



China Industrial Securities International Financial Group Limited

興證國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8407)

**ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors (the “Directors”) of China Industrial Securities International Financial Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

RESULTS

The board of directors of China Industrial Securities International Financial Group Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016, with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2016 HK\$	2015 HK\$
Revenue	4	507,300,113	364,324,168
Other income	4	7,419,660	3,865,371
Finance costs		(73,251,260)	(45,843,172)
Commission and fee expenses		(47,536,937)	(79,996,504)
Staff costs		(129,440,925)	(100,009,268)
Other operating expenses		(92,383,061)	(85,253,840)
Listing expenses		(22,899,313)	(1,598,329)
Other gains or losses	5	(15,831,828)	(7,419,313)
Profit before taxation	5	133,376,449	48,069,113
Taxation	6	(32,256,895)	2,434,920
Profit for the year		<u>101,119,554</u>	<u>50,504,033</u>
Other comprehensive (expense) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating financial statements of foreign operation		–	(58,172)
Change in fair value of available-for-sale financial assets		10,379,590	–
Disposal of available-for-sale financial assets		(48,484,195)	–
Reclassification of exchange differences on translating financial statements of foreign operation upon 100% redemption of a wholly owned investment fund		–	18,501,752
Other comprehensive (expense) income for the year		<u>(38,104,605)</u>	<u>18,443,580</u>
Total comprehensive income for the year attributable to owners of the Company		<u><u>63,014,949</u></u>	<u><u>68,947,613</u></u>
Earnings per share			
Basic (expressed in HKD)	7	<u><u>0.0420</u></u>	<u><u>0.0991</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>NOTES</i>	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Non-current assets			
Property and equipment		6,942,085	10,170,765
Intangible assets		2,612,040	3,019,998
Available-for-sale financial assets	<i>13</i>	3,181,350,771	–
Loans receivable	<i>8</i>	2,000,000	–
Statutory deposits		8,875,453	9,717,842
Deposits, other receivables and prepayments		7,612,939	6,585,008
		<u>3,209,393,288</u>	<u>29,493,613</u>
Current assets			
Accounts receivable	<i>9</i>	4,090,591,460	2,683,432,603
Loans receivable	<i>8</i>	73,400,000	282,300,000
Financial assets at fair value through profit or loss	<i>12</i>	1,803,902,667	–
Statutory deposits		3,614,360	12,385,409
Deposits, other receivables and prepayments		73,249,491	11,384,185
Amounts due from related parties		–	3,804,021
Bank balances – trust accounts		3,171,106,387	1,655,617,525
Bank balances – general accounts and cash		972,889,752	238,022,069
		<u>10,188,754,117</u>	<u>4,886,945,812</u>
Current liabilities			
Accounts payable	<i>10</i>	4,646,186,272	1,943,190,294
Accruals and other payables		99,594,969	57,285,281
Amounts due to related parties		3,928,514	–
Tax payable		33,267,865	149,650
Bank borrowings		4,142,518,829	2,416,068,466
Other borrowings		177,577,860	–
		<u>9,103,074,309</u>	<u>4,416,693,691</u>
Net current assets		<u>1,085,679,808</u>	<u>470,252,121</u>

	<i>NOTES</i>	2016 HK\$	2015 <i>HK\$</i>
Non-current liabilities			
Other liability		–	873,961
Deferred tax liabilities		748,295	1,615,788
		<hr/>	<hr/>
Net assets		<u>4,294,324,801</u>	<u>497,255,985</u>
Capital and reserves			
Share capital	<i>11</i>	400,000,000	1,000
Share premium		3,379,895,424	–
Retained earnings (accumulated losses)		98,514,317	(2,605,237)
Investments revaluation reserve		(38,104,605)	–
Other reserves		11,577,844	8,419,401
Capital reserve		442,441,821	491,440,821
		<hr/>	<hr/>
Equity attributable to owners of the Company		<u>4,294,324,801</u>	<u>497,255,985</u>

Notes:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. Its immediate holding company is China Industrial Securities International Holdings Limited (“CISI Holdings”) and CISI Holdings is 100% owned by Industrial Securities (Hong Kong) Financial Holdings Limited, the intermediate holding company of the Company. Industrial Securities Company Limited (“Industrial Securities”), a company incorporated in the PRC, is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC.

The shares of the Company have been listed in the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 20 October 2016. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

The Group has consistently applied all HKFRSs issued by HKICPA which are effective as at 1 January 2016 throughout the year.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments ²
HKFRS 15	Revenue from contracts with customers and the related amendments ²
HKFRS 16	Leases ³
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts ²
Amendments to HKAS 7	Disclosure initiative ¹
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁴

¹ *Effective for annual periods beginning on or after 1 January 2017.*

² *Effective for annual periods beginning on or after 1 January 2018.*

³ *Effective for annual periods beginning on or after 1 January 2019.*

⁴ *Effective for annual periods beginning on or after a date to be determined.*

3. SEGMENT REPORTING

Information reported to the Board of Directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group’s operations are located in Hong Kong. The principal activities of the reportable and operating segments under HKFRS 8 are as follows:

Brokerage – provision of securities, futures and options, and insurance brokerage;

Loans and financing – provision of margin financing and secured or unsecured loans to customers;

Investment banking – provision of financial advisory, sponsor, placing and underwriting services;

Assets management – provision of fund management, discretionary account management (previously named wealth management) and investment advisory services;

Proprietary trading – trading of debt and equity securities, fixed income, derivatives and other financial products.

Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

3. SEGMENT REPORTING (Continued)

For the year ended 31 December 2016

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Assets management HK\$	Proprietary trading HK\$	Eliminations HK\$	Consolidated HK\$
Segment revenue and result							
Revenue from external customers	105,344,793	223,919,007	20,995,911	9,303,771	-	-	359,563,482
Net gains on proprietary trading	-	-	-	-	147,736,631	-	147,736,631
Inter-segment revenue	418,699	-	22,597,832	-	-	(23,016,531)	-
Segment revenue and net gains on proprietary trading	<u>105,763,492</u>	<u>223,919,007</u>	<u>43,593,743</u>	<u>9,303,771</u>	<u>147,736,631</u>	<u>(23,016,531)</u>	<u>507,300,113</u>
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							<u>507,300,113</u>
Segment results	19,909,567	133,169,658	2,466,713	(4,711,778)	30,552,089	-	181,386,249
Unallocated expenses							<u>(48,009,800)</u>
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							<u>133,376,449</u>
Other segmental information included in the measure of segment results							
Depreciation	<u>3,335,750</u>	<u>-</u>	<u>4,470</u>	<u>18,052</u>	<u>133,840</u>	<u>-</u>	3,492,112
Unallocated:							<u>4,562,273</u>
							<u>8,054,385</u>
Amortisation	<u>266,999</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>54,199</u>	<u>-</u>	321,698
Unallocated:							<u>609,038</u>
							<u>930,736</u>
Interest income	<u>5,236,313</u>	<u>223,920,728</u>	<u>2,718</u>	<u>2,019</u>	<u>83,341,077</u>	<u>-</u>	312,502,855
Unallocated:							<u>696,957</u>
							<u>313,199,812</u>
Interest expenses	<u>148,286</u>	<u>44,248,012</u>	<u>-</u>	<u>-</u>	<u>91,383,878</u>	<u>(62,528,916)</u>	<u>73,251,260</u>

3. SEGMENT REPORTING (Continued)

For the year ended 31 December 2015

	Brokerage <i>HK\$</i>	Loans and financing <i>HK\$</i>	Investment banking <i>HK\$</i>	Assets management <i>HK\$</i>	Proprietary trading <i>HK\$</i>	Eliminations <i>HK\$</i>	Consolidated <i>HK\$</i>
Segment revenue and result							
Revenue from external customers	175,164,396	127,030,188	25,615,792	7,068,319	–	–	334,878,695
Net gains on proprietary trading	–	–	–	–	29,445,473	–	29,445,473
Inter-segment revenue	–	–	–	5,633,995	–	(5,633,995)	–
Segment revenue and net gains on proprietary trading	<u>175,164,396</u>	<u>127,030,188</u>	<u>25,615,792</u>	<u>12,702,314</u>	<u>29,445,473</u>	<u>(5,633,995)</u>	<u>364,324,168</u>
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							<u>364,324,168</u>
Segment results	49,578,718	45,420,958	9,300,573	6,886,655	(6,588,246)		104,598,658
Unallocated expenses							<u>(56,529,545)</u>
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							<u>48,069,113</u>
Other segmental information included in the measure of segment results							
Depreciation	<u>3,265,121</u>	<u>–</u>	<u>8,265</u>	<u>12,397</u>	<u>–</u>	<u>–</u>	3,285,783
Unallocated:							<u>3,395,620</u>
							<u>6,681,403</u>
Amortisation	<u>132,861</u>	<u>–</u>	<u>167</u>	<u>–</u>	<u>–</u>	<u>–</u>	133,028
Unallocated:							<u>519,316</u>
							<u>652,344</u>
Interest income	<u>2,684,515</u>	<u>127,030,232</u>	<u>3,421</u>	<u>2,526</u>	<u>13,480,135</u>	<u>–</u>	143,200,829
Unallocated:							<u>10,223</u>
							<u>143,211,052</u>
Interest expenses	<u>665,733</u>	<u>60,208,187</u>	<u>–</u>	<u>–</u>	<u>7,798,359</u>	<u>(22,829,107)</u>	<u>45,843,172</u>

3. SEGMENT REPORTING (Continued)

Geographical information

Other than the income generated from the proprietary trading business in CISI Investment Fund Segregated Portfolio Company – IS RMB Fixed Income Fund Segregated Portfolio (“ISRFIF”) amounting to approximately HK\$28,383,000 for the year ended 31 December 2015, the Group’s revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group’s non-current assets excluded financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented for both years.

Information about major customers

No single customer contributes 10% or more to the Group’s revenue from external customers for both years.

4. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Brokerage:		
Commission and fee income from securities brokerage	82,444,968	115,595,417
Commission and fee income from futures and options brokerage	<u>20,466,463</u>	<u>59,568,979</u>
	<u>102,911,431</u>	<u>175,164,396</u>
Loans and financing:		
Interest income from margin financing	207,896,302	107,108,132
Interest income from money lending activities	<u>16,022,705</u>	<u>19,922,056</u>
	<u>223,919,007</u>	<u>127,030,188</u>
Investment banking:		
Commission on placing, underwriting and sub-underwriting	14,700,911	20,997,217
Financial advisory fee income	595,000	2,218,575
Sponsor fee income	<u>5,700,000</u>	<u>2,400,000</u>
	<u>20,995,911</u>	<u>25,615,792</u>

4. REVENUE AND OTHER INCOME (Continued)

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Asset management:		
Asset management fee income	7,108,468	5,534,168
Investment advisory fee income	<u>2,195,303</u>	<u>1,534,151</u>
	<u>9,303,771</u>	<u>7,068,319</u>
Wealth management:		
Insurance brokerage commission income	<u>2,433,362</u>	–
Proprietary trading:		
Interest income from financial assets at fair value through profit or loss	23,322,594	12,902,976
Dividend income from financial assets at fair value through profit or loss	–	2,063,592
Net realised gain on financial assets at fair value through profit or loss	23,078,260	21,865,019
<i>Less: unrealised gain recognised in prior year</i>	–	(7,386,114)
Net unrealised loss on financial assets at fair value through profit or loss	(18,313,591)	–
Interest income from available-for-sale financial assets	60,018,483	–
Net realised gain on available-for-sale financial assets	48,484,195	–
Net realised gain on derivatives	10,884,049	–
Net unrealised gain on derivatives	<u>262,641</u>	–
	<u>147,736,631</u>	<u>29,445,473</u>
	<u>507,300,113</u>	<u>364,324,168</u>
Other income		
	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Interest income from financial institutions	5,939,728	3,277,888
Sundry income	<u>1,479,932</u>	<u>587,483</u>
	<u>7,419,660</u>	<u>3,865,371</u>

5. PROFIT BEFORE TAXATION

	2016	2015
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation has been arrived at after charging (crediting):		
Staff costs (including directors' remuneration and five highest paid employees) (note a)	129,440,925	100,009,268
Salaries and bonuses	127,318,328	97,968,697
Contribution to the Mandatory Provident Fund Scheme	1,686,575	1,324,552
Other staff costs	436,022	716,019
Auditor's remuneration	1,376,500	734,711
Legal and professional fee	1,949,023	1,086,110
Minimum operating lease payments	22,220,241	19,293,397
Amortisation of intangible assets	930,736	652,344
Depreciation of property, plant and equipment	8,054,385	6,681,403
Telephone and postage	3,391,748	3,734,758
Maintenance fee	11,933,385	13,307,105
Transportation expenses	2,669,849	2,965,789
Other gains or losses	15,831,828	7,419,313
Exchange loss (gain)	15,841,278	(11,082,861)
Other loss (note b)	–	18,501,752
(Gain) loss on disposal of property and equipment	(9,450)	422
Entertainment expenses	4,270,273	4,852,121

Notes:

- (a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance.
- (b) Amount arising from reclassification of exchange difference on translation of financial statements of foreign operation upon 100% redemption of ISRFIF, a wholly owned investment fund, during the year ended 31 December 2015. No such amount was recognised during the year ended 31 December 2016.

6. TAXATION

	2016	2015
	HK\$	HK\$
Current tax:		
People's Republic of China ("PRC") Corporate Income Tax	–	252,012
Hong Kong Profits Tax	<u>33,267,865</u>	<u>124,958</u>
	<u>33,267,865</u>	<u>376,970</u>
(Over) underprovision in prior year:		
PRC Corporate Income Tax	–	(3,421,902)
Hong Kong Profits Tax	<u>(143,477)</u>	<u>24,692</u>
	<u>(143,477)</u>	<u>(3,397,210)</u>
	<u>33,124,388</u>	<u>(3,020,240)</u>
Deferred tax		
Current year	<u>(867,493)</u>	<u>585,320</u>
	<u><u>32,256,895</u></u>	<u><u>(2,434,920)</u></u>

According to Guoshuihan [2009] No. 47 issued by the State Administration of Taxation in the PRC on 23 January 2009 ("Circular 47"), Qualified Foreign Institutional Investors ("QFIIs") would be subject to a corporate income tax rate of 10% on their PRC-sourced dividends, bonus profits and interest. On 17 November 2014, the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission in the PRC, have jointly issued Caishui [2014] No. 79 ("Circular 79"), which temporarily exempts QFIIs and RMB Qualified Foreign Institutional Investors ("RQFIIs") from capital gains derived from the trading of shares and other equity interest investments on or after 17 November 2014, and those capital gains derived prior to 17 November 2014 would be subject to Corporate Income Tax in accordance with the relevant laws in the PRC.

In respect of the uncertainty of the definition of equity investments in the PRC tax law, the management of the Group provided the PRC Corporate Income Tax at a rate of 10% on the net realised and unrealised gain, and accrued interest on the PRC debt securities held by ISRFIF, a wholly owned investment fund of the Group, through the RQFII program, for the year ended 31 December 2014. Upon disposal of all debt securities held by ISRFIF and the completion of outbound repatriation of the monies held by ISRFIF after approval from relevant authorities in the PRC in 2015, the management of the Group considers that the uncertainty for the PRC Corporate Income Tax on certain income derived by ISRFIF is significantly reduced, and the overprovision for PRC Corporate Income Tax is reversed in the year ended 31 December 2015.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits throughout the years ended 31 December 2016 and 2015.

6. TAXATION (Continued)

The tax charge (credit) for the years ended 31 December 2016 and 2015 can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Profit before taxation	<u>133,376,449</u>	<u>48,069,113</u>
Tax at domestic income tax rate (16.5%)	22,007,115	7,931,403
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	(1,442,204)
Tax effect of expenses not deductible for tax purpose	11,607,036	9,089,538
Tax effect of income not taxable for tax purpose	(4,871,248)	(10,046,504)
Tax effect of income taxable arising from inter-company transaction	3,233,642	–
Tax effect of tax losses not recognised	1,573,019	2,668,888
Utilisation of tax losses previously not recognised	(969,782)	(7,591,488)
Overprovision in prior year	(143,477)	(3,397,210)
Others	<u>(179,410)</u>	<u>352,657</u>
Tax charge (credit) for the year	<u>32,256,895</u>	<u>(2,434,920)</u>

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data on the assumption that the Group had been in existence throughout the years ended 31 December 2016 and 2015:

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Earnings (<i>HK\$</i>)		
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to owners of the Company	<u>101,119,554</u>	<u>50,504,033</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,410,077,821</u>	<u>509,383,471</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue as defined in note 11 had been effective on 1 January 2015.

For each of the years ended 31 December 2016 and 2015, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

8. LOANS RECEIVABLE

	2016	2015
	HK\$	HK\$
Fixed-rate loans receivable	<u>75,400,000</u>	<u>282,300,000</u>
Analyses as:		
Current	<u>73,400,000</u>	282,300,000
Non-current	<u>2,000,000</u>	—
	<u>75,400,000</u>	<u>282,300,000</u>

The credit quality of loans receivable are summarised as follows:

	2016	2015
	HK\$	HK\$
Neither past due nor impaired	<u>75,400,000</u>	<u>282,300,000</u>

The exposure of the Group's fixed-rate loans receivable to interest rate risks and their contractual maturity dates are as follows:

Fixed-rate loans receivable denominated in HKD

	Effective interest rate	2016	2015
		HK\$	HK\$
Within one year	(2016: 6.00% to 8.25% per annum; 2015: 6.25% to 8.25% per annum)	<u>73,400,000</u>	282,300,000
In more than one year but not more than two years	(2016: 3.00% per annum)	<u>2,000,000</u>	—
		<u>75,400,000</u>	<u>282,300,000</u>

As at 31 December 2016, the loans receivable amounting to HK\$73,400,000 (2015: HK\$282,300,000) are secured by listed securities from the borrowers and cash balance in their cash clients' accounts with aggregates fair value of HK\$142,151,171 (2015: HK\$1,963,626,561). At 31 December 2016 and 2015, the fair value of the collateral is sufficient to cover the balance of loans on an individual basis, and the directors of the Company consider the amounts to be recoverable. At 31 December 2016, there is an unsecured loan receivable of HK\$2,000,000, the directors of the Company consider the amount to be recovered based on the evaluation of the repayment capacity of the borrower.

9. ACCOUNTS RECEIVABLE

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Accounts receivable arising from the business of dealing in securities:		
Clearing house	100,521,588	33,762,232
Cash clients	17,623,497	48,528,276
Secured margin loans	3,715,833,985	2,421,317,090
Brokers	<u>12,507,183</u>	<u>16,295,234</u>
	<u>3,846,486,253</u>	<u>2,519,902,832</u>
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing house	21,400,391	18,641,515
Brokers	<u>148,328,311</u>	<u>134,452,891</u>
	<u>169,728,702</u>	<u>153,094,406</u>
Accounts receivable arising from the business of corporate finance	<u>309,472</u>	<u>7,941,669</u>
Accounts receivable arising from the business of asset management	<u>4,092,010</u>	<u>2,493,696</u>
Accounts receivable arising from the business of wealth management:		
Brokers	<u>57,041</u>	–
Accounts receivable arising from the business of proprietary trading:		
Brokers	<u>69,917,982</u>	–
	<u>4,090,591,460</u>	<u>2,683,432,603</u>

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

9. ACCOUNTS RECEIVABLE (Continued)

In respect of accounts receivable arising from the business of dealing in securities, included in the accounts receivable from cash clients are debtors with a carrying amount of HK\$5,791,160 (2015: HK\$14,986,312) as at 31 December 2016, which are past due at the end of each reporting period but which the directors of the Company consider not to be impaired as there has not been a significant change in credit quality and a substantial portion of the carrying amount is subsequently settled. The directors of the Company consider full amounts to be recoverable.

The accounts receivable from cash clients with a carrying amount of HK\$11,832,337 (2015: HK\$33,541,964) are neither past due nor impaired as at 31 December 2016 and the directors of the Company are of the opinion that the amounts are recoverable.

For secured margin loans, as at 31 December 2016 and 2015, the loans are repayable on demand subsequent to settlement date and carry interest at Hong Kong prime rate plus 3% per annum during the years ended 31 December 2016 and 2015. They are generally included in “Neither past due nor impaired” category. The total market value of securities pledged as collateral in respect of the loans to margin clients were approximately HK\$13,752,186,000 (2015: HK\$8,940,763,000) as at 31 December 2016. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the eligible margin value of securities deposited. As at 31 December 2016, 94% (2015: 98%) of the outstanding balances were secured by sufficient collateral on an individual basis. The collateral held can be repledged and can be sold at the Group’s discretion to settle any outstanding amount owed by margin clients. Management of the Group has assessed the market value of the pledged securities of each individual customer that has margin shortfall as at the end of each reporting period and considered that no impairment allowance is necessary taking into consideration of subsequent repayment of monies or additional collateral received from clients or their guarantors. The Group had obtained margin clients’ consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKFE Clearing Corporation Limited (“HKCC”) (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this “mark-to-market” settlement arrangement are included in accounts receivables with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business of corporate finance clients, asset management clients and wealth management are determined in accordance with the agreed terms, usually within one year after the service was provided. As at 31 December 2016 and 2015, these accounts receivable are included in “neither past due nor impaired” category. The management of the Group believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality.

Normal settlement terms of accounts receivable from brokers arising from the business of proprietary trading are determined in accordance with the agreed terms which are normally two to five days after the trade date. As at 31 December 2016, these accounts receivable are included in “neither past due nor impaired” category.

9. ACCOUNTS RECEIVABLE (Continued)

The aging analysis of the accounts receivable based on past due dates are as follows:

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Past due (accounts receivable from cash clients):		
0 – 30 days	1,353,898	12,741,118
Over 30 days	<u>4,437,262</u>	<u>2,245,194</u>
Accounts receivable which were past due but not impaired	5,791,160	14,986,312
Accounts receivable which were neither past due nor impaired	<u>4,084,800,300</u>	<u>2,668,446,291</u>
	<u><u>4,090,591,460</u></u>	<u><u>2,683,432,603</u></u>

To minimise the Group's exposure to credit risk, there is a credit risk control team responsible for the evaluation of the customers' credit rating, financial background and repayment abilities. Management of the Group has set up the credit limits for each individual customer which could be changed at the Group's discretion. Any further extension of credit beyond these approval limits has to be first approved by the credit risk management department and then by the senior management of the Group on individual basis. The Group has a policy for testing for impairment accounts receivable without sufficient collaterals and those with default or delinquency in interest or principal payments. The assessment is based on an evaluation of the collectability, aging analysis, current creditworthiness, collaterals value, guarantee received and the past collection history of each customer.

In determining the recoverability of the accounts receivable, the Group considers any change in the credit quality of the accounts receivable from the date at which credit was initially granted up to the reporting date. The Group has concentration of credit risk to ten largest margin clients' exposure representing 41% and 33% of the total loans to margin clients as at 31 December 2016 and 31 December 2015. The balances due from the ten largest securities margin clients were approximately HK\$1,521,545,000 and HK\$806,858,000 as at 31 December 2016 and 31 December 2015 respectively, which is neither past due nor impaired, of which the amount is secured by clients' securities with an aggregate fair value of HK\$6,786,254,000 and HK\$3,293,961,000 as at 31 December 2016 and 2015 respectively. The Group believes that the amount is considered recoverable given the collateral provided by respective clients and guarantors of respective clients is sufficient to cover the entire balance on individual basis.

In view of the nature of business of dealing in securities, futures and options contracts and proprietary trading, no aging analysis on those accounts receivable is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

9. ACCOUNTS RECEIVABLE (Continued)

The following is an aging analysis of accounts receivable arising from the business of corporate finance clients and asset management clients net of impairment losses based on date of invoice/contract note at the reporting date:

Corporate finance clients

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Less than 31 days	96,000	4,254,045
31 – 60 days	100,000	2,187,624
61 – 90 days	100,000	–
91 – 180 days	13,472	1,500,000
	<u>309,472</u>	<u>7,941,669</u>

Asset management clients

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Less than 31 days	908,526	720,084
31 – 60 days	693,274	255,897
61 – 90 days	625,247	329,209
91 – 180 days	663,315	655,181
Over 180 days	1,201,648	533,325
	<u>4,092,010</u>	<u>2,493,696</u>

During the years ended 31 December 2016 and 2015, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

The Group offset certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously.

10. ACCOUNTS PAYABLE

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Accounts payable arising from the business of dealing in securities:		
Clearing house	5,860,705	14,316,346
Brokers	2,570,838	23,800,501
Clients	<u>3,053,688,931</u>	<u>1,492,222,004</u>
	<u>3,062,120,474</u>	<u>1,530,338,851</u>
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	<u>485,149,632</u>	<u>412,851,443</u>
Accounts payable arising from the business of proprietary trading:		
Brokers	253,836,244	–
Secured margin loans from broker	<u>845,079,922</u>	<u>–</u>
	<u>1,098,916,166</u>	<u>–</u>
	<u><u>4,646,186,272</u></u>	<u><u>1,943,190,294</u></u>

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

10. ACCOUNTS PAYABLE (Continued)

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of proprietary trading, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

For secured margin loans from broker, the loans are repayable on demand (except certain balances arising from trades pending settlement or margin deposits) and are interest-bearing at the prevailing market interest rate. Only the amounts in excess of the required margin deposits are repayable on demand. The total market value of debt securities pledged as collateral in respect of the loans was approximately HK\$1,355,444,382 as at 31 December 2016 (2015: Nil).

11. SHARE CAPITAL

Details of the movement of share capital for both years are as follows:

	<i>NOTES</i>	Number of ordinary shares of HK\$0.10 each	Share capital HK\$
Authorised:			
At date of incorporation	(a)	10,000	1,000
Increase in authorised share capital	(b)	<u>489,990,000</u>	<u>48,999,000</u>
As at 31 December 2015 and 1 January 2016		490,000,000	49,000,000
Increase in authorised share capital	(c)	2,395,841,579	239,584,158
Increase in authorised share capital	(d)	<u>17,114,158,421</u>	<u>1,711,415,842</u>
As at 31 December 2016		<u><u>20,000,000,000</u></u>	<u><u>2,000,000,000</u></u>

11. SHARE CAPITAL (Continued)

	<i>NOTES</i>	Number of ordinary shares of HK\$0.10 each	Share capital HK\$
Issued and fully paid:			
At date of incorporation	<i>(e)</i>	10,000	1,000
As at 31 December 2015 and 1 January 2016		10,000	1,000
Issue of shares pursuant to the Group Reorganisation	<i>(f)</i>	489,990,000	48,999,000
Issue of shares to CISI Holdings and pre-IPO investors	<i>(g)</i>	2,118,811,876	211,881,188
Issue of shares under ESPS	<i>(h)</i>	277,029,703	27,702,970
Capitalisation issue of shares	<i>(i)</i>	114,158,421	11,415,842
Issue of shares through IPO upon listing	<i>(j)</i>	1,000,000,000	100,000,000
As at 31 December 2016		4,000,000,000	400,000,000

Notes:

- (a) On 21 July 2015, the Company was incorporated in Cayman Island with authorised share capital of HK\$1,000 divided into 10,000 shares of HK\$0.1 each.
- (b) Pursuant to resolutions in writing of the sole shareholder of the Company passed on 18 December 2015, the authorised share capital of the Company was increased from HK\$1,000 to HK\$49,000,000 divided into 490,000,000 shares of a par value of HK\$0.1 each.
- (c) Pursuant to the written resolution of the sole shareholder of the Company passed on 26 April 2016, the authorised share capital of the Company was increased from HK\$49,000,000 to HK\$288,584,158 divided into 2,885,841,579 shares of a par value of HK\$0.1 each.
- (d) Pursuant to the written resolution of the shareholders of the Company passed on 27 July 2016, the authorised share capital of the Company was increased from HK\$288,584,158 to HK\$2,000,000,000 divided into 20,000,000,000 shares of a par value of HK\$0.1 each.
- (e) On 21 July 2015, 10,000 paid shares of HK\$0.1 were issued to CISI Holdings.
- (f) On 22 January 2016, 489,990,000 paid shares of HK\$0.1 were issued to CISI Holdings pursuant to the Group Reorganisation.

11. SHARE CAPITAL (Continued)

- (g) (i) On 26 April 2016, the Company issued 1,485,148,514 ordinary shares of HK\$1.01 each with a par value of HK\$0.1 each at a cash consideration of HK\$1,499,999,999 to CISI Holdings. All new shares issued rank pari passu in all respects with the then existing shares.

(ii) On 26 April 2016, the Company issued 633,663,362 shares of HK\$1.01 each with a par value of HK\$0.1 each, credited as fully paid, for cash consideration of HK\$639,999,996 to the pre-IPO investors. Details of the introduction of pre-IPO investors are set out in section headed “Introduction of Pre-IPO Investors” in the Prospectus. All new shares issued rank pari passu in all respects with the then existing shares.
- (h) An employee share participation scheme (“ESPS”) has been adopted by Industrial Securities (Hong Kong) Financial Holdings Limited for the purpose of incentivising the employees of the Group and to align the interest of the management team of the Group with those of the shareholders of the Company. On 26 April 2016, the Company issued 277,029,703 ordinary shares of HK\$1.01 each under the employee share participation scheme at a total cash consideration of HK\$279,800,000. All new shares issued rank pari passu in all respects with the then existing shares. The shares issued and allotted pursuant to the ESPS (“ES Shares”) are held in a trust. The ES Shares are subject to a lock-up period of twelve months and may be either (i) sold; or (ii) distributed from the trust to the eligible participants under the ESPS, by reference to each eligible participants’ proportional initial contribution of the total consideration paid for the ES Shares. The Company engaged an independent valuer to conduct valuation of such transactions. Based on the valuation report prepared by such independent valuer, as at 26 April 2016 (being the date of the grant of ES Shares), the estimated fair value per ES Share is HK\$1.00. In light of such estimated fair value and on the basis that the subscription price per ES Share is HK\$1.01, the directors of the Company consider that the transactions do not have material financial impact on the Group’s financial performance and financial position.
- (i) Pursuant to the written resolutions passed by the shareholders on 27 July 2016, a sum of HK\$11,415,842.1 standing to the credit of the share premium account of the Company was capitalised by paying up in full at par a total of 114,158,421 new shares and for allotment and issue to CISI Holdings and pre-IPO investors (the “Capitalisation Issue”).
- (j) On 20 October 2016, the Company issued 1,000,000,000 shares at HK\$1.33 per share pursuant to the initial public offering of the Company’s shares for a total gross proceeds of HK\$1,330,000,000. The proceeds will be used to finance the implementation of the business plans as set forth in the section headed “Future Plan and Use of Proceeds” of the prospectus of the Company dated 30 September 2016.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK\$
Held for trading	
Debt securities	
– Listed in Hong Kong	342,441,286
– Listed outside Hong Kong	362,192,298
– Unlisted	<u>189,548,233</u>
	<u>894,181,817</u>
Designated at fair value through profit or loss	
Convertible bonds	
– Listed in Hong Kong	55,012,073
– Listed outside Hong Kong	20,809,809
– Unlisted	16,648,452
Unlisted fund-linked note (<i>note a</i>)	695,295,000
Unlisted credit-linked notes (<i>note b</i>)	<u>121,955,516</u>
	<u>909,720,850</u>
	<u><u>1,803,902,667</u></u>

Notes:

- (a) During the year ended 31 December 2016, the Group purchased an unlisted fund-linked note with nominal amount of US\$90,000,000 issued by a non-bank financial institution. The return of the fund-linked note is linked to the net asset value of the underlying asset which is a private equity fund, reported by fund administrator. The fund-linked note will be matured within 1 year.
- (b) During the year ended 31 December 2016, the Group purchased unlisted credit-linked notes issued by a non-bank financial institution. The return of the credit-linked notes are linked to the fair value of the underlying assets which are listed preference shares.

As at 31 December 2015, the Group did not hold any financial assets at fair value through profit or loss.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

2016

HK\$

Non-current

Measured at fair value:

Debt securities

– Listed in Hong Kong	2,321,841,771
– Listed outside Hong Kong (<i>note</i>)	808,811,179
– Unlisted	<u>50,697,821</u>
	<u><u>3,181,350,771</u></u>

Note: Included in the portfolio of debt securities listed outside Hong Kong, the Group transferred debt securities, with a fair value of HK\$348,806,325 at 31 December 2016, to a non-bank financial institution and entered into total return swap contract, whereby the Group receives cash flow arising from the transferred debt securities and receives the debt securities upon maturity of the contracts, during the year ended 31 December 2016. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2016 as the Group retains significant risks and rewards of the transferred debt securities.

As at 31 December 2015, the Group did not hold any available-for-sale financial assets.

14. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK\$0.02 (2015: final dividend in respect of the year ended 31 December 2015 of Nil) per ordinary share, in an aggregate amount of HK\$80,000,000 (2015: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

15. COMMITMENTS

Commitments under operating lease

At the end of each reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016	2015
	HK\$	HK\$
Within one year	13,946,256	20,839,533
In the second to fifth year inclusive	<u>–</u>	<u>11,346,632</u>
	<u><u>13,946,256</u></u>	<u><u>32,186,165</u></u>

Operating lease payments represent rentals payable by the Group for its office premises and director/staff apartments. Leases and rentals are negotiated and fixed for periods of two to three years.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OVERVIEW

We are pleased to present the outstanding results of the Group for the year ended 31 December 2016. The Group recorded an operating revenue for the year of HK\$507.3 million (2015: HK\$364.3 million), representing a year-on-year growth of 39.2%, and profit after tax of HK\$101.1 million (2015: HK\$50.5 million), representing a year-on-year growth of 100.2%.

Our success was attributable to the remarkable performance of the loans and financing business and proprietary trading business, which recorded growth in operating revenue of 76.3% and 401.7% respectively for the year ended 31 December 2016.

In 2016, the Group was successfully listed on the Growth Enterprise Market of the Hong Kong Stock Exchange and became the first overseas spun-off and listed subsidiary of a PRC securities Group, marking a major step in going global. We made full use of our own capital strengths and the opportunities in the capital market to achieve rapid growth in 2016.

ANALYSIS ON PRINCIPAL BUSINESSES

(I) Policy review

In 2016, Hong Kong's financial sector continued to be supported by China's policy. The "Outline of the Thirteenth Five-Year Plan for the National Economic and Social Development of the People's Republic of China" proposed to consolidate and enhance Hong Kong's position as an international financial centre, strengthen its roles as a global offshore RMB business hub and international assets management centre, promote high-end and high value-added financing services and deepen the cooperation between the financial markets of China and Hong Kong so as to speed up the establishment of mutual access mechanisms.

The launch of "Shenzhen-Hong Kong Stock Connect" in the year further promoted the two-way access between the markets of China and Hong Kong and allowed investors to invest on Chinese stocks through the diverse channels of Hong Kong. (This has reinforced Hong Kong's position as an international financial centre.)

Hong Kong is the largest and most efficient offshore RMB business centre in the world. At the same time, it enjoys the unique advantage of being a transport hub in the Asia Pacific region and for countries along the "Belt and Road" initiative. Hence, as China implements the initiative, it brings opportunity for the future development of Hong Kong in the long run. In July 2016, the Hong Kong Monetary Authority established the Infrastructure Financing Facilitation Office to promote development of Hong Kong as a regional infrastructure investment and financing hub.

(II) Market review

Global economy was under a complicated and ever-changing environment in 2016. In the first half of the year, Hong Kong's economy experienced a slower growth as a result of the challenging global economy. The real GDP recorded a year-on-year growth of 1.2% in the first half of 2016.

For the next six months, the global economy faced slightly less downward risks and economic activities began to stabilise. While the economic growth in the United States gradually recovered, Chinese economy maintained steady growth, providing support to Hong Kong. Investor sentiment saw improvement in Hong Kong, hence overall investment witnessed a significant rebound. Hong Kong's economic growth rate increased from only 1% for the first quarter to 3.1% for the fourth quarter, representing a moderate growth of 1.9% for the full year.

The securities market of Hong Kong was vulnerable to the volatility in the international market. Its overall performance in 2016 was not as robust as in 2015. At the end of 2016, the Hang Seng Index closed at 22,001, representing a slight increase of 0.4% as compared to 21,914 at the end of 2015. Meanwhile, Hang Seng China Enterprises Index was down 2.8%. Market activities also declined as the average daily transaction volume decreased by 36.64% from HK\$105.6 billion in 2015 to HK\$66.9 billion in 2016. Number of ETFs dropped to 127 at the end of 2016 from 133 at the end of 2015. In 2016, the average daily transaction volume of ETFs amounted to HK\$4.1 billion, down 53.41% from HK\$8.8 billion in 2015.

As to the Mainland market, the Shanghai SSE Index and Shenzhen SSE Composite Index dropped 12.3% and 14.7% respectively in 2016. At the beginning of the year, the market experienced a downturn due to investors' concern over the economic outlooks and uncertainties in RMB exchange rate movements. Driven by anticipation of state-owned enterprises reform, the stock market later rebounded until adjustment as a result of stricter state regulations on stock trading by insurance funds towards the end of 2016.

As to the overseas market, Dow Jones Index, S & P 500 Index and Nasdaq Index went up by 13.4%, 9.5% and 7.5% respectively in 2016. FTSE UK Index increased by 14.4%. Nikkei 225 grew by 0.4%, making 2016 the fifth consecutive year to record growth.

(III) Competitive environment

As of the end of December 2016, the market capitalisation of Hong Kong's securities market amounted to HK\$24.7613 trillion (USD3.1932 trillion) and ranked the eighth in the world and the fourth in Asia. With such a large number of market participants, competition in Hong Kong's securities market was intense. As of December 2016, 501 licensed corporations were Stock Exchange Participants and 111 licensed corporations were Futures Exchange Participants.

The year 2016 saw the listing of the Group as well as an increasing number of PRC-funded securities group on the Hong Kong Stock Exchange. Driven by the rapid development of mutual access mechanism between markets of Hong Kong and China, RMB internationalisation and the "Belt and Road" initiative, demand for global assets allocation from Chinese enterprises, institutions and individuals kept rising, which provided excellent opportunities for PRC-funded securities group to expand overseas business.

(IV) Business review

The Group's operating revenue mainly derives from: (i) brokerage services; (ii) loans and financing; (iii) investment banking; (iv) assets management; and (v) proprietary trading. Mainly driven by the robust development of the loans and financing business, assets management business and proprietary trading business, the operating revenue boosted by 39.2% to HK\$507.3 million (2015: HK\$364.3 million).

Brokerage

In 2016, the overall securities market of Hong Kong performed less well than in 2015. The average daily transaction recorded a year-on-year decrease of 36.64%. Affected by the general business climate in the reporting period, the Group recorded a year-on-year decrease of 39.9% in commission and fee income from brokerage service to HK\$105.3 million for 2016 (2015: HK\$175.2 million).

Taking the launch of "Shenzhen-Hong Kong Stock Connect" as an opportunity, we implemented a series of promotional activities with a view to diversifying the customer and geographic profile of revenue from the brokerage business. In the future, we will adopt internet technology for better service quality. The wealth management and private banking businesses have set off during the reporting period and are expected to create synergy with different business segments and facilitate expansion of marketing channels.

In December 2015, the Group commenced the wealth management business to cater the needs of mid-to-high end individual and corporate clients in the Asia Pacific region. The wealth management business offers a variety of financial and wealth management products, including insurances brokerage services, funds, bonds, pension schemes and mandatory provident funds. It recorded an operating revenue of HK\$2.4 million for the year ended 31 December 2016 and achieved a breakthrough from zero.

Loans and financing

Supported by increasing clients and assets under management, the loans and financing business maintained steady growth. In 2016, it recorded a revenue of HK\$223.9 million, representing an increase of 76.3% from HK\$127.0 million for 2015.

Investment banking

Due to market sentiment, the overall financing amount in Hong Kong's securities market declined in 2016. Income from investment banking business of the Group dropped slightly to HK\$21.0 million for the year (2015: HK\$25.6 million).

As at 31 December 2016, we completed two projects in which we were the sponsor (including the listing of the Group), submitted applications for two projects in which we were the sponsor and entered into three financial advisory agreements. During the period, we acted as the underwriter for six IPO projects (including the listing of the Group) with a total underwriting amount of approximately HK\$3,995.4 million, and participated in eighteen placing project in the secondary market with a total placing amount of approximately HK\$1,486.2 million. In 2016, we speeded up the expansion of our team dedicated to the debt capital market business, and initialed the issue of relevant fixed income products. We will continue to work with Industrial Securities, the controlling shareholder, in promoting corporate finance business.

Asset management

Our asset management business recorded a revenue of HK\$9.3 million, representing a year-on-year growth of 31.6% as compared with HK\$7.1 million for last year. As at 31 December 2016, the Group's asset under management (including RMB Qualified Foreign Institutional Investors funds, private funds and discretionary any accounts) amounts to approximately HK\$1,744.9 million.

In 2016, the Group proactively promoted the "alternative investment" strategy by issuing two actively managed HKD funds. While pursuing expansion of assets under management, we also took initiatives to explore other alternative investment products. In order to enhance assets under management, we will give full play to our advantages as a PRC-funded securities company in the cross-border asset management business and establish a two-way investment product platform for domestic and international institutional and professional investors.

Proprietary trading

During the reporting period, all the proprietary trading of the Group was bond and other fixed income products trading, which recorded an exciting growth in revenue (including interest income) from HK\$29.4 million to HK\$147.7 million, up 401.7%.

Majority of our bond and fixed income product portfolio typically comprise investment grade USD debt securities that deliver stable dividends (i.e., the bond issuers with a BBB– rating or higher by international rating agencies) and non-investment grade debt securities with higher return potentials and issued by companies which we have in-depth understanding after applying strict credit selection process.

Financial positions

As at 31 December 2016, the total assets of the Group were HK\$13,398.1 million, representing an increase of 172.5% as compared with that of 2015 (2015: HK\$4,916.4 million). As at 31 December 2016, the total liabilities of the Group were HK\$9,103.8 million, representing an increase of 106.0% as compared with that of 2015 (2015: HK\$4,419.2 million).

Liquidity, financial resources and capital structures

As at 31 December 2016, the net current assets of the Group increased by 130.9% to HK\$1,085.7 million (2015: HK\$470.3 million). As at 31 December 2016, the current ratio of the Group (defined as current assets to current liabilities as at the end of the respective financial year) remained largely unchanged at 1.1 times (2015: 1.1 times).

For the year ended 31 December 2016, the net cash inflows of the Group were HK\$734.9 million (2015: HK\$34.8 million). As at 31 December 2016, the bank balances of the Group was HK\$972.9 million (2015: HK\$238.0 million).

As at 31 December 2016, the Group had bank and other borrowings of HK\$4,320.1 million (2015: HK\$2,416.1 million), representing an increase of 78.8% as compared with 2015. As at 31 December 2016, the gearing ratio of the Group (defined as bank and other borrowings as at the end of the year divided by equity attributable to owners of the Company as at the end of the year.) decreased by 79.3% to 100.6% (2015: 485.9%).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK\$4,294.3 million as at 31 December 2016 (2015: HK\$497.3 million).

Prospects and future plan

Following the launch of “Shenzhen-Hong Kong Stock Connect”, the China’s capital market further connects with the world. We are optimistic about future business development in view of the opportunities ushered in by internationalization of China’s capital market. In the year ahead, we will focus on revenue enhancement and revenue diversity. While we strive to strengthen the securities and futures brokerage business, we also pursue a more diverse customer base by offering customised and comprehensive services. At the same time, we will continue to develop the bonds investment and trading business and keep risks under control; accelerate the development of the assets management business; promote the corporate finance and institutional sales business; commence the private equity investments and structured finance businesses.

Use of proceeds

On 20 October 2016, the Group listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. A total of 1,000,000,000 shares were offered under the global offering at an offer price of HK\$1.33 per share. The net proceeds (net of issuance expenses) amounted to HK\$1,288.2 million.

As disclosed in the prospectus, approximately 40% of the net proceeds from listing would be used for expansion of the loans and financing business; approximately 20% would be used for development of the proprietary trading business, primarily for investment in fixed-income assets; approximately 10% would be used for development of the new capital-based intermediary business; approximately 8% would be used for development of the asset management business; approximately 8% would be used for development of the investment banking business; approximately 4% would be used for development of the institutional sales capabilities, including hiring experienced sales personnel; the remaining amount, or approximately 10% would be used for working capital and other general corporate purposes.

As at 31 December 2016, 34%, or HK\$440 million of the proceeds from listing were used for expansion of the loans and financing business; 10% or HK\$129 million were used for business operation; 19% or HK\$250 million were used for development of proprietary trading business; 37% or HK\$469 million were bank deposits. The Group will apply the proceeds to various businesses gradually as planned in accordance with the requirements set out in the prospectus.

Significant acquisition or disposal of subsidiaries and affiliated companies

There were no significant acquisitions or disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2016.

Charges on Group assets

As at 31 December 2016, the Group's asset pledged are mainly debt securities pledged as collaterals for other borrowings or for margin loans from brokers.

Commitments under operating lease

Details of commitments under operating lease of the Group are set out in note 15 to the consolidated financial statements in this announcement.

Employee information

As at 31 December 2016, the Group had 134 full-time employees (31 December 2015: 125 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2016 was HK\$129.4 million (2015: HK\$100 million). Such increase was mainly attributable to the growth in staff salaries and bonus due to adjustment of workforce structure and increase in number of employees.

Contingent liabilities

The Group did not have any material contingent liability as at 31 December 2016 and up to the date of this announcement.

Event after the reporting period

After the end of the reporting period, the directors of the Company recommended a final dividend of HK\$0.02 per share.

Risk management

The Group has in place the risk management structure and implemented the compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures for control of exposure to credit, liquidity, market and operational risks during the course of business activities.

Credit risks

The Group has established the risk management committee responsible for reviewing and monitoring the implementation of risk management policies for principal business units, identifying risks, approving trading limit and credit limit, and updating the risk management policies in response to changes;

We have implemented “know-your-client” procedures and credit check to ascertain the background of potential clients. We also perform credit assessment on potential clients especially in our loans and financing business, and require futures brokerage clients and loans and financing clients to provide margin deposit or acceptable collateral (as the case may be) to minimise exposure;

The Group closely monitors the margin ratio and loan-to-value ratio of the loans and financing clients and takes appropriate action to recover or minimise loss where it foresees that the client may default in his or her obligation;

The senior management and head of business units of the Group regularly review the balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, especially during adverse market movements; and

We have established credit policy with respect to the trading limit, credit line and credit period granted to brokerage and loans and financing clients, and we review and revise such policy on an ongoing basis; we conduct regular review in respect of outstanding margin loans to assess exposure to credit risks.

Liquidity risks

The Group has in place liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain our liquidity and financial resources requirements as specified under applicable laws and regulations, such as Financial Resources Rules;

The Group has established a multi-tiers authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. We have authorisation limits in place for any commitment or fund outlay, such as procurement, investments, loans, etc., and we assess the impact of those transactions on the capital level;

The Group meets its funding requirements primarily through bank borrowings from multiple banks. We have also adopted stringent liquidity management measures to ensure we satisfy capital requirements under the applicable laws; and

We have established limits and controls on margin loans and money lending loans on aggregate and individual loan basis.

Market risks

The Group has established policy and procedures to monitor and control the price risk in the ordinary and usual course of business;

Our staff with professional qualification and industry experience in the business units discusses and evaluates the underlying market risks prior to engaging in any such new transaction or launching of any such new business;

The Group reviews market risk limits for certain business lines such as the asset management and proprietary trading business to manage risk and periodically review and adjust our market strategies in response to changes in the business performance, risk tolerance levels and variations in market conditions;

In terms of the proprietary trading business, The Group formulates different selection criteria for bonds and other fixed income products, limit the investment in industries and enterprises with excess capacity and negative news, and track and monitor the trends of macro economy and investment concentration ratio to optimise our investment strategies; we diversify the fixed income investment portfolios, limit the size of investment in relation to any single product, client or type of investment and continually track the changes on the operation, credit rating and solvency of the issuers; and

The Group also assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and capability of revenue generation of different types of bonds and control the investment horizon of debt securities investment; the Group monitors investments on a timely basis, including trading positions, unrealised profit or loss, risk exposure and trading activities and establish mechanisms that set pre-determined points to stop profit or loss on an overall basis or on each individual stock.

Foreign currency risks

The Group's exposure to foreign currency risks is primarily related to transactions denominated in a currency other than Hong Kong dollars. The proprietary trading business primarily comprises bond and other fixed income product investment denominated in US dollars. The Group does not expect significant foreign exchange risk arising from USD denominated monetary items in view of the HKD pegged system to the USD.

Interest rate risks

The interest rate risks of the Group mainly come from fixed-rate loans receivable and fixed-rate debt securities. For debt securities included in financial assets, the fair value measurement is subject to market interest rate. The Group currently has no fair value hedge policy in place.

The Group may also expose to cash flow interest rate risks primarily arising from bank balances, secured margin loans and bank borrowings which carry interest at prevailing market interest rates;

The management of the Group closely monitors exposure related to interest rate risks and ensures it is maintained at an acceptable level. The Group's exposure to cash flow interest rate risks is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's financial instruments denominated in Hong Kong dollars and US dollars.

Operational risks

The Group has responsible officers in charge of overseeing the day-to-day operations, controlling and monitoring compliance issues and solving dealing problems; they also formulate and update the operational manual for each business function based on regulatory and industrial requirements to standardise our operational procedures and reduce human errors;

The Group sets authorisation hierarchy and procedures for its daily operations, and has surveillance systems to monitor the trading activities of our business units and staff on a real-time basis.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK\$0.02 per share for the year ended 31 December 2016 to the shareholders whose names appear on the register of members of the Company on 5 June 2017. The final dividend will be payable on or about 26 June 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Monday, 22 May 2017 to Thursday, 25 May 2017, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 May 2017.

For determining the entitlement to the proposed final dividend for the year ended 31 December 2016, the transfer books and register of members of the Company will be closed from Thursday, 1 June 2017 to Monday, 5 June 2017, both days inclusive, during which period no share transfers can be registered. In order to qualify for the entitlement to the proposed final dividend, subject to passing of the ordinary resolution number 2 above at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 31 May 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

COMPETING INTERESTS

Save for the continuing connected transactions as disclosed in the section headed "Relationship with the controlling shareholders" and "Connected transactions" in the prospectus of the Company dated 30 September 2016, none of the Directors or the controlling shareholders of the Company nor their respective close associates as defined in the GEM Listing Rules had any interest in business that competed or might compete with business of the Group during the year ended 31 December 2016.

COMPLIANCE ADVISER'S INTERESTS

As at 31 December 2016, save and except for the compliance adviser's agreement entered into between the Company and Haitong International Capital Limited (the "Compliance Adviser") dated 8 June 2016, neither the Compliance Adviser, nor any of its directors, employees or close associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the “CG Code”) as contained in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2016.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) has been established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee currently comprises a non-executive Director and two independent non-executive Directors, namely Ms. Zhuang Yuanfang, Ms. Hong Ying and Mr. Tian Li. The chairlady of the Audit Committee is Ms. Hong Ying.

The Group’s audited annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee, which was of the opinion that such results have complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable requirement and that adequate disclosures have been made.

By Order of the Board

China Industrial Securities International Financial Group Limited

Lan Rong

Chairman

Hong Kong, 24 March 2017

As at the date of this announcement, the Board comprises two non-executive Directors, namely Mr. Lan Rong (Chairman) and Ms. Zhuang Yuanfang, three executive Directors, namely Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia, and three independent non-executive Directors, namely Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo.

This announcement will remain on the “Latest Company Announcements” page of the GEM website (www.hkgem.com) for at least 7 days from the date of its publication and on the website of the Company (www.xyzq.com.hk).