



申萬宏源香港
SHENWAN HONGYUAN

SHENWAN HONGYUAN (H.K.) LIMITED
申萬宏源（香港）有限公司

(Incorporated in Hong Kong with limited liability) (於香港註冊成立之有限公司)
(Stock Code 股份代號 : 218)



2021

INTERIM REPORT
中期報告

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Fang Qingli (*Chairman*)
Guo Chun (*Deputy Chairman*)
Zhang Jian
Wu Meng
Liang Jun (*Chief Executive Officer*)

Non-executive Director

Zhang Lei

Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

AUDIT COMMITTEE

Ng Wing Hang Patrick (*Chairman*)
Kwok Lam Kwong Larry
Chen Liqiang

REMUNERATION COMMITTEE

Kwok Lam Kwong Larry (*Chairman*)
Ng Wing Hang Patrick
Chen Liqiang

NOMINATION COMMITTEE

Fang Qingli (*Chairman*)
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

RISK COMMITTEE

Ng Wing Hang Patrick (*Chairman*)
Guo Chun
Liang Jun
Kwok Lam Kwong Larry
Chen Liqiang

ENVIRONMENTAL SOCIAL AND GOVERNANCE COMMITTEE

Fang Qingli (*Chairman*)
Guo Chun
Liang Jun
Kwok Lam Kwong Larry
Chen Liqiang

COMPANY SECRETARY

Wong Che Keung Leslie

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Limited Macau Branch
China CITIC Bank International Limited
China Everbright Bank Co., Ltd. Hong Kong Branch
Chong Hing Bank Limited
China Merchants Bank Co., Ltd.
Hong Kong Branch
China Minsheng Banking Corp., Ltd.
Hong Kong Branch
CMB Wing Lung Bank Limited
Industrial and Commercial Bank of
China (Asia) Limited
Industrial Bank Co., Ltd. Hong Kong Branch
Nanyang Commercial Bank, Limited
OCBC Wing Hang Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Shanghai Pudong Development Bank Co., Ltd.,
Hong Kong Branch
The Hongkong and Shanghai Banking
Corporation Limited

AUDITORS

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

REGISTERED OFFICE

Level 19
28 Hennessy Road
Hong Kong

SHARE REGISTRARS & TRANSFER OFFICE

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

WEBSITE

<http://www.swhyhk.com>

RESULTS

The board of directors (the “Board”) of Shenwan Hongyuan (H.K.) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 together with comparative figures for the corresponding period of last year.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
REVENUE	3	528,821	410,755
— Interest revenue calculated using the effective interest method		104,626	143,080
— Revenue from contracts with customers within the scope of HKFRS 15		214,326	147,090
— Revenue from other sources		209,869	120,585
Other gains/(losses), net	3	5,777	(7,481)
Commission expenses		(79,190)	(41,567)
Employee benefit expenses		(154,063)	(135,498)
Depreciation		(20,607)	(19,751)
Interest expenses		(133,756)	(59,001)
Other expenses, net		(86,545)	(54,632)
PROFIT BEFORE TAXATION		60,437	92,825
Income tax	4	(6,771)	(12,128)
PROFIT FOR THE PERIOD		53,666	80,697
Attributable to:			
Ordinary equity holders of the Company		53,666	80,697
Non-controlling interests		—	—
		53,666	80,697
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (BASIC AND DILUTED)	5	3.44 cents	5.17cents

Details of the proposed dividend (if any) for the period are disclosed in note 6 to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	53,666	80,697
OTHER COMPREHENSIVE INCOME:		
<i>Items that may be reclassified to the consolidated statement of profit or loss in subsequent periods:</i>		
Financial assets at fair value through other comprehensive income		
— net movement in fair value reserve (recycling)	(2,146)	(20,302)
Exchange loss on translation of financial statements of foreign operations	(4,769)	—
OTHER COMPREHENSIVE INCOME, NET OF TAX	(6,915)	(20,302)
TOTAL COMPREHENSIVE INCOME	46,751	60,395
Attributable to:		
Ordinary equity holders of the Company	46,751	60,395
Non-controlling interests	—	—
	46,751	60,395

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		14,583	13,534
Stock and Futures Exchange trading rights		4,212	4,212
Other assets		20,871	30,587
Other financial assets	7	723,101	844,844
Right-of-use assets		75,659	38,119
Deferred tax assets		6,349	3,954
Total non-current assets		844,775	935,250
CURRENT ASSETS			
Financial assets at fair value through profit or loss	8	5,978,531	3,618,331
Other financial assets	7	949,074	987,844
Account receivables	9	5,868,336	2,014,818
Loans and advances	10	7,686,148	2,893,038
Prepayments, deposits and other receivables		232,292	545,290
Obligation under repurchase agreement		787,267	89,025
Tax recoverable		27,701	33,236
Bank balances held on behalf of clients	11	4,427,972	4,756,813
Cash and bank balances		521,008	414,929
Total current assets		26,478,329	15,353,324
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss		3,791,383	1,391,695
Account payables	12	9,237,834	6,259,616
Contract liabilities		2,553	3,050
Other payables and accruals		472,588	248,386
Obligations under repurchase agreements		999,867	–
Interest-bearing bank borrowings	13	8,671,769	4,271,923
Lease liabilities		55,084	25,786
Tax payable		44,950	35,799
Total current liabilities		23,276,028	12,236,255
NET CURRENT ASSETS		3,202,301	3,117,069
TOTAL ASSETS LESS CURRENT LIABILITIES		4,047,076	4,052,319

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	23,529	13,077
Deferred tax liability	576	576
Total non-current liabilities	24,105	13,653
NET ASSETS	4,022,971	4,038,666
EQUITY		
Equity attributable to ordinary equity holders of the Company		
Share capital	2,782,477	2,782,477
Other reserves	1,237,868	1,253,563
Non-controlling interests	4,020,345 2,626	4,036,040 2,626
TOTAL EQUITY	4,022,971	4,038,666

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to ordinary equity holders of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Fair value reserve (recycling) HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1 January 2021 (Audited)	2,782,477	15	138	10,112	4,192	1,239,106	4,036,040	2,626	4,038,666
Profit for the period	–	–	–	–	–	53,666	53,666	–	53,666
Other comprehensive income:									
Financial assets at fair value through other comprehensive income									
— net movement in fair value reserve (recycling)	–	–	–	(2,146)	–	–	(2,146)	–	(2,146)
Exchange loss on translation of financial statements of foreign operations	–	–	–	–	(4,769)	–	(4,769)	–	(4,769)
Total comprehensive income	–	–	–	(2,146)	(4,769)	53,666	46,751	–	46,751
Final 2020 dividend declared and paid	–	–	–	–	–	(62,446)	(62,446)	–	(62,446)
At 30 June 2021 (Unaudited)	2,782,477	15	138	7,966	(577)	1,230,326	4,020,345	2,626	4,022,971

	Attributable to ordinary equity holders of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Fair value reserve (recycling) HK\$'000	Retained profits HK\$'000	Total HK\$'000	Total HK\$'000		
At 1 January 2020 (Audited)	2,782,477	15	138	23,747	1,110,314	3,916,691	2,626	3,919,317	
Profit for the period	–	–	–	–	80,697	80,697	–	80,697	
Other comprehensive income:									
Financial assets at fair value through other comprehensive income									
— net movement in fair value reserve (Recycling)	–	–	–	(20,302)	–	(20,302)	–	(20,302)	
Total comprehensive income	–	–	–	(20,302)	80,697	60,395	–	60,395	
Final 2019 dividend declared and paid	–	–	–	–	(46,834)	(46,834)	–	(46,834)	
At 30 June 2020 (Unaudited)	2,782,477	15	138	3,445	1,144,177	3,930,252	2,626	3,932,878	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	60,437	92,825
Adjustments for:		
Depreciation — Properties, plant and machinery	4,923	2,995
Depreciation — Right-of-use assets	15,684	16,756
Interest income	(7,277)	(29,967)
Interest expenses	133,756	59,001
Unrealised fair value gains on margin loans	—	(7,288)
Net charges for expected credit losses	19,650	4,809
	227,173	139,131
Decrease in other assets	9,716	1,615
Decrease/(increase) in other financial assets	138,717	(1,265,921)
Increase in financial assets at fair value through profit or loss	(2,360,200)	(399,796)
Increase in account receivables	(3,853,518)	(574,775)
Increase in obligation under repurchase agreement	(698,242)	—
Increase in loans and advances	(4,793,110)	(1,542,676)
Decrease/(increase) in prepayments, deposits and other receivables	314,026	(70,207)
Decrease/(increase) in bank balances held on behalf of clients	328,841	(1,017,811)
Increase in account payables	2,978,218	1,019,296
Increase in obligations under repurchase agreements (liabilities)	999,867	—
Decrease in contract liabilities	(497)	(8)
Increase in other payables and accruals	219,432	17,759
Increase in financial liabilities at fair value through profit or loss	2,399,688	163,301
Cash used in operations	(4,089,889)	(3,530,092)
Hong Kong profits tax refunded/(paid)	5,437	(2,701)
Overseas taxes refunded/(paid)	83	(76)
Net cash flows used in operating activities	(4,084,369)	(3,532,869)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(5,972)	(1,240)
Interest received	6,628	33,270
Net cash flows from investing activities	656	32,030

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from bank loans	4,399,976	3,610,361
Dividend paid	(62,445)	(46,834)
Interest paid	(132,873)	(59,742)
Principal portion of lease payment	(13,853)	(16,569)
Interest portion of lease liabilities	(1,013)	(1,172)
Net cash flows from financing activities	4,189,792	3,486,044
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES	106,079	(14,795)
Cash and bank balances at beginning of period	414,929	937,597
CASH AND BANK BALANCES AT END OF PERIOD	521,008	922,802

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND PRINCIPAL ACCOUNTING POLICIES

GENERAL INFORMATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and are in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“the HKICPA”).

The financial information relating to the year ended 31 December 2020 that is included in this interim result announcement as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements for the year ended 31 December 2020. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2020.

The HKICPA has issued following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group:

- Amendment to HKFRS 16, Covid-19-related Rent Concessions
- Amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform — Phase 2

Neither of these amendments to HKFRSs have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

1. GENERAL INFORMATION AND PRINCIPAL ACCOUNTING POLICIES (Cont'd)

POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, which are not yet effective for the year ended 30 June 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

Amendments to HKAS 1	<i>Classification of liabilities as current or non-current²</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of accounting policies²</i>
Amendments to HKAS 8	<i>Definition of accounting estimates²</i>
Amendments to HKAS 12	<i>Deferred tax related to assets and liabilities arising from a single transaction²</i>
Amendments to HKAS 16	<i>Property, plant and equipment: Proceeds before intended use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract¹</i>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework¹</i>
Annual Improvements to HKFRS Standards 2018–2020 ¹	

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

² Effective for annual periods beginning on or after 1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

2. OPERATING SEGMENT INFORMATION

The Group's unaudited segment results are as follows:

	Enterprise finance		Wealth management	Institutional services and trading	Asset management	Others	Total
	Corporate finance	Principal investment					
	HK\$'000	HK\$'000					
Six months ended 30 June 2021							
Segment revenue and other gains from external customers	28,330	(4,395)	208,016	285,074	11,796	5,777	534,598
Segment results and profit/(loss) before tax	633	(4,395)	28,717	32,933	(3,228)	5,777	60,437

	Enterprise finance		Wealth management	Institutional services and trading	Asset management	Others	Total
	Corporate finance	Principal investment					
	HK\$'000	HK\$'000					
Six months ended 30 June 2020							
Segment revenue and other losses from external customers	23,769	(4,105)	169,676	214,595	6,820	(7,481)	403,274
Segment results and profit/(loss) before tax	(3,682)	(4,105)	40,669	70,695	(3,271)	(7,481)	92,825

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

3. REVENUE AND OTHER LOSSES, NET

An analysis of revenue, which is also the Group's turnover, and other gains/(losses) is as follows:

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Fee and commission income:		
Revenue from contracts with customers within the scope of HKFRS 15:		
Commission on securities dealing		
— Hong Kong securities	93,314	75,957
— Other than Hong Kong securities	20,749	21,021
Commission on futures and options contracts dealing	11,812	11,212
Initial public offering, placing, underwriting and sub-underwriting commission	23,937	19,263
Financial advisory, compliance advisory, sponsorship fee income and others	46,708	4,506
Management fee, investment advisory fee income and performance fee income	11,796	6,820
Handling fee income	2,224	3,740
Research fee income and other service fee income	3,786	4,571
	214,326	147,090
Income from interest bearing transactions:		
Interest income calculated using the effective interest method:		
Interest income from banks and others	7,277	29,967
Interest income from initial public offering loans	27,228	14,992
Revenue from other sources:		
Interest income from loans to cash clients and margin clients	74,637	35,274
Interest income from structured products	30,004	23,422
Unrealised fair value gains on margin loans	—	7,288
	139,146	110,943

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

3. REVENUE AND OTHER LOSSES, NET (Cont'd)

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Investment gains, net:		
<u>Interest income calculated using the effective interest method:</u>		
Interest income:		
— Debt securities	70,121	98,121
<u>Revenue from other sources:</u>		
Net realised and unrealised gains/(losses) on financial instruments:		
— Listed equities and futures	7,262	(30,487)
— Debt securities and derivatives	(18,370)	33,847
Interest income:		
— Debt securities	116,336	51,241
	175,349	152,722
	528,821	410,755
<u>Other gains/(losses), net:</u>		
Exchange gains/(losses), net	1,264	(7,481)
Change in net assets value attributable to other holders of a consolidated investment fund	4,513	—
	5,777	(7,481)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

4. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Current — Hong Kong		
Provision for the period	9,200	8,700
(Over-provision)/under-provision in respect of prior period	(34)	260
	9,166	8,960
Current — Elsewhere	—	(91)
Deferred	(2,395)	3,259
Total tax charge for the period	6,771	12,128

5. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. The Group had no potentially dilutive ordinary shares in issue during these periods. As at 30 June 2021, the total number of the ordinary shares of the Company in issue was 1,561,138,689 shares.

	For the six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Earnings		
Profit for the period attributable to ordinary equity holders of the Company (HK\$'000)	53,666	80,697
Number of shares		
Weighted average number of ordinary shares in issue (in thousands)	1,561,139	1,561,139
Earnings per share, basic and diluted (HK cents per share)	3.44	5.17

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

6. DIVIDEND

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Interim — Nil (2020: Nil)	—	—

7. OTHER FINANCIAL ASSETS

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
<u>Non-current portion</u>		
Financial assets measured at amortised cost		
— Listed debt securities	263,724	571,813
Financial assets measured at FVOCI (recycling)		
— Unlisted debt securities	38,637	195,489
— Listed debt securities	420,740	77,542
<i>Non-current total</i>	723,101	844,844
<u>Current portion</u>		
Financial assets measured at amortised cost		
— Unlisted debt securities	247,237	243,396
— Listed debt securities	402,405	713,859
Financial assets measured at FVOCI (recycling)		
— Unlisted debt securities	62,490	7,568
— Listed debt securities	236,942	23,021
<i>Current total</i>	949,074	987,844
Total	1,672,175	1,832,688

During the period, the loss in respect of changes in fair value of the Group's financial assets at fair value through other comprehensive income recognised in other comprehensive income amounted to approximately HK\$6,280,000 (30 June 2020: Gain of HK\$20,302,000).

Interest incomes derived from financial assets at FVOCI and at amortised cost were recognised as "Interest income from debt securities" in the consolidated statement of profit or loss.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

7. OTHER FINANCIAL ASSETS (Cont'd)

Movement in expected credit losses is as follows:

	2021 (Unaudited)			2020 (Unaudited)		
	Stage 1 HK\$'000	Stage2 HK\$'000	Total HK\$'000	Stage 1 HK\$'000	Stage2 HK\$'000	Total HK\$'000
At 1 January	25,072	–	25,072	12,682	–	12,682
Impairment loss (credited)/ charged to profit or loss	(3,326)	22,976	19,650	4,809	–	4,809
At 30 June	21,746	22,976	44,722	17,491	–	17,491

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Financial assets at fair value through profit or loss:		
Listed debt securities (Note (i))	4,008,596	3,283,518
Unlisted debt securities (Note (i))	115,195	76,460
Listed equities (Note (ii))	271,224	238,515
Derivative financial instruments (Note (iii))	1,578,876	13,641
Financial guarantee contract	4,640	6,197
Total	5,978,531	3,618,331

Notes:

- (i) These financial assets are (1) primarily acquired by the Group which were driven by the financial products issued at fair value and become their underlying investments and hedging items for the risk of economic exposure on the structured notes issued; and (2) held for market making activities.
- (ii) Listed equities represent the equities held by the investment funds that are consolidated in the unaudited condensed consolidated financial statements of the Group.
- (iii) Derivative financial instruments are mostly in the form of total return swap with referencing assets being listed equity securities, listed and unlisted debt securities entered by the Group to hedge the financial products issued.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

9. ACCOUNT RECEIVABLES

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
(i) Measured at amortised cost:		
Account receivables arising from securities dealing:		
— Cash Clients	3,026,219	1,382,825
— Brokers and dealers	2,282,513	411,679
— Clearing houses	221,305	178,778
	5,530,037	1,973,282
Account receivables arising from corporate finance, advisory and other services:		
— Corporate Clients	30,269	14,552
	5,560,306	1,987,834
Less: Expected credit losses (Stage 1)	(806)	(806)
	5,559,500	1,987,028
(ii) Measured at FVPL:		
Account receivables arising from securities dealing:		
— Advances to cash clients	308,836	27,790
	5,868,336	2,014,818

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

9. ACCOUNT RECEIVABLES (Cont'd)

Ageing analysis of account receivables

An ageing analysis of account receivables from cash clients before provision for impairment based on the trade date is as follows:

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Within 1 month	3,315,293	1,400,079
1 to 2 months	5,264	4,100
2 to 3 months	1,830	246
Over 3 months	12,668	6,190
	3,335,055	1,410,615

The ageing of account receivables from clearing houses, brokers and dealers are within one month and are not past due. They represent (1) pending trades arising from business of dealing in securities, which are normally due within a few days after the trade date, (2) deposits at clearing house arising from the business of dealing in securities, futures and options contracts and (3) cash and deposits balances at brokers and dealers.

The ageing of accounts receivable from corporate clients arising from corporate finance, advisory and other services are mostly one to two months. As at 30 June 2021, balances of HK\$328,000 (31 December 2020: HK\$709,000) were 1 to 3 months past due, balance of HK\$50,000 (31 December 2020: HK\$70,000) were within 1 month past due, and balance of HK\$29,891,000 (31 December 2020: HK\$12,370,000) were not past due balances. As at 31 December 2020, balance of HK\$1,403,000 were over 3 months past due.

Save for the credit period allowed by the Group, the account receivables from cash clients shall be due on the settlement dates of the respective securities and futures contract transactions. In view of the fact that the Group's account receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Although the Group does not hold any collateral or other credit enhancements over its account receivables from cash clients, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts. Overdue account receivables from cash clients of HK\$308,836,000 (31 December 2020: HK\$27,790,000) bear interest at interest rates mainly with reference to Hong Kong dollar prime rate (31 December 2020: with reference to the Hong Kong dollar prime rate).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

9. ACCOUNT RECEIVABLES (Cont'd)

Ageing analysis of account receivables (Cont'd)

The ageing analysis of account receivables from cash clients that are not individually nor collectively considered to be impaired, i.e. based on the settlement date, is as follows:

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Not past due	3,315,293	988,552
Less than 1 month past due	5,264	411,628
1 to 3 months past due	1,830	4,276
Over 3 months past due	12,668	6,159
	3,335,055	1,410,615

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default or are covered by securities deposited with the Group.

Receivables that were past due but not impaired relate to a large number of diversified cash clients that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as they are covered by securities deposited with the Group and there has not been a significant change in credit quality. The balances are therefore considered to be fully recoverable.

10. LOANS AND ADVANCES

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Loans and advances to customers, secured		
— At FVTPL	2,789,160	2,355,796
— At amortised cost	4,896,988	537,242
	7,686,148	2,893,038

The Group's loans and advances to customers were repayable on demand at the end of these periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

11. BANK BALANCES HELD ON BEHALF OF CLIENTS

The Group maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits for varying periods of less than one year.

12. ACCOUNT PAYABLES

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Account payables		
— Client	7,329,330	5,997,234
— Brokers and dealers	1,908,504	187,285
— Clearing houses	—	75,097
	9,237,834	6,259,616

All of the account payables are aged and due within one month or on demand.

13. INTEREST-BEARING BANK BORROWINGS

As at the end of the period, the Group's interest-bearing bank borrowings had different maturities of less than three months.

14. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value of financial instruments that are not traded in an active market (for example, over-the-counter) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs used in the valuation for financial instruments are observable, the financial instruments are included in Level 2. If one or more of the significant inputs is not based on observable market data, the financial instrument is included in Level 3.
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

14. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

Fair value hierarchy (Cont'd)

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2021 (Unaudited)				
Financial assets at fair value through profit or loss:				
Listed equities	271,224	–	–	271,224
Listed debt securities	–	4,008,596	–	4,008,596
Unlisted debt securities	–	115,195	–	115,195
Loans and advances	–	2,789,160	–	2,789,160
Derivative financial instruments	–	1,578,876	–	1,578,876
Advances to cash clients	–	308,836	–	308,836
Financial guarantee contracts	–	–	4,640	4,640
Financial assets at fair value through other comprehensive income:				
Listed debt securities	–	657,682	–	657,682
Unlisted debt securities	–	101,127	–	101,127
	271,224	9,559,472	4,640	9,835,336
Financial liabilities at fair value through profit or loss:				
Structured note issued	–	(2,528,862)	–	(2,528,862)
Short position in quoted debt securities	–	(988,147)	–	(988,147)
Derivative financial instruments	–	(274,374)	–	(274,374)
	–	(3,791,383)	–	(3,791,383)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

14. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Cont'd)

Fair value hierarchy (Cont'd)

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2020 (Audited)				
Financial assets at fair value through profit or loss:				
Listed equities	238,515	–	–	238,515
Unlisted debt investments	–	3,283,518	76,460	3,359,978
Loans and advances	–	2,355,796	–	2,355,796
Derivative financial instruments	–	13,641	–	13,641
Advances to cash clients	–	27,790	–	27,790
Financial guarantee contracts	–	–	6,197	6,197
Financial assets at fair value through other comprehensive income:				
Unlisted debt investments	–	303,620	–	303,620
	238,515	5,984,365	82,657	6,305,537
Financial liabilities at fair value through profit or loss:				
Structured note issued	–	(1,251,395)	–	(1,251,395)
Short position in quoted debt securities	–	(72,452)	–	(72,452)
Derivative financial instruments	–	(67,848)	–	(67,848)
	–	(1,391,695)	–	(1,391,695)

During the six months ended 30 June 2021 and year ended 31 December 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

15. COMMITMENTS

As at the end of the period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Within one year	303	937
In the second to fifth years, inclusive	–	–
	303	937

16. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during these periods:

		For the six months ended 30 June	
	Notes	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Commission expenses for brokerage services in relation to the PRC capital markets paid to a wholly-owned subsidiary of the ultimate holding company	(i)	867	269
Research fee for supporting services in relation to research paid to a subsidiary of the ultimate holding company	(ii)	3,048	3,240
Consultancy fee for supporting services in relation to PRC market paid to the wholly-owned subsidiaries of the ultimate holding company	(iii)	1,670	1,721
Consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company	(iv)	3,455	4,904
Principal-to-principal trading of financial products with a wholly-owned subsidiary of the ultimate holding company	(v)	346,755	658,314

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

16. RELATED PARTY TRANSACTIONS (Cont'd)

- (a) The Group had the following material transactions with related parties during these periods:
(Cont'd)

Notes:

- (i) The commission expenses paid to a wholly-owned subsidiary of the ultimate holding company were calculated based on the prescribed percentage stated in the signed cooperation agreement for clients' transaction amount in Shenzhen and Shanghai B shares.
- (ii) The research fee paid to a subsidiary of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.
- (iii) The consultancy fee for supporting service in relation to PRC market paid to the wholly-owned subsidiaries of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.
- (iv) The consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company was calculated based on the prescribed percentage stated in the signed cooperation agreement for relevant commission earned by the wholly-owned subsidiary of the ultimate holding company.
- (v) The principal-to-principal transactions between the Shenwan Hongyuan Group Co., Limited and the Group include, but are not limited to, trading of debt securities on the primary and secondary debt markets, trading of structured products including, but are not limited to, interest rate-linked notes, Over-The-Counter derivatives, equity-linked notes and total return swaps. All principal-to-principal transactions will be conducted between the Shenwan Hongyuan Group Co., Limited (via Shenwan Hongyuan Securities Co., Limited) and the Group on the basis that the Group has a back-to-back demand from its clients of the same transactions.
- (vi) Included in the account receivable balances as at 30 June 2021 was a receivable due from a wholly-owned subsidiary of the ultimate holding company of HK\$9,907,000 (31 December 2020: HK\$27,052,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.
- (vii) Included in the other receivable balance as at 30 June 2021 was a consultancy fee receivable due from a wholly-owned subsidiary of the ultimate holding company of HK\$5,902,000 (31 December 2020: HK\$9,899,000) arising from supporting services relating to Hong Kong and overseas markets. This balance is unsecured, interest-free and repayable on settlement date of the relevant transactions.
- (viii) Included in the account receivables as at 30 June 2021 was the consultancy fee receivable due from the ultimate holding company of HK\$nil (31 December 2020: HK\$108,000) arising from compliance advisory services for IPO project in Hong Kong market, which charged based on prescribed allocation arrangement stated in the signed underwriting agreements for underwriting and other relevant services.
- (ix) Included in the account payables balance as at 30 June 2021 was a payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK\$371,000 (31 December 2020: HK\$16,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and payable on the settlement date of the relevant transactions.
- (x) Included in the other payables and accruals balance as at 30 June 2021 was a consultancy fee payable to a wholly-owned subsidiary of the ultimate holding Company of the Company of HK\$18,309,000 (31 December 2020: HK\$11,845,000) arising from supporting services for PRC market. This balance is unsecured, interest-free and payable on demand.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

16. RELATED PARTY TRANSACTIONS (Cont'd)

- (a) The Group had the following material transactions with related parties during these periods:
(Cont'd)

Notes: (Cont'd)

- (xi) Included in the accounts payable balance as at 30 June 2021 was the amount segregated client money held on behalf of an intermediate holding company of the Company of HK\$43,105,000 (31 December 2020: HK\$2,205,000). This balance is unsecured, interest-free and payable on the settlement date of the relevant transactions.
- (xii) Included in the account receivables balance as at 30 June 2021 was receivables due from a wholly-owned subsidiary of the ultimate holding company of the Company of HK\$4,459,000 (31 December 2020: HK\$4,459,000) arising from disposal of a subsidiary of the Company.
- (xiii) Included in the corporate finance business revenue was a compliance advisory fee earned from the ultimate holding Company of HK\$178,000 (Period from 1 January 2020 to 30 June 2020: HK\$300,000) arising from compliance advisory services for IPO project in Hong Kong market, which was charged at a fixed amount according to signed agreements.
- (xiv) Included in the brokerage business revenue was a commission rebate paid to a subsidiary of the ultimate holding company of the Company of HK\$5,586,000 (Period from 1 January 2020 to 30 June 2020: nil), which charged at a fixed percentage of commission income based on the signed agreement.

(b) Key management personnel compensation

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Short term employee benefits	38,503	28,026
Post-employment benefits	1,979	1,390
	40,482	29,416

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

17. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	As at 30 June 2021 (Unaudited)					
	Gross amounts of recognised financial assets HK\$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK\$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK\$'000	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$'000
			Financial instruments HK\$'000	Cash collateral received HK\$'000		
Assets						
Account receivables	6,093,236	(224,900)	5,868,336	–	–	5,868,336

	As at 30 June 2021 (Unaudited)					
	Gross amounts of recognised financial liabilities HK\$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$'000
			Financial instruments HK\$'000	Cash collateral pledged HK\$'000		
Liabilities						
Account payables	9,462,734	(224,900)	9,237,834	–	–	9,237,834

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

17. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Cont'd)

As at 31 December 2020 (Audited)						
	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
	HK\$'000	HK\$'000	HK\$'000	Financial instruments	Cash collateral received	Net amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Account receivables	1,911,208	(219,998)	1,691,210	–	–	1,691,210

As at 31 December 2020 (Audited)						
	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
	HK\$'000	HK\$'000	HK\$'000	Financial instruments	Cash collateral pledged	Net amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities						
Account payables	5,220,201	(219,998)	5,000,203	–	–	5,000,203

18. REVIEW OF ACCOUNTS

The audit committee has reviewed the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF MARKET

From the perspective of global environment, the first half of 2021 saw a gradual and difficult recovery for economies around the world amidst the bumpy recovery from the pandemic. COVID-19 variants in India and elsewhere were once again complicating the global prevention and control of the pandemic, and the recovery of the global consumer services sector remains rugged; while the “prolonged crisis” of the pandemic also made recovery of employment in manufacturing industry a long way to go. Soaring commodity prices sparked fears of inflation, but the Federal Reserve had not yet made its decision on tapering timeline. The game of musical chairs was still on and global asset pricing remained under the impact of quantitative easing.

From the perspective of macro economy of Chinese Mainland, the economic recovery was well ahead of those of the major developed countries, moving from a “shock recovery phase” to a “long-term structural optimization phase”. The gross domestic product (GDP) grew 12.7% in the first half of the year from a low base last year. In addition, with global supply still recovering from the pandemic, net exports from the Chinese Mainland remained strong and had a stronger pull on the overall economy. Meanwhile, under the influence of soaring commodity prices, the Producer Price Indices for Industrial Sector (PPI) gradually started to show a transmission trend to the Consumer Price Index (CPI) and the impact on consumption remained to be seen. In addition, the sharp rise in investment costs may also cause a cautious outlook for infrastructure and manufacturing investment, and the peak height of the second round of recovery may be affected.

Capital market in Chinese Mainland showed a strong structural performance during the first half of 2021, with significant growth in sectors represented by the ChiNext and small-cap stocks. The ChiNext index rose by 17% in the first half of the year, while the SSE 50, representing large-cap blue chips, fell nearly 4%. There were more thematic investment focuses, with strong performance in sectors such as aesthetic medicine, new energy vehicles and photovoltaics. Benefiting from recovery of the local economy and further development of the registration-based IPO system, the A-share IPO market continued to be active in the first half of 2021. During the first half of 2021, the Shanghai Stock Exchange had approximately 139 IPOs raising RMB141.8 billion, ranking fourth in the world; while the Shenzhen Stock Exchange had approximately 105 IPOs raising RMB66.1 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Hong Kong economy suffered from downward movement at the beginning of the year against the backdrop of the development of COVID-19 and the tension between China and the US, and the sharpest recession on record re-emphasized the long-standing structural problems in the Hong Kong economy. However, the recovery of the global economy and the gradual advancement of the “internal and external dual circulation” in Chinese Mainland provided strong impetus for the recovery of Hong Kong economy. Meanwhile, the Central Government’s further clarification of Hong Kong’s positioning further strengthened Hong Kong’s competitive edge in the world. Hong Kong stock index performance was lower than expected at the beginning of the year, with value stocks outperforming growth stocks and the Hang Seng Index rising 5.8% in the first half of the year. Southbound funds kept pouring into the Hong Kong stock market at the beginning of the year, with a net inflow of HK\$310.6 billion in January, setting a new monthly high for Hong Kong Stock Connect. The performance of the Hang Seng TECH Index was more volatile, as the impact of the anti-monopoly policy on the Internet industry was still under development. During the first half of 2021, with increasing number of new economy companies in Chinese Mainland listed in Hong Kong, the number of IPOs in the Hong Kong market reached a record high with a total of 47 IPOs, raising HK\$212.96 billion, doubling the fund raised in the same period last year and ranking third in the world.

REVIEW OF OPERATIONS

During the first half of 2021, the Group continued to deepen its business transformation. While consolidating the effectiveness of its business transformation, the Group actively explored new business models, continuously enhanced the professional level of its various businesses, enriched the means to serve clients, actively leveraged the synergies within the Group and with its parent company to provide clients with comprehensive and diversified integrated financial services. In the face of intensifying market competition and increasing regulatory oversight, the Group has promptly studied market changes and development trends, actively sought development opportunities amidst challenges, put efforts in risk and compliance management and improved infrastructure construction in order to lay a solid foundation for development. Despite the bumpy recovery from the COVID-19 pandemic, the Group was able to maintain stable overall operations through continuous improvement of its business continuity plan.

In the first half of 2021, the revenue of the Group increased to HK\$529 million from HK\$411 million in the first half of 2020, representing an increase of 29% as compared to that of the corresponding period of last year, which was mainly due to the growth in the wealth management business, enterprise finance business and trading business. Unaudited profit before taxation decreased by 35% from HK\$92.83 million in the first half of 2020 to HK\$60.44 million, which was mainly due to the increase in commission fee and interest expense in relation to client back-to-back structured notes. Profit attributable to shareholders decreased by 33% from HK\$80.70 million in the first half of 2020 to HK\$53.67 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

	For the six months ended 30 June			
	2021		2020	
	HK\$'000	%	HK\$'000	%
Fee and commission income	214,326	41%	147,090	36%
Interest income	139,146	26%	110,943	27%
Net investment gains	175,349	33%	152,722	37%
	528,821	100%	410,755	100%

During the period under review, fee and commission income increased by 46% year-on-year to HK\$214 million, driven by the continuous advancement of wealth management business and the expansion of institutional services and trading business. Benefitting from the timely business strategies and expansion of new business models, interest income increased by 25% year-on-year to HK\$139 million. The Group recorded net investment gains of HK\$175 million, representing a year-on-year increase of 15%, as the fixed income trading business maintained a stable trading portfolio size while achieving profitability with prudent strategies.

Wealth Management Business

The wealth management business mainly provides a series of comprehensive financial services including securities, futures and options brokerage, the sales of financial products such as wealth management, over-the-counter, as well as securities margin financing to individual customers and nonprofessional institutional investors through a combination of online and offline methods.

	For the six months ended 30 June		
	2021	2020	
	HK\$'000	HK\$'000	%
Fee and commission income	107,831	91,786	17%
Interest income	100,181	77,028	30%
Net investment gains	4	862	(100%)
	208,016	169,676	23%

During the first half of 2021, the COVID-19 pandemic continued to pose significant challenges and uncertainties for markets, and financial markets became more volatile. However, global economic activities began to recover as vaccinations were administered and stringent quarantine arrangements were put in place, coupled with ultra-loose monetary policies in major economies. Hong Kong stock market was volatile; however, the overall market remained dynamic in the first half of the year despite a decline in Hong Kong stock turnover in the second quarter, with average daily turnover reaching HK\$188.2 billion in the first half of 2021, up by 60% from HK\$117.5 billion in the first half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

During the period under review, the Group actively seized business opportunities in the market, implemented the concept of a one-stop wealth management platform, further advanced the transformation of its wealth management business model and optimized its service system, and continued to enrich its product portfolio and enhance its professional service level. The Group further strengthened its brand value by continuously improving online remote account opening channel and launching various marketing campaigns. In the process of internationalisation and informatisation of the wealth management platform, the Group optimized its operation measures and enhanced its profitability to maintain a good development momentum. During the period, revenue from wealth management business of the Group increased significantly by 23% year-on-year to HK\$208 million, in which the fee and commission income increased by 17% year-on-year to HK\$108 million, and interest income increased by 30% to HK\$100 million.

The Group will strive to develop new competitive advantages in wealth management business by intensifying the application of financial technology and planning the product and service system layout, and provide global asset allocation and integrated services to high net worth clients by connecting service resources of other businesses through the wealth management platform to fully promote the transformation of service model, in an effort to satisfy clients' multi-layer demands and to enhance clients' experience.

Enterprise Finance Business

The enterprise finance business consists of corporate finance business and investment business. Corporate finance business provides corporate clients with stock underwriting sponsor, bond underwriting and financial advisory services, while investment business mainly includes self-financing equity investment, debt investment and other investments.

	For the six months ended 30 June		
	2021 HK\$'000	2020 HK\$'000	%
Fee and commission income	28,330	23,769	19%
Net investment losses	(4,395)	(4,105)	(7%)
	23,935	19,664	22%

During the first half of 2021, after the significant impact of the pandemic in 2020, the sponsorship and underwriting business of the Group rebounded, while the debt capital market business maintained strong momentum thanks to the abundant resources accumulation. During the period under review, the fee and commission income from the enterprise finance business increased by 19% year-on-year to HK\$28.33 million. In addition, the Group used its own funds to invest and recorded net investment losses of HK\$4.395 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Sponsorship and underwriting and financial advisory

During the period under review, the Group achieved a year-on-year growth in the sponsorship and underwriting business, and coupled with the project review cycle, the revenue from relevant sponsorship and underwriting projects is expected to gradually emerge in the second half of this year. Meanwhile, the Group unwaveringly implemented its strategies on internationalization and domestic-overseas integration with the support of its parent company, gradually restored a pool of sponsorship and underwriting projects, and also maintained the development and follow-up of various types of financial advisory projects. The Group will actively increase reserves of sponsorship and underwriting projects and participate in more merger-and-acquisition related financial advisory projects. The Group will also strengthen collaboration with the domestic team of the parent company in order to increase the potential client coverage of corporate finance business.

Equity capital market

During the first half of 2021, the equity capital market team continued to provide clients with comprehensive services. The Group also actively deployed in selected key industries with increasing quality of underwriting projects participated. During the period under review, the Group completed a total of 3 IPO underwriting projects and participated in 4 non-sponsored underwriting projects, the issuances of which were completed after the period under review. The Group will further strengthen the construction of the equity capital market team and expand the underwriting placement network, further explore the needs of its clients, and enhance the connection of client resources with domestic and overseas and internal business teams within the Group.

Debt capital market

Benefitting from the collaboration of both domestic and overseas teams and the project accumulation in 2020, the Group completed a total of 18 bond issuance projects during the period under review, including 12 state-owned enterprises and local government financing vehicles (LGFVs), 2 real estate projects, 3 financial institutional-related projects and 1 industry-related projects which raised US\$2,720 million, US\$330 million, US\$1,100 million and US\$20 million for clients, respectively. In the face of the challenges and opportunities arising from the ever-changing offshore US dollar bond market, the Group will continue to explore overseas bond issuance projects for quality enterprises, such as large-scale government-controlled enterprises and state-owned conglomerates, continue to enhance the collaboration capabilities of its domestic and overseas teams in an effort to increase its market share and revenue. In the meantime, the Group will continue to recruit talents to keep on expanding such important business, the debt capital market.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Institutional Services and Trading Business

The institutional services and trading business mainly provides one-stop integrated financial services for institutional clients, such as brokerage and trading of global markets, sales and trading of fixed income bonds, currencies and commodities, research advisory, and investment and financing solutions. It also uses its own funds or acts as a counterparty to institutional clients to engage in the trading of fixed income bonds, currencies and commodities, equity and equity-linked securities, and provides sales, trading, hedging and over-the-counter derivative services to institutional clients.

For the six months ended 30 June

	Fee and commission income		Interest income		Net investment gains		Total		%
	2021	2020	2021	2020	2021	2020	2021	2020	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Fixed income, currencies and commodities	–	–	–	–	179,740	155,965	179,740	155,965	15%
Structured products	–	–	30,004	23,422	–	–	30,004	23,422	28%
Stock business	66,369	24,715	8,961	10,493	–	–	75,330	35,208	114%
	66,369	24,715	38,965	33,915	179,740	155,965	285,074	214,595	33%

During the first half of 2021, despite the relatively weak market due to frequent credit events, the fixed income trading team continued to adopt a solid investment portfolio strategy with flexible hedging approaches, achieving a stable profit growth while maintaining a steady trading portfolio size. The Group also actively expanded its business variety and scope to better control risk and revenue volatility. During the period under review, the institutional services and trading business recorded net investment gains of HK\$180 million, representing a year-on-year increase of 15%.

The financial products team established since 2020 has continued to develop its business steadily. Business development accelerated in the first half of 2021 with expanding business variety and scale, turning into an additional source of revenue and an important platform for cross-border business by connecting domestic and overseas resources. The Group will continue to actively promote the development and sales of structured products to further expand the revenue contribution of the business. During the period under review, the institutional services and trading business recorded interest income of HK\$38.97 million, representing a year-on-year increase of 15%, driven by the rapid development of the capital intermediary business.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

In terms of stock sales and trading business, the Group continued to strengthen collaboration with domestic resources to explore and secure new clients during the period under review, provide institutional clients with better service quality upon the full operation of the advanced high-end trading system. The Group will continue to capture market opportunities and provide institutional clients with more diversified and richer equity trading services. During the period under review, fee and commission income from institutional services and trading business amounted to HK\$66.37 million, representing a year-on-year increase of 169%.

Asset Management Business

The asset management business mainly provides public fund management, private fund management, investment advisory and entrusted discretionary managed account services.

	For the six months ended 30 June		
	2021 HK\$'000	2020 HK\$'000	%
Fee and commission income	11,796	6,820	73%

During the first half of 2021, the asset management business achieved remarkable results in layout optimization and model transformation, laying down the foundation for new business expansion. The Group paid close attention to the latest regulatory policies and changes in the demand of Chinese securities firms for Hong Kong asset management business, so as to grasp the advantages of such policies in advance and develop innovative businesses. With outstanding cross-border product design capability, the Group has founded a number of cross-border innovative businesses which have received positive market response. During the period under review, the scale of assets under management rose significantly, which surpassed the ten-billion benchmark and reached HK\$10.1 billion as at the end of June, representing a year-on-year growth of 133%.

The Group will continue to consolidate its business model of active management around the fixed income and fixed-income-like segments, with Hong Kong as the hub to push forward the development of the Greater Bay Area, while actively open up various sales channels to expand the scale of assets under management. The Group will seize any policy opportunities, expand the scope of the business, optimize operational mechanisms, improve management efficiency, connect various businesses, leverage on the advantages of cross-border business, focus on developing active management products to meet the needs of clients in different markets, and strive to become the preferred cross-border asset management service provider for its clients.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

PROSPECTS

In regards to the global financial market environment, although the easing overseas monetary environment shall continue during the second half of 2021, discussions on the withdrawal of such easing policies may cast certain impact on the financial market amidst high inflation. The global imbalance in vaccination may lead to an uneven recovery across countries, with developed markets currently leading the way in vaccine promotion, which may subsequently put pressure on emerging markets in terms of exchange rates and financial markets.

In Chinese Mainland, with the uncertainty of macro environment during the second half of the year, the overall market fluctuation is likely to be heightened, and structural opportunities may become more important. The relative performance trend of the growth sector is superior, while considering the valuation switch, the different ability to absorb valuation of the results of core assets may lead to divergence in the sector. During the favorable external demand cycle, the cyclical sector also enjoys opportunities in trading.

In Hong Kong, the macro-liquidity environment faced by Hong Kong stocks will remain in a tight balance. Since the beginning of the year, the valuation between the value sector of the traditional economy and the growth sector of the new economy have been rapidly converging, while taking into account the fundamental and policy factors also increases the difficulties in searching for any β (beta) level opportunities, while the α (alpha) opportunities in the sub-sectors of the new economy and the cyclical sector that benefit from the external demand cycle are more worthy of attention.

During the second half of 2021, under the global pandemic and macroeconomic uncertainties, the Group will continue to pay close attention to the development of the pandemic, to respond promptly and adopt an active development strategy, and to accelerate the pace of business expansion, and strive for stable and rapid development of various businesses. Under the new development pattern of the “dual cycle”, the Group, based in Hong Kong, acts as the most important business hub and execution platform for the overseas business and cross-border business of the Shenwan Hongyuan Group, will fully utilise its advantages and competitiveness in its overseas resources to integrate into the development of the Guangdong-Hong Kong-Macao Greater Bay Area, so as to actively develop its cross-border businesses. The Group will further optimise its asset and liability structure, enhance its operational coordination capabilities, strengthen the infrastructure construction, actively expand its integrated capital intermediary business for institutional clients, set up its wealth management platform and build up its asset management product platform, connect with the resources of its mainland parent company, expand its cross-border asset management business, strengthen its competitive strategy of “investment + investment banking”, and provide its clients with integrated corporate finance services in both the domestic and overseas markets. The Group is committed to becoming an integrated financial services provider with international competitiveness, through enhancing its professional services by adhering to risk management and compliance as the foundation, solidified basic management; and being guided by its financial technologies development.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

CAPITAL STRUCTURE

During the period under review, there was no change to the share capital of the Company. As at 30 June 2021, the total number of the issued ordinary shares was 1,561,138,689 shares and total equity attributable to ordinary equity holders was approximately HK\$4.02 billion (31 December 2020: HK\$4.04 billion).

TREASURY POLICIES

The Group generally finances its business operations with internally generated cash flow and bank borrowings. The Group's banking facilities are mainly renewable on a yearly basis and are on floating interest rates basis. In addition, it has been the policy of the Group to maintain adequate liquidity at all times to meet its liabilities as and when they fall due.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 30 June 2021, the Group had cash and bank balances of HK\$521 million (31 December 2020: HK\$415 million) and financial assets at fair value through profit or loss of HK\$5,979 million (31 December 2020: HK\$3,618 million). As at 30 June 2021, the Group's total unutilised banking facilities amounted to HK\$5,126 million (31 December 2020: HK\$4,417 million), of which HK\$5,126 million (31 December 2020: HK\$4,417 million) could be drawn down without the need of notice nor completion of condition precedent.

As at 30 June 2021, the Group had outstanding short-term bank borrowings amounting to HK\$8,672 million (31 December 2020: HK\$4,272 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (bank borrowings to net asset value) were 114% (31 December 2020: 125%) and 216% (31 December 2020: 106%) respectively.

The Group has sufficient financial resources for its day to day operations as well as spare capacity to take advantage of any investment opportunities when they arise.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the period under review, the Group did not hold any significant investment and did not have any material acquisition or disposal of subsidiaries, associates or joint ventures.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

CHARGES ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 30 June 2021.

RISK MANAGEMENT

The Group has properly put in place credit management policies which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are reviewed and updated regularly.

The management closely monitors the market condition so that precautionary measures will be taken to mitigate any risk that the Group may encounter. As at 30 June 2021, the advances to customers were overdue account receivables from cash clients and margin financing.

As at 30 June 2021, the balance of overdue account receivables from cash clients and margin financing amounted to HK\$309 million (31 December 2020: HK\$28 million), HK\$2,789 million (31 December 2020: HK\$2,356 million), respectively.

15% (31 December 2020: 27%) of margin financing was attributable to corporate customers with the rest attributable to individual customers.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars and Renminbi. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the consolidated statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and takes measures when necessary.

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 30 June 2021.

CHANGES SINCE 31 DECEMBER 2020

There were no other significant changes in the Group's financial position or from the information disclosed under "Management Discussion and Analysis" in the annual report for the year ended 31 December 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Prospects", the Group had no other future plans for material investments or capital assets as at 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

EMPLOYEES AND TRAINING

As at 30 June 2021, the total number of full-time employees was 290 (2020: 269). The total staff costs for the period under review amounted to approximately HK\$154.1 million (2020: HK\$135.5 million).

The Group maintains policies for the recruitment, compensation, promotion and training of staff. Pay surveys are conducted periodically by independent consultants appointed by the Group to maintain the Group's competitiveness in the market. With reference to market conditions, the Group will formulate relevant and proper remuneration and incentive plans to attract and retain talent. The Group supports equal opportunities and recruits competent candidates globally.

The Group is committed to professional training for its employees. In compliance with the relevant requirement of the Securities and Futures Commission, the Group has organised a total of 7 (2020: 9) Continuous Professional Training seminars for all licensed staff members during the six months ended 30 June 2021.

OTHER INFORMATION

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (2020: Nil).

DIRECTOR'S INTERESTS IN SHARES

As at 30 June 2021, none of the directors and the chief executive of the Company was taken to be interested or deemed to have any interest, long position or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2021, the interests of substantial shareholders, other than directors or chief executive of the Company, who had interests, long positions or short positions of 5% or more of the issued shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity and nature of interests	Number of ordinary shares interested (Notes)	Percentage of the Company's issued shares
Shenwan Hongyuan Holdings (B.V.I.) Limited ("SWHYHBVI")	Directly beneficially owned	402,502,312 ⁽¹⁾	25.78
Venture-Some Investments Limited ("VSI")	Through controlled corporation	402,502,312 ⁽¹⁾	25.78
Shenwan Hongyuan (International) Holdings Limited	Through controlled corporation Directly beneficially owned	402,502,312 ⁽¹⁾ 768,306,257 ⁽²⁾	25.78 49.22

OTHER INFORMATION (Cont'd)

Name	Capacity and nature of interests	Number of ordinary shares interested (Notes)	Percentage of the Company's issued shares
Shenwan Hongyuan Securities Co., Ltd.	Through controlled corporation	1,170,808,569 ⁽¹⁾⁽²⁾	75.00
Shenwan Hongyuan Group Co., Ltd.	Through controlled corporation	1,170,808,569 ⁽¹⁾⁽²⁾	75.00

Notes:

- (1) SWHYHBVI is held directly as to 60.82% by VSI. VSI is wholly-owned by Shenwan Hongyuan (International) Holdings Limited which is in turn a wholly-owned subsidiary of Shenwan Hongyuan Securities Co., Ltd.. Shenwan Hongyuan Securities Co., Ltd. is wholly-owned by Shenwan Hongyuan Group Co., Ltd.. Hence, VSI, Shenwan Hongyuan (International) Holdings Limited, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. are deemed to be interested in the same parcel of 402,502,312 shares held by SWHYHBVI under the SFO.
- (2) Shenwan Hongyuan (International) Holdings Limited also held directly 768,306,257 shares of the Company. Hence, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. are also deemed to be interested in the same parcel of 768,306,257 shares held by Shenwan Hongyuan (International) Holdings Limited under the SFO.

Save as disclosed above, as at 30 June 2021, the Company had not been notified of any person who had interests, long positions or short positions in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE CODE

To improve the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Throughout the six months ended 30 June 2021, the Company has met all the code provisions stipulated in Appendix 14, Corporate Governance Code and Corporate Governance Report of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on replies from the Company's directors on specific enquiry, all the directors complied with required standard set out in the Model Code throughout the period under review.

OTHER INFORMATION (Cont'd)

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The audit committee has reviewed the interim report of the Company for the six months ended 30 June 2021.

CHANGES IN INFORMATION OF DIRECTORS

Set out below are the changes and updated information of the directors subsequent to the date of the annual report of the Company for the year ended 31 December 2020:

On 12 June 2021, Mr. Qiu Yizhou resigned as chief executive officer, executive director, chairman of the management committee, member of each risk committee, environmental, social and governance committee and executive committee of the Company and an authorised representative under Rule 3.05 of the Listing Rules and Mr. Liang Jun was appointed on the same day to fill the abovementioned vacancies arising from the resignation of Mr. Qiu Yizhou. Mr. Liang is entitled to a monthly salary of HK\$240,000, allowances, benefits in kind, retirement benefit scheme contributions and performance related discretionary bonuses for his position as chief executive officer of the Company.

Save as disclosed above, as at 30 June 2021 and up to the date of this interim report, there is no other information required to be disclosed under Rule 13.51B(1) of the Listing Rules.

DIRECTORS

As at the date of this interim report, the Board comprises 9 directors, of which Mr. Fang Qingli, Mr. Guo Chun, Mr. Zhang Jian, Ms. Wu Meng and Mr. Liang Jun are the executive directors, Mr. Zhang Lei is the non-executive director, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang are the independent non-executive directors.

By Order of the Board
Fang Qingli
Chairman

Hong Kong, 13 August 2021



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