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

(Incorporated in Hong Kong with limited liability)

(Stock code: 218)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULTS

The board of directors (the “Board”) of Shenwan Hongyuan (H.K.) Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 together with comparative figures for the corresponding period of last year.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	For the six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
REVENUE	3	410,755	365,231
- Interest revenue calculated using the effective interest method		128,088	57,979
- Revenue from contracts with customers within the scope of HKFRS 15		147,090	212,226
- Revenue from other sources		135,577	95,026
Other losses, net	3	(7,481)	(6,860)
Commission expenses		(41,567)	(41,644)
Employee benefit expenses		(135,498)	(122,600)
Depreciation		(19,751)	(10,832)
Interest expenses		(59,001)	(10,384)
Other expenses, net		(54,632)	(86,681)
PROFIT BEFORE TAX		92,825	86,230
Income tax	4	(12,128)	(8,093)
PROFIT FOR THE PERIOD		80,697	78,137
Attributable to:			
Ordinary equity holders of the Company		80,697	78,137
Non-controlling interests		-	-
		80,697	78,137
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (BASIC AND DILUTED)	5	5.17 cents	5.77 cents

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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>80,697</u>	<u>78,137</u>
OTHER COMPREHENSIVE INCOME :		
Items that may be reclassified to the consolidated statement of profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income		
- net movement in fair value reserve (recycling)	<u>(20,302)</u>	<u>28,082</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX	<u>(20,302)</u>	<u>28,082</u>
TOTAL COMPREHENSIVE INCOME	<u><u>60,395</u></u>	<u><u>106,219</u></u>
Attributable to:		
Ordinary equity holders of the Company	<u>60,395</u>	<u>106,219</u>
Non-controlling interests	<u>-</u>	<u>-</u>
	<u><u>60,395</u></u>	<u><u>106,219</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
<i>Notes</i>		
<u>NON-CURRENT ASSETS</u>		
Property, plant and equipment	8,019	9,774
Stock and Futures Exchange trading rights	4,212	4,212
Other assets	35,510	37,125
Other financial assets	1,308,055	1,135,298
Right-of-use assets	51,527	68,631
Deferred tax assets	2,131	5,390
	1,409,454	1,260,430
<u>CURRENT ASSETS</u>		
Investments at fair value through profit or loss	2,589,291	2,189,495
Other financial assets	1,068,053	-
Account receivables	2,265,985	1,691,210
Loans and advances	2,422,552	872,588
Prepayments, deposits and other receivables	146,639	79,635
Tax recoverable	9,776	7,404
Bank balances held on behalf of clients	4,211,151	3,193,340
Cash and bank balances	922,802	937,597
	13,636,249	8,971,269
<u>CURRENT LIABILITIES</u>		
Financial liabilities at fair value through profit or loss	492,672	329,371
Account payables	6,019,499	5,000,203
Contract liabilities	1,550	1,558
Other payables and accruals	124,969	107,210
Interest-bearing bank borrowings	4,387,348	778,900
Lease liabilities	28,591	32,473
Tax payable	33,654	25,190
	11,088,283	6,274,905
NET CURRENT ASSETS	2,547,966	2,696,364
TOTAL ASSETS LESS CURRENT LIABILITIES	3,957,420	3,956,794

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
<u>NON-CURRENT LIABILITIES</u>		
Lease liabilities	1,013	1,013
Deferred tax liability	23,529	36,464
	<hr/>	<hr/>
Total non-current liabilities	24,542	37,477
	<hr/>	<hr/>
NET ASSETS	3,932,878	3,919,317
	<hr/> <hr/>	<hr/> <hr/>
<u>EQUITY</u>		
Equity attributable to ordinary equity holders of the Company		
Share capital	2,782,477	2,782,477
Other reserves	1,147,775	1,134,214
	<hr/>	<hr/>
	3,930,252	3,916,691
Non-controlling interests	2,626	2,626
	<hr/>	<hr/>
TOTAL EQUITY	3,932,878	3,919,317
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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 2019 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 2019 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 2019. 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 2019, except that in the current period, the Group has adopted certain revised Hong Kong Financial Reporting Standards (“HKFRSs”) and interpretation as detailed below.

- (a) The Group has adopted the following revised HKFRSs and interpretation issued by the HKICPA. However, the adoption of these revised HKFRSs and interpretation has had no material effect on these financial statements.

HKAS 1 and HKAS 8 (Amendments)	<i>Definition of Material</i>
HKFRS 3 (Amendments)	<i>Definition of a Business</i>
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	<i>Interest Rate Benchmark Reform</i>
HKFRS 16 (Amendments)	<i>Covid-19-related Rent Concessions</i>
Revised Conceptual Framework	<i>Revised Conceptual Framework for Financial Reporting</i>

1. GENERAL INFORMATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) New standards issued but not yet effective

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 (Amendments)	<i>Classification of Liabilities as Current or Non-current¹</i>
HKAS 16 (Amendments)	<i>Property, Plant and Equipment: Proceeds before intended use¹</i>
HKAS 37 (Amendments)	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
HKFRS 3 (Amendments)	<i>Reference to the Conceptual Framework¹</i>
HKFRS 17	<i>Insurance contracts²</i>
HKFRS 10 and HKAS 28 (Amendments)	<i>Sale or contribution of assets between an investor and its associate or joint venture³</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

³ No mandatory effective date yet determined

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's financial statements.

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					
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30 June 2020							
Segment revenue and other loss 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
	Enterprise finance		Wealth management	Institutional services and trading	Asset management	Others	Total
	Corporate finance	Principal investment					
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30 June 2019 (Restated)							
Segment revenue and other losses from external customers	115,446	3,532	121,386	108,879	15,988	(6,860)	358,371
Segment results and profit/(loss) before tax	33,418	1,506	25,174	31,594	1,398	(6,860)	86,230

3. REVENUE AND OTHER LOSSES, NET

An analysis of revenue, which is also the Group's turnover, and other losses are as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
<i>Fee and commission income:</i>		
<u>Revenue from contracts with customers within the scope of HKFRS 15:</u>		
Commission on securities dealing		
– Hong Kong securities	75,957	50,502
– Other than Hong Kong securities	21,021	16,473
Commission on futures and options contracts dealing	11,212	7,137
Initial public offering, placing, underwriting and sub-underwriting commission	19,263	89,053
Financial advisory, compliance advisory, sponsorship fee income and others	4,506	26,393
Management fee, investment advisory fee income and performance fee income	6,820	15,988
Handling fee income	3,740	2,066
Research fee income and other service fee income	4,571	4,614
	147,090	212,226
<i>Income from interest bearing transactions:</i>		
<u>Interest income calculated using the effective interest method:</u>		
Interest income from banks and others	29,967	40,558
<u>Revenue from other sources:</u>		
Interest income from loans to cash clients and margin clients	35,274	42,366
Interest income from initial public offering loans	14,992	753
Interest income from structured products	23,422	-
Unrealised fair value gains on margin loans	7,288	-
	110,943	83,677
<i>Investment gains, net</i>		
<u>Interest income calculated using the effective interest method:</u>		
Interest income:		
– Unlisted investments	98,121	17,421
<u>Revenue from other sources:</u>		
Net realised and unrealised gains/(losses) on financial instruments:		
– Listed investments	(30,487)	(1,336)
– Unlisted investments	33,847	8,174
Dividend income and interest income:		
– Unlisted investments	51,241	45,069
	152,722	69,328
	410,755	365,231
Other losses, net:		
Exchange losses, net	(7,481)	(6,860)

4. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current – Hong Kong		
Provision for the period	8,700	6,839
Underprovision/(overprovision) in respect of prior period	260	(40)
	<u>8,960</u>	<u>6,799</u>
Current – Elsewhere	(91)	60
Deferred	<u>3,259</u>	<u>1,234</u>
Total tax charge for the period	<u><u>12,128</u></u>	<u><u>8,093</u></u>

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 2020, the total number of the issued ordinary shares was 1,561,138,689 shares.

	For the six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Earnings		
Profit for the period attributable to ordinary equity holders of the Company (HK\$'000)	<u>80,697</u>	<u>78,137</u>
Number of shares		
Weighted average number of ordinary shares in issue (in thousands)	<u>1,561,139</u>	<u>1,354,039</u>
Earnings per share, basic and diluted (HK cents per share)	<u><u>5.17</u></u>	<u><u>5.77</u></u>

6. DIVIDEND

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interim – Nil (2019: Nil) per ordinary share	-	-

7. ACCOUNT RECEIVABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
(i) Measured at amortised cost:		
Account receivables arising from securities dealing:		
- Cash Clients	1,306,719	936,891
- Brokers and dealers	406,626	276,150
- Clearing houses	<u>240,600</u>	<u>403,500</u>
	1,953,945	1,616,541
Account receivables arising from corporate finance, advisory and other services:		
- Corporate Clients	<u>44,018</u>	<u>45,554</u>
	44,018	45,554
	1,997,963	1,662,095
Less: Expected credit losses (Stage 1)	<u>(1,473)</u>	<u>(1,473)</u>
Less: Expected credit losses (Stage 3)	<u>(1,096)</u>	<u>(1,096)</u>
	1,995,394	1,659,526
(ii) Measured at FVPL:		
Account receivables arising from securities dealing:		
- Advances to cash clients	<u>270,591</u>	<u>31,684</u>
	2,265,985	1,691,210

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\$270,591,000 (31 December 2019: HK\$31,684,000) bear interest at interest rates mainly with reference to Hong Kong dollar prime rate (31 December 2019: with reference to the Hong Kong dollar prime rate).

7. ACCOUNT RECEIVABLES (Continued)

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 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Within 1 month	1,558,348	950,578
1 to 2 months	2,806	8,929
2 to 3 months	617	2,238
Over 3 months	15,539	6,830
	<u>1,577,310</u>	<u>968,575</u>

The ageing of account receivables from clearing houses, brokers and dealers are within one month. 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 account receivables from corporate clients arising from corporate finance, advisory and other services are mostly within one month.

8. ACCOUNT PAYABLES

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Account payables		
- Client	5,726,978	4,449,773
- Brokers and dealers	291,841	550,041
- Clearing houses	680	389
	<u>6,019,499</u>	<u>5,000,203</u>

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

9. REVIEW OF ACCOUNTS

The audit committee has reviewed the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Market

From the perspective of global environment, the outbreak of COVID-19 has delivered a serious blow to the whole world since the beginning of 2020, leading to a shuddering halt in economic activities and traffic flow of all major economies around the world, with a decrease in economic data to various degrees. The service-based developed economies were hit hard by the lockdown policies, while the emerging economies also suffered from declining global demands. Led by the US Federal Reserve, all central banks across the world have adopted easing monetary policies to stabilise the financial markets and all economies also implemented proactive fiscal policies to stimulate market demands.

From the perspective of macro economy of Mainland China, following a drop of 6.8% in GDP growth recorded in the first quarter of 2020 under the impact of COVID-19, the PRC economy returned to the growth track and recorded a growth rate of 3.2% in the second quarter after containment of the epidemic and reopening of the economy. Investments, especially investments in the real estate industry, continued to play a prominent role in supporting the development of the economy. Although exports suffered from sluggish demands from the overseas markets, such performance was, to some degree, boosted by the export of medical and epidemic prevention supplies in the first half of the year. As for consumption, however, the performance was rather weak. Benefitting from declining pork prices, inflation decreased from the peak level of last year, providing some leeway for easing monetary policy. The fiscal policy continued to work, resulting in improvement in deficit ratio and local special debts.

Mainland China’s capital market showed a W-shaped trend in the first half of 2020, where the market recorded sharp decline during the first quarter due to the outbreak of COVID-19 and fluctuations in the global financial market in March before it gradually rallied, among which the ChiNext Index, represented by the growth stocks, recorded an increase of 35% during the first half of the year, and the performance of the pharmaceuticals, technology and consumption sectors were an eye-catcher.

After experiencing sharp decline in the first quarter, the Hong Kong market bounced by over 10% from the trough in March, with the biotechnology and TMT (technology/media/telecom) stocks leading the growth. As more and more Chinese concepts stocks turned to Hong Kong Exchange for secondary listing, the Hong Kong stock market witnessed significant expansion of the new economy sector.

Review of Operations

During the first half of 2020, the Group continued to push forward its comprehensive business transformation strategy by proactively promoting the restructuring and coordination of its four business lines, in an effort to improve the professional level of each business line and enhance the synergetic effects within the Group, as well as those with the parent company, so as to provide customers with integrated financial services. In spite of the impact of COVID-19, the business results of the Group continued to grow steadily. Benefitting from the establishment and implementation of a management structure and a hierarchical authorization system with focus on risk management as well as the improvement of all infrastructures, the Group made timely analysis on market changes and efficiently carried out prompt response measures, maintaining a stable development of its overall operation.

Review of Operations (Cont'd)

In the first half of 2020, the total revenue of the Group increased by 10% year-on-year to HK\$411 million from HK\$365 million in the first half of 2019, which was mainly due to the substantial increase in the revenue generated from institutional services and trading. Unaudited profit before taxation increased by 8% from HK\$86.23 million in the first half of 2019 to HK\$92.83 million. Profit attributable to shareholders increased by 3% from HK\$78.14 million in the first half of 2019 to HK\$80.70 million.

	For the six months ended 30 June			
	2020	%	2019	%
	HK\$'000		HK\$'000	
Fee and commission income	147,090	36%	212,226	58%
Interest income	110,943	27%	83,677	23%
Net investment gains	152,722	37%	69,328	19%
	410,755	100%	365,231	100%

During the period under review, benefitting from the expansion in size of the trading portfolio of the fixed income trading business, the Group recorded net investment gains of HK\$153 million, representing a year-on-year increase of 120%. Meanwhile, the scope of the financing and loans business has been expanded with additional interest income sources, leading to a year-on-year increase of 33% in interest income to HK\$111 million, whereas the fee and commission income dropped by 31% year-on-year to HK\$147 million, which was mainly attributable to the significant decrease in the fee and commission income of corporate finance business, as a result of the impact of the pandemic.

The Wealth Management Business Line

The wealth management business line mainly provides a series of comprehensive financial services including securities, futures and options brokerage, the sale 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		
	2020	2019	%
	HK\$'000	HK\$'000	
Fee and commission income	91,786	45,615	101%
Interest income	77,028	75,573	2%
Net investment gains	862	198	335%
	169,676	121,386	40%

Review of Operations (Cont'd)

During the period under review, due to the prolonged and bumpy recovery from the COVID-19 epidemic situation in Hong Kong and the implementation of stringent prevention and control measures, several business expansion plans were stalled. In addition, the Hong Kong financial market experienced significant volatilities due to the disruption of business development plans of commercial institutions as a result of social unrest in Hong Kong as well as the increasing Sino-US tension. In the first half of the year, the highest and lowest level of the Hang Seng Index were 29,174 points and 21,139 points respectively, representing a volatility of over 8,000 points. The average daily turnover of the Hong Kong stock market was approximately HK\$117.5 billion, representing an increase of 20% as compared to that of the corresponding period of last year. The Group actively responded to the aforesaid markets changes by consolidating its existing operation and constantly improving the service quality and capability of traditional brokerage business. In addition, the Group took proactive measures to introduce experts from the market, established a new wealth management business structure and continued to push forward the transformation of its wealth management business, in an effort to provide high-net-worth, ultra-high-net-worth and core strategic clients with integrated financial and wealth management advisory services, improve customer service experience, strengthen customer loyalty and maximise customer value. During the period under review, the fee and commission income from the wealth management business line increased by 101% year-on-year to HK\$91.79 million, while interest income increased by 2% to HK\$77.03 million.

The Group will continue to improve the construction of the wealth management platform by applying internet technology to update various trading platforms and facilities, and expand the service scope and enrich product lines to attract quality clients, with an aim to establish a professional system that offers high-net-worth clients integrated financial services. The Group will further enhance the flexibility of its margin financing business to meet different needs of various clients. By establishing a customer demand-oriented service system, the Group aims to provide clients with comprehensive financial services to improve user experience and to expand integrated business by leveraging on the resources of its core clients, so as to further enhance the synergetic effects among its different business lines and promote business development.

Enterprise Finance Business Line

The enterprise finance business line 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 external equity investment, debt investment, other investments, and providing structured financing solutions for clients.

	For the six months ended 30 June		
	2020	2019	%
	HK\$'000	HK\$'000	
Fee and commission income	23,769	115,446	(79%)
Net investment gains/(losses)	(4,105)	3,532	N/A
	19,664	118,978	(83%)

During the first half of 2020, given that the outbreak of the pandemic has resulted in delay, to varying degree, of the financing projects in the Hong Kong stock market, the sponsorship and underwriting business of the Group was also hit hard. However, such decrease in the sponsorship and underwriting business was offset by the strong growth in the debt capital market business benefitting from the abundant resources accumulation. During the period under review, the fee and commission income from the enterprise finance business line decreased by 79% year-on-year to HK\$23.77 million. In addition, the Group used its own funds to invest and recorded net investment losses of HK\$4.11 million.

Review of Operations (Cont'd)

—Sponsorship and underwriting and financial advisory

During the period under review, the Group unwaveringly implemented its internationalization strategy with the support of the parent company. 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

The Group re-planned and completed building the equity capital market team and continued to provide customers with comprehensive services during the period under review. The Group also actively deployed in selected key industries with increased quality of underwriting projects participated as compared to 2019. The equity capital market team completed a total of 3 IPO underwriting projects during the period under review. The Group will further strengthen the construction of the equity capital market team and the underwriting placement network, and enhance the connection of client resources with domestic and overseas and internal business teams.

—Debt capital market

Benefitting from the solid foundation laid in 2019, the Group completed a total of 8 bond issuance projects during the period under review, including 4 real estate projects and 4 LGFVs which raised US\$1.072 billion and US\$570 million for the clients, respectively. Being affected by the outbreak of the pandemic and the travel restrictions, the Group will continue to step up collaborative cooperation with its parent company and other branches and make full use of domestic client resources to explore quality external debt projects such as large-scale central government-controlled enterprises and state-owned conglomerates, in an effort to improve its comprehensive market ranking. Meanwhile, the Group will continue to recruit excellent staff for its contracting and undertaking business, so as to improve the capacity for undertaking projects and profitability of its debt capital market business.

—Structured finance

During the period under review, the Group continued to improve its product types of structured finance services, by providing institutional, corporate and retail clients with customized financing solutions and structured product designs, providing customers with flexible and rich capital intermediary services. The Group has strengthened strategic client service to increase business income through diversified products.

Review of Operations (Cont'd)

Institutional Services and Trading Business Line

The institutional services and trading business line 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		
	2020	2019	2020	2019	2020	2019	2020	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Fixed income, currencies and commodities	-	-	23,422	-	155,965	65,598	179,387	65,598	173%
Stock business	24,715	35,177	10,493	8,104	-	-	35,208	43,281	-19%
	24,715	35,177	33,915	8,104	155,965	65,598	214,595	108,879	97%

In the first half of 2020, the global market experienced significant fluctuations and even a certain degree of financial crisis in March. In the face of a volatile market, the Group continued to step up its efforts in the fixed income sales and trading business. Fixed income, currencies and commodities business recorded net investment gains of HK\$156 million and interest income from structured products of HK\$23.42 million, driving the revenue from the institutional services and trading business line to increase by 97% year-on-year to HK\$215 million.

In terms of the fixed income sales and trading business, the Group expanded its trading portfolio from approximately HK\$2.2 billion in the end of last year to approximately HK\$3.3 billion with a stable profit growth through prudent strategies and flexible hedging approaches during the period under review. Even when the market recorded an overall decline of approximately 10% in late March, the Group continued to achieve positive net profit during the period. Apart from the traditional credit bonds trading, the Group selected structured products as one of its priority development businesses for the year and also made proactive efforts in promoting the development of businesses such as the interest rate and foreign exchange derivative products. In addition, the newly established financial products department has completed the team building and closed two structured note transactions with clients. Based on the existing fixed income-linked structured products, the Group will further step up its efforts in the development of equity derivatives and structured products.

In terms of stock sales and trading business, the Group has restructured the institutional sales team and transited to an advanced high-end trading system, which comprehensively improve the service quality for institutional clients from transaction stability, algorithmic trading and electronic transactions. In addition, the sales team of institutions has laid a solid foundation for the further development of overseas stock business by expanding service coverage of overseas market trading business. The Group will continue to seize the opportunity of international investors' capital inflows under the opening up of the A-share market and capture the opportunities arising from the secondary listing of the Chinese concepts stocks on the Hong Kong stock market, so as to provide institutional clients with more diversified and richer equity trading services.

Review of Operations (Cont'd)

Asset Management Business Line

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

Due to the changes in regulatory policies and the demand for Hong Kong asset management business of Chinese securities firms, coupled with the serious impact on the traditional Chinese cross-border asset management business brought by the cost advantage of foreign banks due to the decreasing LIBOR rate, the development of the cross-border asset management business was hindered to a certain extent. Moreover, the promulgation of some new policies and regulations, such as the forthcoming mutual recognition of bank wealth management, will also shake up the competitive landscape of the Hong Kong asset management sector. Revenue from asset management business decreased by 57% year-on-year to HK\$6.82 million during the period under review.

The Group continued to proactively push forward the transformation into active management for the fixed income and quasi-fixed income sectors. Taking Hong Kong as a center of operation and leveraging on the development of the Greater Bay Area, the Group also actively explored markets in Japan and Singapore, with an aim to accelerate its international development pace. The Group will seize the market opportunities, explore business potential, optimize operating mechanism, improve management efficiency and coordinate with other three business lines to develop a wide variety of active management products, so as to meet the needs of clients from different markets.

Prospects

From the perspective of the global financial market environment, the global monetary policy in the first half of 2020 showed a loose pattern in order to cope with the short-term impact of the pandemic on the economy. As the pandemic entered the second phase and some economies experienced a rebound in confirmed cases following the reopening of the economy, it is expected that the overall easing liquidity position will remain unchanged. However, in view of gradual recovery of the major economies, we expect to witness marginal narrowing in terms of the overall monetary policy in the second half of the year, and recovery of corporate profitability may again dominate the financial market. From the perspective of expected returns, China's assets may be relatively dominant against the backdrop of China's lead in effectively controlling the outbreak and continuous deepening reforms.

In the Mainland, following the contraction in economic growth in the first quarter, the PRC economy picked up in the second quarter, fully demonstrating the endogenous resilience of the economy. However, in the context of persistently high uncertainties surrounding the external environment, it is expected that the government will continue to implement overall proactive policies to maintain the stable and positive growth momentum of the economy. The year of 2021 marks the beginning of the "14th Five-Year" Plan, under which industries such as the technology and advanced manufacturing are expected to obtain further support. Under a backdrop with signs of recovery of the economy and a favorable policy environment, we are cautiously optimistic about the performance of the A-share market in the second half of 2020, where the growth sectors will remain strong while the undervalued sectors are also expected to rally, driven by the recovery of the economy.

Prospects (Cont'd)

In Hong Kong, in the context of secondary listing of the Chinese concept stocks and reform of index methodology, the growth sectors will have increasing influence over the Hong Kong stock market, while the Chinese value sectors that offer stable dividend distribution are becoming increasingly attractive as opposed to restrictions on dividend distribution by the finance industry imposed in the developed economies. The overall valuation of the Hong Kong stock market will remain at a low level. Regarding the structure of investors, the market continued to record a net inflow of southbound fund from Mainland China, and this trend is expected to extend into the second half of the year.

In the second half of 2020, the Group will continue to pay close attention to the development trend of the pandemic and make prompt adjustment to its business strategy to ensure stable development of its businesses. Under the circumstances of Mainland China further opening up its financial market and vigorously advancing the strategic layout of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group, as the most important business center and main execution platform for Shenwan Hongyuan Group's overseas and cross-border business, will further optimise its asset-liability structure, improve its operation coordination capability, vigorously explore the integrated capital intermediary business towards institutional clients, optimise the wealth management business, strengthen product platform for asset management, leverage the resource advantages of domestic parent company, consolidate the competitive strategy of the "investment + investment bank", provide clients with integrated domestic and overseas corporate financial services, and strive to become an integrated financial services provider with international competitiveness.

Capital Structure

During the period, there was no change to the share capital of the Company. As at 30 June 2020, 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\$3.93 billion (31 December 2019: HK\$3.92 billion).

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2020, the Group had cash and bank balances of HK\$923 million (31 December 2019: HK\$938 million) and investments at fair value through profit or loss of HK\$2,589 million (31 December 2019: HK\$2,189 million). As at 30 June 2020, the Group's total unutilised banking facilities amounted to HK\$2,325 million (31 December 2019: HK\$3,523 million), of which HK\$1,833 million (31 December 2019: HK\$1,523 million) could be drawn down without the need of notice nor completion of condition precedent.

As at 30 June 2020, the Group had outstanding short-term bank borrowings amounting to HK\$4,387 million (31 December 2019: HK\$779 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (bank borrowings to net asset value) were 123% (31 December 2019: 143%) and 112% (31 December 2019: 20%) 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, the Group did not hold any significant investment and did not have any material acquisition or disposal.

Charges on the Group's Asset

No asset of the Group was subject to any charge as at 30 June 2020.

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 2020, the advances to customers were overdue account receivables from cash clients, margin financing and structured products.

As at 30 June 2020, the balance of overdue account receivables from cash clients, margin financing and structured products amounted to HK\$271 million (31 December 2019: HK\$32 million), HK\$2,423 million (31 December 2019: HK\$873 million) and HK\$493 million (31 December 2019: HK\$312 million), respectively.

37% (31 December 2019: 25%) 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 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 2020.

Employees and Training

As at 30 June 2020, the total number of full-time employees was 268 (2019: 266). The total staff costs for the period amounted to approximately HK\$135.5 million (2019: HK\$122.6 million).

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 9 (2019: 5) Continuous Professional Training seminars for all licensed staff members during the six months ended 30 June 2020.

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.

CORPORATE GOVERNANCE CODE

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviation from the code provision A.6.7 which is explained as below, the Company has met all the code provisions stipulated in Appendix 14, Corporate Governance Code and Corporate Governance Report, of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2020.

Code provision A.6.7 specifies that independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Due to other commitments at that relevant time, a non-executive director and an independent non-executive director of the Company were unable to attend the annual general meeting of the Company held on 22 May 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of 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.

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 results announcement and interim report of the Company for the six months ended 30 June 2020.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited ("HKEx") at <http://www.hkexnews.hk> and on the Company's website at <http://www.swhyhk.com>. The 2020 interim report of the Company will be dispatched to the shareholders and will be available on the websites of HKEx and the Company in due course.

DIRECTORS

As at the date of this announcement, the Board of the Company comprises 9 directors, of which Mr. Chen Xiaosheng, Mr. Zhang Jian, Mr. Guo Chun, Ms. Wu Meng and Mr. Qiu Yizhou 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
Chen Xiaosheng
Chairman

Hong Kong, 7 August 2020