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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 2021

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 2021 together with comparative figures for the corresponding period of last year.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June

		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
	<i>Notes</i>		
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 TAX		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	5.17 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

	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
PROFIT	<u>53,666</u>	<u>80,697</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)	(2,146)	(20,302)
Exchange loss on translation of financial statements of overseas operations	<u>(4,769)</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX	<u>(6,915)</u>	<u>(20,302)</u>
TOTAL COMPREHENSIVE INCOME	<u><u>46,751</u></u>	<u><u>60,395</u></u>
Attributable to:		
Ordinary equity holders of the Company	46,751	60,395
Non-controlling interests	<u>-</u>	<u>-</u>
	<u><u>46,751</u></u>	<u><u>60,395</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
<u>NON-CURRENT ASSETS</u>			
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		723,101	844,844
Right-of-use assets		75,659	38,119
Deferred tax assets		<u>6,349</u>	<u>3,954</u>
 Total non-current assets		 <u>844,775</u>	 <u>935,250</u>
<u>CURRENT ASSETS</u>			
Investments at fair value through profit or loss		5,978,531	3,618,331
Other financial assets		949,074	987,844
Account receivables	7	5,868,336	2,014,818
Loans and advances		7,686,148	2,893,038
Prepayments, deposits and other receivables		232,292	545,290
Obligations under repurchase agreements		787,267	89,025
Tax recoverable		27,701	33,236
Bank balances held on behalf of clients		4,427,972	4,756,813
Cash and bank balances		<u>521,008</u>	<u>414,929</u>
 Total current assets		 <u>26,478,329</u>	 <u>15,353,324</u>
<u>CURRENT LIABILITIES</u>			
Financial liabilities at fair value through profit or loss		3,791,383	1,391,695
Account payables	8	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		8,671,769	4,271,923
Lease liabilities		55,084	25,786
Tax payable		<u>44,950</u>	<u>35,799</u>
 Total current liabilities		 <u>23,276,028</u>	 <u>12,236,255</u>
 <i>NET CURRENT ASSETS</i>		 <u>3,202,301</u>	 <u>3,117,069</u>
 <i>TOTAL ASSETS LESS CURRENT LIABILITIES</i>		 <u>4,047,076</u>	 <u>4,052,319</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

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

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 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.

1. GENERAL INFORMATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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.

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>					
Six months ended 30 June 2021							
Segment revenue and other loss 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					
	<i>HK\$'000</i>	<i>HK\$'000</i>					
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

3. REVENUE AND OTHER LOSSES, NET

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<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	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
<i>Income from interest bearing transactions:</i>		
<u>Interest income calculated using the effective interest method:</u>		
Interest income from banks and others	7,277	29,967
Interest income from initial public offering loans	27,228	14,992
<u>Revenue from other sources:</u>		
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
<i>Investment gains, net:</i>		
<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
<i>Other gains/(losses), net:</i>		
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)

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	2020
	(Unaudited) HK\$'000	(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
	<u>9,166</u>	<u>8,960</u>
Current – Elsewhere	-	(91)
Deferred	<u>(2,395)</u>	<u>3,259</u>
Total tax charge for the period	<u>6,771</u>	<u>12,128</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 2021, the total number of the issued ordinary shares was 1,561,138,689 shares.

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

6. DIVIDEND

	For the six months ended 30 June	
	2021	2020
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interim – Nil (2020: Nil) per ordinary share	-	-

7. ACCOUNT RECEIVABLES

	As at	As at
	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
	HK\$'000	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	<u>221,305</u>	<u>178,778</u>
	5,530,037	1,973,282
Account receivables arising from corporate finance, advisory and other services:		
- Corporate Clients	<u>30,269</u>	<u>14,552</u>
	5,560,306	1,987,834
Less: Expected credit losses (Stage 1)	<u>(806)</u>	<u>(806)</u>
	<u>5,559,500</u>	<u>1,987,028</u>
(ii) Measured at FVPL:		
Account receivables arising from securities dealing:		
- Advances to cash clients	<u>308,836</u>	<u>27,790</u>
	<u>5,868,336</u>	<u>2,014,818</u>

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).

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 2021 (Unaudited) <i>HK\$'000</i>	As at 31 December 2020 (Audited) <i>HK\$'000</i>
Within 1 month	3,315,293	988,552
1 to 2 months	5,264	411,628
2 to 3 months	1,830	4,276
Over 3 months	<u>12,668</u>	<u>6,159</u>
	<u>3,335,055</u>	<u>1,410,615</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 2021 (Unaudited) <i>HK\$'000</i>	As at 31 December 2020 (Audited) <i>HK\$'000</i>
Account payables		
- Client	7,329,330	5,997,234
- Brokers and dealers	1,908,504	187,285
- Clearing houses	<u>-</u>	<u>75,097</u>
	<u>9,237,834</u>	<u>6,259,616</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 2021.

10. COMPARATIVE FIGURES

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

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 2021 (2020: Nil).

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”. 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.

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.

	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%

Review of Operations (Cont'd)

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 60% from HK\$117.5 billion in the first half of 2020.

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	2020	%
	HK\$'000	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.

Review of Operations (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.

Review of Operations (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.

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%.

Review of Operations (Cont'd)

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	2020	%
	HK\$'000	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.

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 beta level opportunities, while the 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.

Prospects (Cont'd)

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.

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).

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 investments 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.

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, margin financing and structured products.

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) and 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.

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.

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 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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 2021.

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 2021 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. 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