June 2019 HK cents (Unaudited)
Basic and diluted	<u>(2.630)</u>	<u>0.813</u>

9. DIVIDENDS

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

10. LOANS TO MARGIN CLIENTS

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Loans to margin clients		
— Measured at fair value through profit and loss	<u>1,668,216</u>	<u>1,977,795</u>

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 on 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 2020, the market value of securities pledged by margin clients to the Group as collateral was HK\$9,523,557,000 (31 December 2019: HK\$10,668,974,000) and the Group is permitted to sell these collaterals if the client fails to fulfil 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. ADVANCES TO CUSTOMERS FOR MERGER AND ACQUISITION ACTIVITIES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Financial assets measured at amortised cost	177,033	227,529
Less: Impairment allowance	<u>(17,475)</u>	<u>(6,128)</u>
	<u>159,558</u>	<u>221,401</u>
Analysis of the net amount into current and non-current portions:		
Current	159,558	54,813
Non-current	<u>—</u>	<u>166,588</u>
	<u>159,558</u>	<u>221,401</u>

12. OTHER LOANS

	<i>Notes</i>	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Other loans			
— Unsecured	(a)	3,062,236	2,748,743
— Secured	(a), (b)	<u>553,199</u>	<u>684,147</u>
		3,615,435	3,432,890
Less: Impairment allowance		<u>(273,782)</u>	<u>(165,799)</u>
		<u>3,341,653</u>	<u>3,267,091</u>
Analysis of the net amount into current and non-current portions:			
Current		3,227,867	3,204,578
Non-current		<u>113,786</u>	<u>62,513</u>
		<u>3,341,653</u>	<u>3,267,091</u>

Notes:

- (a) The loans bear interest at fixed rates ranging from 5.5% to 20% (31 December 2019: 5.5% to 20%) per annum. HK\$1,955,191,000 (31 December 2019: HK\$1,542,771,000) of the carrying amounts of the loans are from fellow subsidiaries. As at 31 December 2019, HK\$100,000,000 of the carrying amount of the loan is from a company in which the ultimate controlling shareholder of the Company has shareholding less than 10%.
- (b) As at 30 June 2020 and 31 December 2019, the collaterals held by the Group for the secured loans mainly include shares of listed companies, shares and assets of private companies.

13. ACCOUNTS RECEIVABLE

		As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
	<i>Notes</i>		
<i>Accounts receivable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing houses	(a)	381,872	475,517
— Cash clients	(a)	10,328	10,003
— Clients for subscription of securities	(a)	41,111	1,094
Less: Impairment allowance		<u>(7,345)</u>	<u>(6,588)</u>
		425,966	480,026
<i>Accounts receivable from asset management, corporate finance and other businesses</i>			
— Clients	(a)	24,375	26,108
Less: Impairment allowance		<u>(8,363)</u>	<u>(7,972)</u>
		16,012	18,136
Net accounts receivable	(b)	<u>441,978</u>	<u>498,162</u>

Notes:

- (a) Amounts due from brokers, clearing houses 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, corporate finance and other businesses. 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) and the amounts due from clients for subscription of securities as at 30 June 2020 bear interest at fixed rates ranging from 2.5% to 4.5% (31 December 2019: 4.5%) per annum.

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Repayable on demand	3,227	4,276
0–30 days	435,768	489,554
31–90 days	665	3,230
Over 90 days	<u>2,318</u>	<u>1,102</u>
Net accounts receivable	<u><u>441,978</u></u>	<u><u>498,162</u></u>

14. ACCOUNTS PAYABLE

	<i>Notes</i>	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
<i>Accounts payable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing houses	(a)	27,304	8,336
— Cash and margin clients	(a)	1,771,547	1,644,159
<i>Accounts payable from other businesses</i>			
— Clients		<u>6,332</u>	<u>12,466</u>
	(b)	<u><u>1,805,183</u></u>	<u><u>1,664,961</u></u>

Notes:

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

In the first half of the year, the outbreak of novel coronavirus and the tense Sino-U.S. relation dealt an unprecedented blow to the global economy and financial system. The International Monetary Fund (“IMF”) predicted in the World Economic Outlook in June that the global economy would shrink by 4.9% this year, which was more pessimistic than the 3.0% drop in the April forecast. Gross domestic product (“GDP”) growth of major economies in the world all slowed year-on-year in the first quarter, inflation remained low, and exports declined by varying degrees. From the end of February to the beginning of March, due to the Federal Reserve’s interest rate cut expectations and rising risk aversion, the yields of long-term government bonds in many countries took a dive. As monetary policies loosened, the yields of national debts of various countries fell back.

The real GDP of the United States (“U.S.”) fell by 5.0% year-on-year in the first quarter and plunged by 32.9% year-on-year in the second quarter, of which personal consumption expenditure was the biggest drag on the quarter’s GDP. The GDP growth rates of major economies in the euro area and Japan also declined significantly in the first quarter. Weakness in demand led to a continued downtrend in consumer price index, industrial production weakened, and many countries witnessed a sharp rise in unemployment rates. Until now, the pandemic in Europe and the U.S. remains severe, and hence continuously drags the economy. Growth of emerging economies declined in the first quarter, and the downtrend may continue throughout the year. The June IMF report mentioned above predicted that emerging markets and developing economies would shrink by 3.0% this year.

China’s real GDP fell by 6.8% year-on-year in the first quarter and grew by 3.2% year-on-year in the second quarter. The central and local governments introduced various policies to stimulate the economy and boost employment, which greatly shortened the economic recovery cycle. Furthermore, the novel coronavirus outbreak was largely contained in mainland China, which was conducive to the rapid resumption of economic activities in the second quarter.

Looking ahead, global recovery and whether business activities can return to a relatively normal level later this year depend on whether the novel coronavirus outbreak can be contained to allow reopening of economies, and implementation of effective and supportive policies to stimulate economic activities. Given the current market environment, it is believed that global interest rates will remain at low levels.

HONG KONG STOCK MARKET

In the first half of the year, as the global economy was ravaged by the novel coronavirus pandemic and the tense Sino-U.S. relations continued, Hong Kong stocks had been falling on a wobbly journey since the Spring Festival. The Hang Seng Index fell to a low of 21,139 points on 19 March, representing a drop of 25% since the end of last year. Afterwards, as major economies around the world rolled out stimulus measures, the pandemic eased in mainland China, and China's A shares strengthened, the Hong Kong stock market rebounded in mid-March. Later, China concepts stocks including NetEase (09999.HK) and JD.com (09618.HK) returned to Hong Kong for secondary listing in June, stimulating Hong Kong stocks to return to above 25,000 points in mid-June and reach as high as 25,303 points. Summarising the market performance in the first half of 2020, the Hang Seng Index fell 3,762 points or 13.3% to close at 24,427 points; the China Enterprises Index fell 1,410 points or 12.6% to close at 9,758 points. The gap between the peak and trough of the Hang Seng Index exceeded 8,000 points in the half year.

Despite the weak macro economy in the first half of the year, trading in the stock market was quite active. In the first half of 2020, the average daily turnover of the Hong Kong stock market was HK\$117.5 billion, an increase of 20% from HK\$97.9 billion in the same period last year. In the first half of 2020, the average daily volume of index futures amounted to 496,813 contracts, an increase of 1% from 494,141 contracts over the same period last year. In the first half of 2020, there were 64 newly listed companies in the Hong Kong market, a decrease of approximately 24% from the 84 newly listed companies over the same period last year. However, the total amount of funds raised in the first half of 2020 (including funds raised from the initial listing) was HK\$225.8 billion, an increase of approximately 51% from HK\$149.2 billion over the same period last year.

RESULTS AND OVERVIEW

For the six months ended 30 June 2020, the Group recorded net loss of HK\$162 million (interim 2019: net profit of HK\$50.24 million). The Group's reported revenue decreased by approximately 41% to HK\$272 million in interim 2020 (interim 2019: HK\$460 million). Excluding the loss from investments and others business (mainly attributable to fair value change) of HK\$174 million (interim 2019: gains of HK\$60 million), income from other four businesses would be HK\$446 million, representing an increase of 12% from HK\$400 million in interim 2019 calculated on the same basis.

Excluding the impact of certain material items (the Group presented the adjusted data as the impact of those items would distort the comparison of interim figures of the recurring business of the Group), the Group's adjusted profit before tax in interim 2020 was HK\$16 million.

Adjusted results	Six months ended 30 June 2020 HK\$'000 (Unaudited)	Six months ended 30 June 2019 HK\$'000 (Unaudited)
Adjusted revenue	332,173	463,660
Adjusted total expenses*	(316,249)	(292,948)
Adjusted profit before tax	<u>15,924</u>	<u>170,712</u>

* Adjusted total expenses include other income/(loss), share of results of an associate and share of results of joint ventures

The adjusted items include:

- 1) Revenue being adjusted for change in valuation of certain unlisted investments recorded an unrealised loss of about HK\$78 million in interim 2020.
- 2) Revenue being adjusted for change in market price of certain listed stocks during interim 2020 resulted in a net unrealised gain of about HK\$19 million.
- 3) Expense being adjusted for special and general impairment provision for other loans and bonds was about HK\$120 million in interim 2020.

Analysis of Continuing Connected Transactions — Revenue
For the six months ended 30 June 2020

	Analysis:		
	Revenue	Continuing	Transactions
	HK\$ million	connected	with
	(Unaudited)	transactions	independent
	(Unaudited)	HK\$ million	third parties
	(Unaudited)	(Unaudited)	HK\$ million
	(Unaudited)	(Unaudited)	(Unaudited)
1) Corporate finance business	8	—	8
2) Asset management business	22	11	11
3) Brokerage business	86	—	86
4) Interest income business	330	141	189
— Loans to margin clients	88	1	87
— Others	242	140	102
5) Investments and others business	(174)	2	(176)
	<u>272</u>	<u>154</u>	<u>118</u>

As shown in the table above, interest income accounted for the highest proportion of the revenue from continuing connected transactions (“CCT”), representing approximately 92% of the total amount of continuing connected transactions. Excluding investments and others business, revenue from continuing connected transactions accounted for 34% of the Company’s total revenue calculated on the same basis.

Analysis of Continuing Connected Transactions — Balance Sheet Items

As at 30 June 2020

	Analysis:		
	Continuing connected transactions	Transactions with independent third parties	
HK\$ million (Unaudited)	HK\$ million (Unaudited)	HK\$ million (Unaudited)	HK\$ million (Unaudited)
Major items extracted from the balance sheet:			
Financial assets held for trading and market making activities	1,858	693	1,165
— Listed debt securities	14	—	14
— Listed equity securities	688	—	688
— Unlisted debt securities	732	693	39
— Unlisted equity securities	261	—	261
— Unlisted mutual funds	24	—	24
— Private equity fund	139	—	139
Financial assets not held for trading and market making activities	352	91	261
— Unlisted debt securities	346	91	255
— Unlisted equity securities	6	—	6
Derivative financial instruments	107	—	107
Loans to margin clients	1,668	38	1,630
Advances to customers for merger and acquisition activities	160	—	160
Other loans	3,342	1,955	1,387
	<u>7,487</u>	<u>2,777</u>	<u>4,710</u>

As loans to connected parties were executed in different forms in practice, each item was classified by its actual form in accordance with the relevant HKFRSs. The CCT asset in the Group amounted to a total of HK\$2,777 million, representing approximately 28% of total assets and approximately 49% of net assets.

BUSINESS REVIEW

Since the beginning of 2020, the novel coronavirus pandemic has brought uncertainties to the operating environment of the Group. In respect of the operating targets completed in interim 2020, the overall figures declined compared with those in interim 2019. The Group's market share in the secondary stock market of Hong Kong decreased slightly year-on-year. In interim 2020, the Group entered into 1 sponsorship engagement for initial public offerings. We also signed 5 financial advisor/independent financial advisor mandates and were underwriters in 10 initial public offerings and other fund raising exercises. As at 30 June 2020, our assets under management ("AUM") reached US\$259 million, representing a decrease of 14% from the same period in 2019 and a decrease of 8% from the end of 2019, mainly due to the decrease in value of investment portfolio. Total loans (including margin loans, other loans and advances to customers for merger and acquisition activities) amounted to HK\$5,169 million, representing a decrease of 5% from HK\$5,466 million as at 31 December 2019. Given the volatile market condition in the first half of the year, the Group took the initiative to reduce the level of margin loans. Hence, as at 30 June 2020, the Group's margin loans amounted to HK\$1,668 million (trade date basis), representing a drop of 16% from HK\$1,978 million (trade date basis) as at the end of 2019.

FINANCIAL REVIEW

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

Revenue	Interim 2020		Interim 2019		Change
	HK\$ million	Proportion	HK\$ million	Proportion	
Corporate finance business	8	2%	23	6%	(65%)
Asset management business	22	5%	11	3%	100%
Brokerage business	86	19%	88	22%	(2%)
Interest income business	330	74%	278	69%	19%
Total revenue (excluding revenue from investments and others business)	<u>446</u>	<u>100%</u>	<u>400</u>	<u>100%</u>	12%

From the above table, the rising proportions included interest income business and asset management business, which has increased from 69% and 3% in interim 2019 to 74% and 5% in interim 2020, respectively; while the falling proportions included revenue from brokerage business and corporate finance business, which has decreased from 22% in interim 2019 to 19% in interim 2020 and from 6% in interim 2019 to 2% in interim 2020, respectively.

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. Revenue from corporate finance business has dropped roughly 63% from HK\$22.50 million in interim 2019 to HK\$8.28 million in interim 2020. It was mainly due to the decrease in sponsorship revenue as there was no listing of sponsorship projects in the first half of this year, and the decrease in underwriting commission as there was no substantial contribution as senior participants (e.g. global coordinator) in syndicates of initial public offerings the first half of this year.

Asset Management Business

Revenue from asset management business has increased 95% from HK\$11.07 million in interim 2019 to HK\$21.55 million in interim 2020. Out of which, management fee income has dropped 16% from HK\$9.41 million in interim 2019 to HK\$7.87 million in interim 2020, due to the lower average AUM in interim 2020 than that in interim 2019, being affected by the high market volatility. However, the performance fee income has increased significantly by about 7 times from HK\$1.66 million in interim 2019 to HK\$13.68 million in interim 2020, which was mainly resulted from the sound performance in discretionary accounts and guaranteed return segregated portfolio.

Brokerage Business

Revenue from brokerage business has slightly decreased by approximately 3% from HK\$88.09 million in interim 2019 to HK\$85.84 million in interim 2020, mainly due to the decrease in the commission income from the Hong Kong stock market. Commission income from futures and options products has slightly increased by roughly 9% from HK\$40.12 million in interim 2019 to HK\$43.92 million in interim 2020, mainly attributed to the more active global futures products trading. Handling, custodian and other service fee income has decreased roughly 15% from HK\$11.26 million in interim 2019 to HK\$9.58 million in interim 2020, mainly due to the absence of handling fees from one-off transactions during the first half of the year as compared to the same period last year.

Interest Income Business

Interest income recorded for interim 2020 was HK\$330 million, an increase of roughly 19% as compared to HK\$278 million for interim 2019. The increase was mainly due to the higher loan balance to clients and higher average interests charged. The interest income from other loans has increased roughly 40% from HK\$123 million in interim 2019 to HK\$172 million in interim 2020, of which, the increase in interest rates have greater contribution than the increase in loan balance. The interest income from loans to margin clients has decreased roughly 14% from HK\$101 million in interim 2019 to

HK\$87 million in interim 2020, which was mainly because we have actively reduced the balance of loans to high-risk customers and resulted in a decrease in the average balance of margin loans as compared to the corresponding period.

Investments and Others Business

Income from investments and others business has recorded HK\$174 million loss in interim 2020 as compared to HK\$60.32 million gain in interim 2019. It mainly comprised of loss on investments of approximately HK\$108 million (interim 2019: HK\$63 million gain) and fair value losses of loans to margin clients of approximately HK\$75 million (interim 2019: HK\$11 million loss).

Expenses

Direct cost has slightly increased by 2% from HK\$84 million in interim 2019 to HK\$86 million in interim 2020. The trend is similar to the income from our brokerage business. With the slight average increase in the payout ratio to self-employed account executives, there was a small increment in the absolute amount of direct cost. Staff cost has increased by 22% from HK\$101 million in interim 2019 to HK\$124 million in interim 2020, which was mainly due to the slight increase in the general number of employees as compared to the corresponding period and the Company has distributed a special anti-pandemic allowance to its staff during the second quarter of this year.

Impairment loss has increased about 9% from HK\$111 million in interim 2019 to HK\$121 million in interim 2020. As mentioned above, since the real economy has been greatly affected by the ongoing novel coronavirus pandemic, together with the deteriorating economic outlook, for the interim of this year, the Expected Credit Losses for the first and second stages of other loans and bonds (“general provision”) has increased significantly by 5 times to HK\$86.34 million, however, the Expected Credit Losses for the third stage (“specific provision”) has a sharp decrease from HK\$95.13 million in the interim period last year to HK\$33.76 million in the interim period this year, which has minimized the overall increase.

Finance cost has increased by approximately 9% from HK\$56.37 million in interim 2019 to HK\$61.49 million in interim 2020, which was mainly because the average notes financing amount increased significantly while the average bank loan amount decreased. Among this, the loan from China Minsheng Bank Corporation Ltd. Hong Kong Branch (the “CMBC HK Branch”) has decreased from HK\$1 billion in interim 2019 to HK\$0.8 billion in interim 2020.

PROSPECTS

Encountering various complex objective factors, such as geopolitical issues, growing tension between the Sino-U.S. relation, impacts of the ongoing novel coronavirus pandemic on the real economy, volatility of the capital market and changes in credit levels of our customers, we expect to encounter severe operating conditions in the near future. In Hong Kong, in the midst of economic downturn, rising unemployment rate and certain sectors are particularly hit by the novel coronavirus pandemic, we are highly conscious about potential provisions arising from future expected credit losses.

In addition, the interest rate in the U.S. has remained low for a period of time, governments of different countries have implemented various counter pandemic subsidies which resulted in large amounts of funds channeled into the capital markets but real economic activities have experienced drastic decrease due to the novel coronavirus pandemic, the continuation of these circumstances will also pose challenges to the Group. During the first quarter of this year, the Group has initiated cost control measures to curb unnecessary expenses. It is expected that the cost control measures will continue to be in place in the second half of the year to mitigate the pressure from possible decrease in revenue. In light of the considerable uncertainties for the current situation, the Group will, from time to time, review our investment portfolios and business segments, to ensure a smooth transition in the severe environment.

Notwithstanding the above, the Group still strives to explore new securities customers and to increase the number of corporate financing and financial advisory projects, as well as launching new product platforms (such as Quamnet Derivative investment platform) and seeking to broaden assets management products.

Looking forward, we will commit to unite and perform ourselves well. We hope that with the end of the novel coronavirus pandemic and after other uncertainties have been removed, the business environments of Hong Kong and the world will return to normal, such that the Group's results can be restored to a relatively normal level and bring higher return to all shareholders.

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 on hand as at 30 June 2020 stood at around HK\$284 million (31 December 2019: HK\$182 million).

As at 30 June 2020, the Group's total borrowings was HK\$2,353 million, showing an increase of 16% from HK\$2,037 million as at 31 December 2019. Borrowings mainly consisted of two components. The first component was bank facilities and secured financing of around HK\$1,733 million (31 December 2019: HK\$1,826 million), of which the Group had available aggregate banking facilities of around HK\$4,049 million (31 December 2019: HK\$4,249 million), and most was secured by the legal charge on certain securities owned by the margin clients of the Group. The second component was issuance of notes, which amounted to HK\$620 million as at 30 June 2020 (31 December 2019: HK\$211 million). As at 30 June 2020, the Group's gearing ratio (leverage) was 42% (31 December 2019: 35%), 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.

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 2020, assets of HK\$1,314 million (31 December 2019: HK\$1,297 million) were charged to banks and other lenders for facilities.

CONTINGENT LIABILITIES

Counterclaim by a Hong Kong listed company

On 4 February 2019, China Tonghai Securities, our subsidiary, initiated legal proceedings against a Hong Kong listed company (the "Defendant") in the High Court of the Hong Kong Special Administrative Region in respect of the failure of payment of commission fees to China Tonghai Securities under the agreement on provision of financial agency services dated 28 March 2018 (the "Agency Agreement") to recover the remaining commission fees of HK\$10.35 million not yet paid by the Defendant to China Tonghai Securities (not yet booked). The Defendant submitted its defense and counterclaim in mid-2019. Save as disclosed above, the Directors consider that the Group has no other contingent liabilities. Although the possible consequence of the above case is now uncertain, the Directors consider any possible legal obligations arising from the above counterclaim would not impose any material impact on the financial position of the Group.

EMPLOYEES AND REMUNERATION POLICIES

On 30 June 2020, the Group had 238 full time employees (31 December 2019: 242) in Hong Kong and 30 full time employees (31 December 2019: 30) in Mainland China. In addition, the Group has 87 self-employed sales representatives (31 December 2019: 87). Competitive total remuneration packages are offered to employees by reference to industry remuneration research reports, prevailing market practices and standards and individual merit. Salaries are reviewed annually, and 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 a means of 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 establishes a risk management system with defined segregation of duties between business departments on the front line and internal control units such as the Internal Audit Department, Risk Management Department and Compliance Department. The Risk Management Department of the Group is responsible for overseeing all risk management functions. These functions include risk identification, risk limits setting, measurement and monitoring of risk limits, analysis of risk scenarios, and producing timely reports to the senior management. The Risk Management team also performs pre- and post-risk assessments on both asset and liability items.

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 five business areas: corporate finance and underwriting business, asset management business, brokerage business, interest income business, propriety investment and other business. The Group's senior management and other executives have also set up a Business Assessment Committee to review and approve credit risky products/transactions within each of the business lines. Advance risk IT systems are also utilised by the Group to conduct daily monitoring on credit and concentration risk limits.

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. Risk Management Department is responsible for setting up market risk limits and investment guidelines for the Group's various business functions and their investment activities. Investments with potential market risks are, where appropriate, assessed and approved by the Risk Management Department. Daily monitoring and assessments of market risks positions are conducted timely, and significant risks shall be reported to senior management to ensure the overall market risks of the Group is controlled within an acceptable level. The Group continues to modify the market risk models through periodic back-testing and stress scenarios tests.

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 relevant rules, including Financial Resources Rules (FRR) and financial covenants of lending banks. In addition, the Group has maintained good relationships with banks to secure stable channels for short-term financing such as borrowings and repurchases. The Group may also raise short-term or 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 arising mainly from negligence or omission of internal procedural management, information system failures or personnel misconduct of staff. 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.

Regulatory Compliance Risk

As a financial group operating regulated businesses, we endeavour to meet the stringent and evolving regulatory requirements, including but not limited to those related to investor interest protection and market integrity and stability maintenance. Our compliance team working closely together with internal and external professionals has continually reviewed our internal control processes to reduce the 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 2020 (2019: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2020, 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 2020.

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 2020 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 2020 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 2020 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 2020 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, 27 August 2020

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

Independent Non-executive Directors:

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

Non-executive Directors:

Mr. LIU Bing
Mr. ZHAO Yingwei
Mr. ZHAO Xiaoxia