



**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 2017**

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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**Given that the companies listed on GEM are generally small and mid-sized companies, 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 of the Stock Exchange (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 2017, with the comparative figures for the year ended 31 December 2016 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	<b>2017</b> <b>HK\$</b>	2016 <i>HK\$</i>
Revenue	4	<b>927,724,226</b>	507,300,113
Other income	4	<b>23,630,339</b>	7,419,660
Finance costs		<b>(166,817,874)</b>	(73,251,260)
Commission and fee expenses		<b>(101,172,102)</b>	(47,536,937)
Staff costs	5	<b>(163,560,791)</b>	(129,440,925)
Other operating expenses		<b>(130,199,762)</b>	(92,383,061)
Listing expenses		–	(22,899,313)
Impairment losses on accounts receivable	5	<b>(290,394,561)</b>	–
Other gains or losses	5	<b>78,875,531</b>	(15,831,828)
Profit before taxation	5	<b>178,085,006</b>	133,376,449
Taxation	6	<b>(25,253,165)</b>	(32,256,895)
Profit for the year		<b>152,831,841</b>	101,119,554
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of available-for-sale financial assets		<b>16,043,397</b>	10,379,590
Disposal of available-for-sale financial assets		<b>14,065,775</b>	(48,484,195)
Other comprehensive income (expense) for the year		<b>30,109,172</b>	(38,104,605)
Total comprehensive income for the year attributable to owners of the Company		<b>182,941,013</b>	63,014,949
Earnings per share			
Basic ( <i>expressed in HKD</i> )	7	<b>0.04</b>	0.04

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>2017</b> <b><i>HK\$</i></b>	2016 <i>HK\$</i>
<b>Non-current assets</b>			
Property and equipment		<b>20,583,936</b>	6,942,085
Intangible assets		<b>1,616,541</b>	2,612,040
Available-for-sale financial assets	<i>13</i>	<b>11,423,329</b>	3,181,350,771
Loans receivable	<i>8</i>	<b>3,000,000</b>	2,000,000
Statutory deposits		<b>13,361,721</b>	8,875,453
Deposits, other receivables and prepayments		<b>11,666,181</b>	7,612,939
		<b><u>61,651,708</u></b>	<u>3,209,393,288</u>
<b>Current assets</b>			
Accounts receivable	<i>9</i>	<b>5,007,801,784</b>	4,090,591,460
Loans receivable	<i>8</i>	<b>109,900,000</b>	73,400,000
Available-for-sale financial assets	<i>13</i>	<b>1,872,333,774</b>	–
Financial assets at fair value through profit or loss	<i>12</i>	<b>5,106,108,484</b>	1,803,902,667
Statutory deposits		<b>15,977,608</b>	3,614,360
Deposits, other receivables and prepayments		<b>302,695,425</b>	73,249,491
Tax receivable		<b>5,943,628</b>	–
Bank balances – trust accounts		<b>3,389,991,675</b>	3,171,106,387
Bank balances – general accounts and cash		<b>1,181,370,930</b>	972,889,752
		<b><u>16,992,123,308</u></b>	<u>10,188,754,117</u>
<b>Current liabilities</b>			
Accounts payable	<i>10</i>	<b>4,203,671,739</b>	4,646,186,272
Accruals and other payables		<b>175,425,279</b>	99,594,969
Amount due to a related party		<b>2,957,147</b>	3,928,514
Other liabilities		<b>278,866,324</b>	–
Tax payable		<b>40,347,249</b>	33,267,865
Financial liabilities at fair value through profit or loss		<b>161,958,014</b>	–
Financial assets sold under repurchase agreements		<b>1,094,855,904</b>	–
Bank borrowings		<b>5,404,592,664</b>	4,142,518,829
Other borrowings		<b>1,203,876,281</b>	177,577,860
Notes		<b>62,549,900</b>	–
		<b><u>12,629,100,501</u></b>	<u>9,103,074,309</u>
<b>Net current assets</b>		<b><u>4,363,022,807</u></b>	<u>1,085,679,808</u>

	<i>Note</i>	<b>2017</b> <b><i>HK\$</i></b>	2016 <i>HK\$</i>
Non-current liabilities			
Accruals and other payables		<b>3,234,406</b>	–
Financial liabilities at fair value through profit or loss		<b>23,282,776</b>	–
Deferred tax liabilities		<b>891,519</b>	748,295
		<u><b>27,408,701</b></u>	<u>748,295</u>
Net assets		<u><b>4,397,265,814</b></u>	<u>4,294,324,801</u>
Capital and reserves			
Share capital	<i>11</i>	<b>400,000,000</b>	400,000,000
Share premium		<b>3,379,895,424</b>	3,379,895,424
Retained earnings		<b>171,346,158</b>	98,514,317
Investments revaluation reserve		<b>(7,995,433)</b>	(38,104,605)
Other reserve		<b>11,577,844</b>	11,577,844
Capital reserve		<b>442,441,821</b>	442,441,821
Equity attributable to owners of the Company		<u><b>4,397,265,814</b></u>	<u>4,294,324,801</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 (“Industrial Securities (Hong Kong)”), the intermediate holding company of the Company. Industrial Securities Company Limited (“Industrial Securities”), a company incorporated in the People’s Republic of China (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 GEM 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 GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

**2. APPLICATION OF NEW AND REVISED HKFRSs**

The Group has consistently applied all HKFRSs issued by HKICPA which are effective as at 1 January 2017 throughout the year.

**New and revised HKFRSs in issue but not yet effective**

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

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>4</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>2</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 January 2018.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 January 2019.*

<sup>3</sup> *Effective for annual periods beginning on or after a date to be determined.*

<sup>4</sup> *Effective for annual periods beginning on or after 1 January 2021.*

### 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.

During the year ended 31 December 2017, the Group expanded its business by investing in funds, debt and equity securities. After expansion of business, the principal activities of the reportable and operating segments under HKFRS 8 are updated as follows:

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

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

Investment banking – provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

Asset management – provision of fund management, discretionary account management and investment advisory services;

Financial products and investments (previously named proprietary trading) – proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

The accounting policies of the operating segments are the same as the Group’s accounting policies. 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 2017

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Asset management HK\$	Financial products and investments HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>							
Revenue from external customers	182,234,697	310,521,831	123,288,298	12,916,407	-	-	628,961,233
Net gains on financial products and investments	-	-	-	-	298,762,993	-	298,762,993
Inter-segment revenue	2,584,158	-	-	6,490,004	-	(9,074,162)	-
Segment revenue and net gains on financial products and investments	184,818,855	310,521,831	123,288,298	19,406,411	298,762,993	(9,074,162)	927,724,226
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							927,724,226
Segment results	79,528,261	(100,233,859)	55,445,133	6,789,197	161,109,344	-	202,638,076
Unallocated expenses							(24,553,070)
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							178,085,006
<b>Other segmental information included in the measure of segment results</b>							
Impairment losses on accounts receivable	-	290,394,561	-	-	-	-	290,394,561
Depreciation	788,953	-	1,539	11,440	-	-	801,932
Unallocated:							7,552,949
							8,354,881
Amortisation	356,963	-	500	-	-	-	357,463
Unallocated:							694,830
							1,052,293
Interest income	18,084,045	310,522,762	180,569	1,505	264,564,819	-	593,353,700
Unallocated:							3,623,637
							596,977,337
Interest expenses	792,926	59,963,363	-	-	158,841,027	(52,779,442)	166,817,874
Dividend income	-	-	-	-	7,994,084	-	7,994,084

### 3. SEGMENT REPORTING (Continued)

For the year ended 31 December 2016

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



### 3. SEGMENT REPORTING (Continued)

#### Geographical information

For the years ended 31 December 2017 and 2016, 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

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Brokerage:		
Commission and fee income from securities brokerage	160,360,628	82,444,968
Commission and fee income from futures and options brokerage	18,134,536	20,466,463
Commission income from insurance brokerage	3,739,533	2,433,362
	<u>182,234,697</u>	<u>105,344,793</u>
Loans and financing:		
Interest income from margin financing	304,576,242	207,896,302
Interest income from money lending activities	5,945,589	16,022,705
	<u>310,521,831</u>	<u>223,919,007</u>
Investment banking:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	31,865,379	–
– Equity securities	20,673,686	14,700,911
Corporate advisory fee income	1,215,640	595,000
Sponsor fee income	7,060,000	5,700,000
Arrangement fee	62,473,593	–
	<u>123,288,298</u>	<u>20,995,911</u>

#### 4. REVENUE AND OTHER INCOME (Continued)

##### Revenue (Continued)

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Asset management:		
Asset management fee income	9,467,366	7,108,468
Investment advisory fee income	<u>3,449,041</u>	<u>2,195,303</u>
	<u>12,916,407</u>	<u>9,303,771</u>
Financial products and investments		
Interest income from financial assets at fair value through profit or loss	127,042,093	23,322,594
Dividend income from financial assets at fair value through profit or loss	7,994,084	–
Net realised gain on financial assets at fair value through profit or loss	26,279,987	23,078,260
Net unrealised gain (loss) on financial assets at fair value through profit or loss	20,988,702	(18,313,591)
Interest income from available-for-sale financial assets	137,445,058	60,018,483
Net realised (loss) gain on available-for-sale financial assets	(14,065,775)	48,484,195
Net realised (loss) gain on derivatives	(13,898,296)	10,884,049
Net unrealised gain on derivatives	3,182,197	262,641
Net unrealised gain on financial liabilities at fair value through profit or loss	<u>3,794,943</u>	<u>–</u>
	<u>298,762,993</u>	<u>147,736,631</u>
	<u>927,724,226</u>	<u>507,300,113</u>

##### Other Income

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Interest income from financial institutions	21,968,355	5,939,728
Sundry income	<u>1,661,984</u>	<u>1,479,932</u>
	<u>23,630,339</u>	<u>7,419,660</u>

## 5. PROFIT BEFORE TAXATION

	2017	2016
	<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)	<b>163,560,791</b>	129,440,925
Salaries and bonuses	<b>160,915,558</b>	127,318,328
Contribution to the Mandatory Provident Fund Scheme	<b>2,217,306</b>	1,686,575
Other staff costs	<b>427,927</b>	436,022
Auditor's remuneration	<b>1,801,856</b>	1,376,500
Legal and professional fee	<b>14,651,171</b>	1,949,023
Minimum operating lease payments	<b>28,743,021</b>	22,220,241
Amortisation of intangible assets	<b>1,052,293</b>	930,736
Depreciation of property and equipment	<b>8,354,881</b>	8,054,385
Telephone and postage	<b>4,152,222</b>	3,391,748
Maintenance fee	<b>12,218,536</b>	11,933,385
Transportation expenses	<b>3,606,932</b>	2,669,849
Entertainment expenses	<b>4,762,608</b>	4,270,273
Impairment losses on accounts receivable	<b>290,394,561</b>	–
Other gains or losses	<b>(78,875,531)</b>	15,831,828
Exchange (gains) losses, net	<b>(78,795,813)</b>	15,841,278
Other gains	<b>(102,018)</b>	–
Losses (gains) on disposal of property and equipment, net	<b>22,300</b>	(9,450)

*Note:* Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance.

## 6. TAXATION

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Hong Kong Profit Tax:		
Current year	24,259,698	33,267,865
Under (over) provision in prior year	<u>850,243</u>	<u>(143,477)</u>
	<b>25,109,941</b>	33,124,388
Deferred Tax:		
Current year	<u>143,224</u>	<u>(867,493)</u>
	<b><u>25,253,165</u></b>	<b><u>32,256,895</u></b>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits throughout the years ended 31 December 2017 and 2016.

The tax charge for the years ended 31 December 2017 and 2016 can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Profit before taxation	<b><u>178,085,006</u></b>	<b><u>133,376,449</u></b>
Tax at domestic income tax rate (16.5%)	29,384,026	22,007,115
Tax effect of expenses not deductible for tax purpose	5,080,388	11,607,036
Tax effect of income not taxable for tax purpose	(18,029,465)	(4,871,248)
Tax effect of income taxable arising from inter-company transaction	–	3,233,642
Tax effect of tax losses not recognised	8,773,273	1,573,019
Utilisation of tax losses previously not recognised	(1,175,829)	(969,782)
Under (over) provision in prior year	850,243	(143,477)
Others	<u>370,529</u>	<u>(179,410)</u>
Tax charge for the year	<b><u>25,253,165</u></b>	<b><u>32,256,895</u></b>

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2017 <i>HK\$</i>	2016 <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><u>152,831,841</u></u>	<u><u>101,119,554</u></u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u><u>4,000,000,000</u></u>	<u><u>2,410,077,821</u></u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2016 has been determined on the assumption that the Reorganisation and the Capitalisation Issue as defined in note 11 had been effective on 1 January 2016.

For each of the years ended 31 December 2017 and 2016, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

## 8. LOANS RECEIVABLE

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Fixed-rate loans receivable	<u><u>112,900,000</u></u>	<u><u>75,400,000</u></u>
Analyses as:		
Current	109,900,000	73,400,000
Non-current	<u>3,000,000</u>	<u>2,000,000</u>
	<u><u>112,900,000</u></u>	<u><u>75,400,000</u></u>

## 8. LOANS RECEIVABLE (Continued)

The credit quality of loans receivable are summarised as follows:

	<b>2017</b>	2016
	<b>HK\$</b>	<b>HK\$</b>
Neither past due nor impaired	<b><u>112,900,000</u></b>	<u>75,400,000</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

	<b>Effective interest rate</b>	<b>2017</b>	2016
		<b>HK\$</b>	<b>HK\$</b>
Within one year	(2017: 3.00% to 8.25% per annum; 2016: 6.00% to 8.25% per annum)	<b>109,900,000</b>	73,400,000
In more than one year but not more than two years	(2017: 6.00% per annum; 2016: 3.00% per annum)	<b><u>3,000,000</u></b>	<u>2,000,000</u>
		<b><u>112,900,000</u></b>	<u>75,400,000</u>

As at 31 December 2017, the loans receivable amounting to HK\$111,400,000 (2016: HK\$73,400,000) are secured by listed securities from the borrowers and cash balance in their cash clients' accounts with aggregate fair value of HK\$258,890,000 (2016: HK\$142,151,171). At 31 December 2017 and 2016, 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 2017, there is an unsecured loan receivable of HK\$1,500,000 (2016: 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

	2017	2016
	<i>HK\$</i>	<i>HK\$</i>
Accounts receivable arising from the business of dealing in securities:		
Clearing house	268,876,197	100,521,588
Cash clients	61,117,959	17,623,497
Secured margin loans	4,692,352,438	3,715,833,985
Less: impairment allowance	(290,394,561)	–
Brokers	11,106,841	12,507,183
Clients for subscription of new shares in initial public offering (“IPO”)	682,984	–
	<u>4,743,741,858</u>	<u>3,846,486,253</u>
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing house	19,255,638	21,400,391
Brokers	178,656,783	148,328,311
	<u>197,912,421</u>	<u>169,728,702</u>
Accounts receivable arising from the business of insurance brokerage	–	57,041
Accounts receivable arising from the business of investment banking	58,567,106	309,472
Accounts receivable arising from the business of asset management	6,645,151	4,092,010
Accounts receivable arising from the business of financial products and investments	935,248	69,917,982
	<u>5,007,801,784</u>	<u>4,090,591,460</u>

The accounts receivable have been reviewed by management to assess impairment allowances which are based on the evaluation of collectability, ageing analysis of accounts and on management’s judgement, including the current creditworthiness and the past collection statistics of each client, the realisation value of securities or collaterals from clients and their guarantors which are held by the Group, subsequent settlement or additional collaterals received. Except for the amount of HK\$310,394,561 (2016: Nil) which was impaired, there was no other impaired debt for the years ended 31 December 2017 and 2016.

## 9. ACCOUNTS RECEIVABLE (Continued)

In determining the impairment allowance on secured margin loans, the management of the Group also takes into account margin shortfall by comparing the value of stock portfolio and the outstanding balance of margin loan to clients individually. Impairments are made for those clients with shortfall as at year end for an amount which was the shortfall between the outstanding margin loans to clients and the recoverable amount determined by the value of stock portfolio. Movements in the impairment allowances for accounts receivable are as follows:

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
As at 1 January	–	–
Impairment losses charged to profit or loss during the year	<u>290,394,561</u>	–
As at 31 December	<u><u>290,394,561</u></u>	<u><u>–</u></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.

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\$4,804,013 (2016: HK\$5,791,160) as at 31 December 2017, 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\$56,313,946 (2016: HK\$11,832,337) are neither past due nor impaired as at 31 December 2017 and the directors of the Company are of the opinion that the amounts are recoverable.



## 9. ACCOUNTS RECEIVABLE (Continued)

For secured margin loans, as at 31 December 2017 and 2016, 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 2017 and 2016. As at 31 December 2017, secured margin loans of HK\$4,381,957,877 (2016: HK\$3,715,833,985) were included in “Neither past due nor impaired” category while the remaining secured margin loans of HK\$310,394,561 (2016: Nil), which were individually impaired, were included in “impaired accounts receivable” category. The total market value of securities pledged as collateral in respect of the margin loans which were classified as neither past due nor impaired were approximately HK\$11,829,208,000 (2016: HK\$13,752,186,000) at 31 December 2017. 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 value of securities deposited. As at 31 December 2017, 95% (2016: 94%) 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 additional impairment allowance is necessary taking into consideration of subsequent settlement or additional collaterals 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 receivable 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 insurance brokerage, investment banking and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided. As at 31 December 2017 and 2016, 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 arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date. As at 31 December 2017 and 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:

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Past due (accounts receivable from cash clients):		
0 – 30 days	1,435,627	1,353,898
Over 30 days	<u>3,368,386</u>	<u>4,437,262</u>
Accounts receivable which were past due but not impaired	<u>4,804,013</u>	<u>5,791,160</u>
Accounts receivable which were neither past due nor impaired	<u>4,982,997,771</u>	<u>4,084,800,300</u>
Impaired accounts receivable	<u>310,394,561</u>	–
	5,298,196,345	4,090,591,460
<i>Less:</i> impairment allowance	<u>(290,394,561)</u>	–
	<u><u>5,007,801,784</u></u>	<u><u>4,090,591,460</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 of 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 accounts receivable, the Group considers any change in the credit quality of 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 26% and 41% of the total loans to margin clients as at 31 December 2017 and 2016 respectively. The balances due from the ten largest securities margin clients were approximately HK\$1,121,170,000 and HK\$1,521,545,000 as at 31 December 2017 and 2016 respectively, which is neither past due nor impaired, of which the amount is secured by clients' securities with an aggregate fair value of HK\$2,913,263,000 and HK\$6,786,254,000 as at 31 December 2017 and 2016 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 financial products and investments, 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 investment banking and asset management net of impairment losses based on date of invoice/contract note at the reporting date:

### Investment banking clients

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Less than 31 days	40,133,081	96,000
31 – 60 days	3,127,120	100,000
61 – 90 days	468,588	100,000
91 – 180 days	11,183,496	13,472
Over 180 days	3,654,821	–
	<u>58,567,106</u>	<u>309,472</u>

### Asset management clients

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Less than 31 days	2,087,648	908,526
31 – 60 days	2,259,816	693,274
61 – 90 days	551,320	625,247
91 – 180 days	760,541	663,315
Over 180 days	985,826	1,201,648
	<u>6,645,151</u>	<u>4,092,010</u>

During the years ended 31 December 2017 and 2016, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

The Group offsets 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

	2017	2016
	<i>HK\$</i>	<i>HK\$</i>
Accounts payable arising from the business of dealing in securities:		
Clearing house	5,857,460	5,860,705
Brokers	21,025,415	2,570,838
Clients	<u>3,675,453,119</u>	<u>3,053,688,931</u>
	<u>3,702,335,994</u>	<u>3,062,120,474</u>
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	<u>310,087,267</u>	<u>485,149,632</u>
Accounts payable arising from the business of financial products and investments:		
Brokers	–	253,836,244
Secured margin loans from broker	<u>191,248,478</u>	<u>845,079,922</u>
	<u>191,248,478</u>	<u>1,098,916,166</u>
	<u><u>4,203,671,739</u></u>	<u><u>4,646,186,272</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 financial products and investments, 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\$315,015,000 as at 31 December 2017 (2016: HK\$1,355,444,000).

The Group has accounts payable arising from the business of dealing in securities of HK\$1,615,942 due to the immediate holding company as at 31 December 2017 (2016: Nil).

## 11. SHARE CAPITAL

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

	<i>Notes</i>	<b>Number of ordinary shares of HK\$0.10 each</b>	<b>Share capital HK\$</b>
Authorised:			
As at 1 January 2016		490,000,000	49,000,000
Increase in authorised share capital	(a)	2,395,841,579	239,584,158
Increase in authorised share capital	(b)	<u>17,114,158,421</u>	<u>1,711,415,842</u>
As at 31 December 2016, 1 January 2017 and 31 December 2017		<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:			
As at 1 January 2016		10,000	1,000
Issue of shares pursuant to the Group Reorganisation	(c)	489,990,000	48,999,000
Issue of shares to CISI Holdings and pre-IPO investors	(d)	2,118,811,876	211,881,188
Issue of shares under ESPS	(e)	277,029,703	27,702,970
Capitalisation issue of shares	(f)	114,158,421	11,415,842
Issue of shares through IPO upon listing	(g)	<u>1,000,000,000</u>	<u>100,000,000</u>
As at 31 December 2016, 1 January 2017 and 31 December 2017		<u>4,000,000,000</u>	<u>400,000,000</u>

## 11. SHARE CAPITAL (Continued)

### Notes:

- (a) 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.
- (b) 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.
- (c) On 22 January 2016, 489,990,000 paid shares of HK\$0.1 were issued to CISI Holdings pursuant to the Group Reorganisation.
- (d)
  - (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.
- (e) An employee share participation scheme (“ESPS”) has been adopted by Industrial Securities (Hong Kong) 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 selected employees or directors (“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. Details of the ESPS are set out in section headed “History, Reorganisation and Group Structure” in the Prospectus.
- (f) 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”).
- (g) 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.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK\$	2016 HK\$
<b>Held for trading</b>		
Equity securities		
– Listed in Hong Kong	194,579,762	–
– Listed outside Hong Kong	65,132,742	–
Debt securities ( <i>note a</i> )		
– Listed in Hong Kong	2,903,831,104	342,441,286
– Listed outside Hong Kong	463,239,548	362,192,298
– Unlisted	718,618,170	189,548,233
Credit derivative ( <i>note b</i> )	3,193,943	–
	<u>4,348,595,269</u>	<u>894,181,817</u>
<b>Designated at fair value through profit or loss</b>		
Convertible bonds		
– Listed in Hong Kong	32,240,418	55,012,073
– Listed outside Hong Kong	–	20,809,809
– Unlisted	–	16,648,452
Unlisted collateralised loan obligation ( <i>note f</i> )	40,066,225	–
Unlisted investment funds	375,621,692	–
Unlisted fund-linked note ( <i>note c</i> )	–	695,295,000
Unlisted credit-linked notes ( <i>note d</i> )	67,233,080	121,955,516
Unlisted preference share linked note ( <i>note e</i> )	242,351,800	–
	<u>757,513,215</u>	<u>909,720,850</u>
	<u><b>5,106,108,484</b></u>	<u><b>1,803,902,667</b></u>

### Notes:

- (a) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK\$970,278,494 (2016: Nil) at 31 December 2017, to non bank financial institutions and entered into total return swap contract, whereby the Group received cash flow arising from transferred debt securities and receives the debt securities upon maturity of the contracts, during the year. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2017 as the Group retains significant risks and rewards of the transferred debt securities.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Notes: (Continued)

- (b) For the year ended 31 December 2017, the Group entered into a credit derivative contract with a notional amount of US\$100,000,000, which reference entities are companies in diverse industries, with a non bank financial institution.
- (c) For 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 the fund administrator. The fund-linked note was redeemed during the year.
- (d) For the years ended 31 December 2017 and 2016, the Group invested in unlisted credit-linked notes issued by a non bank financial institution. The return of the credit-linked notes is linked to the fair value of the underlying assets which are listed preference shares.
- (e) For the year ended 31 December 2017, the Group invested in an unlisted preference share linked note issued by a special purpose entity. The return of the preference share linked note is linked to the fair value of the underlying asset which is preference share.
- (f) During the year ended 31 December 2017, the Group purchased an unlisted collateralised loan obligation with a nominal amount of US\$5,000,000, of which exposed to the risk of underlying loan obligation (primarily secured), issued by a non bank financial institution.

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	<i>HK\$</i>	<i>HK\$</i>
Measured at fair value:		
Debt securities ( <i>note</i> )		
– Listed in Hong Kong	813,720,566	2,321,841,771
– Listed outside Hong Kong	659,784,232	808,811,179
– Unlisted	398,828,976	50,697,821
Unlisted investment funds	<u>11,423,329</u>	–
	<u><b>1,883,757,103</b></u>	<u><b>3,181,350,771</b></u>
Analyses as:		
Current	1,872,333,774	–
Non-current	<u>11,423,329</u>	<u>3,181,350,771</u>
	<u><b>1,883,757,103</b></u>	<u><b>3,181,350,771</b></u>



### 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

*Note:* Included in the portfolio of debt securities, the Group transferred debt securities, with a fair value of HK\$1,034,914,911 at 31 December 2017 (2016: HK\$348,806,325), to non bank financial institutions 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 years. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2017 and 2016 as the Group retains significant risks and rewards of the transferred debt securities.

### 14. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
2016 Final – HK\$0.02 (2016: Nil) per share	<u><u>80,000,000</u></u>	<u><u>–</u></u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK\$0.03 (2016: final dividend in respect of the year ended 31 December 2016 of HK\$0.02) per ordinary share, in an aggregate amount of HK\$120,000,000 (2016: HK\$80,000,000), 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:

	2017 <i>HK\$</i>	2016 <i>HK\$</i>
Within one year	27,027,784	13,946,256
In the second to fifth year inclusive	<u>36,745,494</u>	<u>–</u>
	<u><u>63,773,278</u></u>	<u><u>13,946,256</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 2017 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 to the shareholders of the Company that the Group achieved outstanding results for the year ended 31 December 2017 and recorded an operating revenue of HK\$927.7 million (2016: HK\$507.3 million) for the year, representing a year-on-year growth of 82.9%. The profit after tax was HK\$152.8 million (2016: HK\$101.1 million), representing a year-on-year increase of 51.1%.

During the period under review, the businesses of brokerage services, loans and financing, investment banking, asset management, financial products and investments of the Group recorded substantial growth of approximately 73.0%, 38.7%, 487.2%, 38.8% and 102.2% respectively in terms of operating revenue. These were attributable to the increasing client base and assets under custody due to the active sentiment in the Hong Kong securities market and the Group's multichannel marketing initiatives, as well as the more balanced business structure resulting from the effort of the Group.

## ANALYSIS ON PRINCIPAL BUSINESSES

### (I) Policy review

Following the launch of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the mutual market access mechanism for the mainland and Hong Kong capital markets opened up a new chapter in 2017 as Northbound Trading on Bond Connect commenced on 3 July. In the Policy Address delivered in October, HKSAR's Chief Executive Carrie Lam stated that the SAR government would explore to deepen the mutual market access mechanism with industry players and the related mainland government departments aiming at including more investment products into the mechanism, such as exchange-traded funds (ETFs) and extending the Bond Connect to cover Southbound Trading.

In December, the HKEx announced the listing rules reform to be rolled out in 2018, which allows new listing applicants to adopt weighted voting rights and biotech issuers which are pre-profit or pre-revenue to be listed in Hong Kong. In the same month, as approved by the State Council, the CSRC announced the launch of full circulation trial of H share companies, for the purposes of optimizing the financing environments for the overseas listing of mainland enterprises, and facilitating the in-depth reform of the overseas listing regime.

### (II) Market review

In 2017, Trump's U.S. presidential administration, the official start of the Brexit process, the three interest rate hikes by the US Federal Reserve, the tapering of the QE (quantitative easing) program and bond purchase by the European Central Bank, and ongoing geopolitical crisis in the Korean Peninsula brought uncertainties to the global financial market.

However, the Hong Kong stock market was only mildly affected by such uncertainties and came out of "slow bull" with the support of strong fundamentals during the year. The Hang Seng Index rose for 8 consecutive months from January to August with cumulative growth of 27.1%. Following the adjustment in September, the Hang Seng Index picked up in October. It exceeded 30,000 in November, hitting a record high in nearly a decade, before dropping in December. The Index rose 36.0% to close 2017 at 29,919. In 2017, the average daily turnover of the Hong Kong securities market was HK\$88.2 billion, which was 31.9% higher than HK\$66.9 billion in 2016. Trading volumes of the Shanghai Stock Connect and Shenzhen Stock Connect increased significantly during the year. In 2017, total Northbound turnover and total Southbound turnover reached HK\$2,266.0 billion and HK\$2,259.0 billion respectively, representing an increase of 193.9% and 170.2% from levels in 2016.

In 2017, there were 174 newly listed companies (including transfers of listing from GEM to Main Board) in Hong Kong, representing a year-on-year increase of 38.1% from 126 in 2016. Comparing with the active secondary market, the funds raised by the initial public offerings amounted to HK\$128.207 billion, down 34.4% from HK\$195.316 billion in 2016, due to the lack of large listing projects. The total funds raised were HK\$579.9 billion for 2017, representing an increase of 18.3% from HK\$490.1 billion in 2016.

The buoyant global stock markets were characterized by increased major world indexes in 2017. In terms of the mainland market, the Shanghai SSE Index and Shenzhen SSE Index rose by 6.6% and decreased by 3.5% respectively. In terms of the overseas market, the US Dow Jones Index, Standard & Poor's 500 Index and NASDAQ Index increased by 25.1%, 19.4% and 28.2%, the FTSE UK Index went up 7.6% and the Nikkei 225 Index climbed 19.1% respectively.

### **(III) Competitive environment**

For Chinese mainland background brokers, the Hong Kong securities market presents both challenges and opportunities. As of the end of December 2017, the market capitalisation of Hong Kong's securities market went up 37.9% from the end of 2016 to HK\$34 trillion, ranking the seventh in the world and the third in Asia. Meanwhile, participants of the Hong Kong securities market have been increasing recently. As at the end of 2017, 555 licensed corporations were Stock Exchange Participants, representing an increase of 54 participants or 10.8% from the end of 2016.

### **(IV) Business review**

The Group's operating revenue derives from: (i) brokerage services; (ii) loans and financing; (iii) investment banking; (iv) asset management; and (v) financial products and investments.

#### ***Brokerage services***

For the year ended 31 December 2017, the Group recorded a year-on-year increase of 73.0% in commission and fee income from brokerage services to HK\$182.2 million for 2017 (2016: HK\$105.3 million).

The higher commission and fee income from brokerage services of the Group was mainly attributable to the growth in securities brokerage business. During the period under review, the Group recorded commission and fee income from securities brokerage service amounted to HK\$160.4 million (2016: HK\$82.4 million), representing a year-on-year increase of 94.5%.

Moreover, the insurance commission income from the insurance brokerage business of the Group was HK\$3.7 million (2016: HK\$2.4 million), representing a year-on-year growth of 53.7%.

During the period under review, the Group's assets under custody and client base continued to expand. As of the end of 2017, the total market value of all securities held by the Group's brokerage clients reached a record high and exceeded HK\$130 billion. The institutional sales business moved into high gear with a remarkable growth of institutional trading volume. The Group will seek to expand the business teams, explore marketing channels and consolidate and promote the securities and futures brokerage business and institutional sales business, with the view of boosting the client base and assets under custody.

### ***Loans and financing***

The loans and financing business achieved steady growth with prudent risk management. For the year ended 31 December 2017, the revenue increased by 38.7% to HK\$310.5 million (2016: HK\$223.9 million).

In 2017, the Group recruited experienced professionals to review and revise the risk management policies including credit risk management policy, so as to optimize the risk control system. The Group reviewed its own risk control levels on an ongoing basis, timely monitored risk exposure and was continuously enhancing risk prevention capabilities.

### ***Investment banking***

For the year ended 31 December 2017, the Group's revenue from investment banking business reached HK\$123.3 million (2016: HK\$21.0 million), representing a year-on-year growth of 487.2%.

According to Bloomberg, the total issue size of G3 currency bonds in the Asia Pacific region recorded substantial year-on-year growth of over 40% in 2017. Meanwhile, the bond issue and underwriting business of the Group was growing fast. Through the underwriting of senior bonds, subordinated bonds and convertible bonds for clients from the finance, real estate and other industries, the business delivered satisfying results in both public offerings and private placements. Up to 31 December 2017, the Group completed 26 publicly offered or privately placed bonds (including preference shares) projects among which 25 were denominated in USD, and helped raised approximately US\$1.61 billion for clients. Additionally, the new fixed income structured products issuance business generated arrangement fee income amounting to HK\$62.5 million during the year.

The Group made good progress in the equity financing business. For the year ended 31 December 2017, the Group, in the capacity of sponsor, has completed one IPO project and submitted one IPO application. The Group entered into four financial advisory agreements and completed 5 underwriting projects for IPO and 44 placing projects with a total underwritten amount of approximately HK\$560.8 million and a total placing amount of approximately HK\$1,733.1 million respectively. It is worth mentioning that the Hong Kong public offering of the Riverine China Holdings Limited (1417) IPO project in 2017, in which the Group was the sole sponsor, well received by investors with oversubscription of approximately 210 times.

### ***Asset management***

For the year ended 31 December 2017, the asset management business of the Group recorded a revenue of HK\$12.9 million (2016: HK\$9.3 million), representing a year-on-year growth of 38.8%.

During the period under review, the Group established and issued six funds. The asset under management (including RMB Qualified Foreign Institutional Investors funds, private funds and discretionary portfolio management) amounted to HK\$7.76 billion as at the end of the period.

Looking forward, the Group will continue to enrich the product mix and expand the diverse asset management product line to cover stocks, bonds, currencies, hierarchy and PE (private equity funds), thereby optimizing the product mix. At the same time, the Group will enhance professional team building, gradually strengthen investment management capabilities and promote brand building.

### ***Financial products and investments***

For the year ended 31 December 2017, the financial products and investments income of the Group (including interest income) increased significantly to HK\$298.8 million (2016: HK\$147.7 million), representing a year-on-year growth of 102.2%.

The financial products and investments business of the Group mainly includes USD denominated bonds and other fixed-income investments. In 2017, the Group also seized market opportunities to invest in certain equity products including public funds, private funds and discretionary portfolios as well as securities and financial derivatives for hedging purpose.

In 2018, the Group will closely monitor the interest rate hike of the US Federal Reserve and the fluctuation of the USD exchange rate, and will take appropriate hedging measures timely, under the goal of maintaining the steady growth of investment return. While strictly controlling the equity investment scale of FOF (fund of funds), the Group will take advantages of the upward trend of the Hong Kong stock market to enhance investment return.

## **FINANCIAL POSITIONS**

As at 31 December 2017, the total assets of the Group increased by 27.3% to HK\$17,053.8 million (31 December 2016: HK\$13,398.1 million). As at 31 December 2017, the total liabilities of the Group increased by 39.0% to HK\$12,656.5 million (31 December 2016: HK\$9,103.8 million).

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES**

As at 31 December 2017, the net current assets of the Group increased by 301.9% to HK\$4,363.0 million (31 December 2016: HK\$1,085.7 million). As at 31 December 2017, the current ratio of the Group (defined as current assets to current liabilities as at the end of the respective financial year) increased slightly to approximately 1.3 times (31 December 2016: 1.1 times).

For the year ended 31 December 2017, the net cash inflows of the Group were HK\$208.5 million (31 December 2016: HK\$734.9 million). As at 31 December 2017, the bank balances of the Group was HK\$1,181.4 million (31 December 2016: HK\$972.9 million).

As at 31 December 2017, the Group's bank and other borrowings increased by 53.0% to HK\$6,608.5 million (31 December 2016: HK\$4,320.1 million).

As at 31 December 2017, the notes outstanding of the Group amounted to HK\$62.5 million (31 December 2016: nil). As at 31 December 2017, the gearing ratio of the Group (defined as bank and other borrowings and notes outstanding divided by total equity) increased by 50.8% to 151.7% (31 December 2016: 100.6%).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK\$4,397.3 million as at 31 December 2017 (31 December 2016: HK\$4,294.3 million).

## **PROSPECTS AND FUTURE PLAN**

Given China's promotion of the Belt and Road Initiative, the expected expansion of the scope of eligible securities under the mutual market access scheme and the upcoming regime reform of the Hong Kong stock market in the coming year, the Group is confident with business development in the future.

The Group will further accelerate cross-border business integration, enhance diversity of income mix and create diverse income resources. The Group will continue to consolidate and promote the securities and futures brokerage business, strive to explore and expand the client base to provide customized and comprehensive services. The Group will also push forward the corporate financing business. The Group will expedite the development of the institutional sales and research business, and give full play to the crucial role of institutional sales in equity placement in corporate finance, product sales and project matching in overseas markets, continue to develop fixed income business, including bond investment and trading business while keeping risks under control. The Group will expand the assets management business, and steadily achieve progress in equity investment business. Furthermore, the Group will carry out system optimization, standards formulation and enhance compliance and risk management effectiveness.

## **USE OF PROCEEDS**

On 20 October 2016, the Group listed on the GEM of the 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 the issuance 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 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 2017, 39.0% or HK\$501.8 million of the proceeds from listing were used for expansion of the loans and financing business; approximately 20.0% or HK\$257.6 million were used for development of the proprietary trading business, primarily for investment in fixed-income assets; approximately 8.0% or HK\$103.1 million were used for development of the asset management business; approximately 0.5% or HK\$6.9 million were used for development of the investment banking business; approximately 4.0% or HK\$51.5 million were used for development of the institutional sales capabilities, including hiring experienced sales personnel; approximately 10.0% or HK\$128.8 million were used for working capital and other general corporate purposes; 18.5% or HK\$238.5 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 for the year ended 31 December 2017.

## **CHARGES ON THE GROUP'S ASSETS**

As at 31 December 2017, the Group's assets pledged were mainly debt securities pledged as collaterals for other borrowings or margin loans from broker.

## **COMMITMENTS UNDER OPERATING LEASE**

Details of commitments under operating leases of the Group are set out in note 15 in this announcement.

## **EMPLOYEE INFORMATION**

As at 31 December 2017, the Group had 165 full-time employees (31 December 2016: 134 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2017 was HK\$163.6 million (2016: HK\$129.4 million). Such increase was mainly attributable to the growth in staff salaries and bonus due to adjustment of workforce structure and increase in the number of employees.

## **CONTINGENT LIABILITIES**

The Group did not have any material contingent liability as at 31 December 2017 and 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\$0.03 per share. Further details are set out in the Report of the Board of Directors.

## **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.

For the year ended 31 December 2017, the Group has made an impairment loss according to the principle of prudence. The details are set out in notes 5 and 9 in this announcement.

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, treat, 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 the capital requirements under the applicable laws; and

We have established limits and controls on margin loans and money lending loans on an 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 financial products and investments business to manage risk and periodically review and adjust our market strategies in response to changes in the business performance, risk tolerance levels and market conditions;

In terms of the financial products and investments business, the Group formulates different selection criteria for bonds and other fixed income products, limits the investment in industries and enterprises with excess capacity and negative news, and tracks and monitors the trends of macro economy and investment concentration ratio to optimise our investment strategies; we diversify the fixed income investment portfolios, limit the investment in 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 take profit or stop 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 Group's financial products and investments business primarily comprises investment in bonds and other fixed income products denominated in US dollars. The Group continuously monitors the exchange rate trend and adopts hedging measures when appropriate, so as to prevent significant foreign exchange risk arising from US dollar denominated monetary items.

### **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 the market interest rate. The Group has adopted the US Treasury bond futures and other instruments to hedge against interest rate risks.

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\$0.03 per share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on 16 May 2018. The final dividend will be payable on or about 6 June 2018.

## **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 Thursday, 3 May 2018 to Tuesday, 8 May 2018, 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 Wednesday, 2 May 2018.

For determining the entitlement to the proposed final dividend for the year ended 31 December 2017, the transfer books and register of members of the Company will be closed from Monday, 14 May 2018 to Wednesday, 16 May 2018, 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 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, 11 May 2018.

## **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 2017.

## **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 2017.

## **COMPLIANCE ADVISER'S INTERESTS**

As at 31 December 2017, 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 2017.

## **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 2017.

## 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 Mr. Huang Yilin, 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 2017 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**

**Yang Huahui**

*Chairman*

Hong Kong, 7 March 2018

*As at the date of this announcement, the Board comprises two non-executive Directors, namely Mr. Yang Huahui (Chairman) and Mr. Huang Yilin, 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](http://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](http://www.xyzq.com.hk)).*