基石金融控股有限公司
CORNERSTONE FINANCIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8112)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the annual results announcement of Cornerstone Financial Holdings Limited (the "**Company**") for the year ended 31 December 2020 published on 29 March 2021 with the annual report for the pertaining year (the "**Annual Report**") enclosed. Terms used herein shall have the same meanings as defined in the Annual Report unless otherwise stated.

The Board wishes to provide further information regarding the Annual Report as follows:

IMPAIRMENT LOSS FOR PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS RELATING TO THE ADVERTISING AND MEDIA SEGMENT

As stated in the Annual Report, the Company recognised a provision for impairment loss of approximately HK$14.2 million (2019: nil) on property, plant and equipment and right-of-use assets in relation to the advertising and media segment (the "**Impairment Loss**") for the year ended 31 December 2020 ("**FY2020**"). The asset impairment was supported by an independent valuation. Save as disclosed in the Annual Report, further information regarding the Impairment Loss is set out below:

Reasons for and the circumstances leading to the Impairment Loss

During FY2020, the performance of the Group's advertising and media business was mainly and severely affected by the outbreak of COVID-19 pandemic and recent deteriorating economy. Singapore and Hong Kong are the major markets for the Group's advertising and media business. Singapore has begun to open up in phases since June 2020 from the "lockdown" which was imposed during the months of April and May 2020. As for Hong Kong, since the outbreak of the COVID-19 pandemic, the city had experienced multiple waves of outbreaks, with the latest outbreak occurring in November 2020. Both of these incidents have significant adverse impacts on the Group's advertising and media business. It was believed that advertising and media clients had tightened their advertising budget in times of economic downturns and this trend is expected to be likely to continue until the global economy recovers and resumes normal to at least previous status. As a result, the Group's advertising and media segment recorded a significant decline in sales revenue by approximately 52% to approximately HK$37,580,000 for FY2020 from the previous year of HK$77,613,000. In view of the decreases in business activities and operations, the Group carried out a review of the recoverable amounts of the property, plant and equipment and right-of-use assets containing in the cash generating units ("**CGU**") of Singapore (the "**Singapore CGU**") and of Hong Kong (the "**Hong Kong CGU**", together with the Singapore CGU, the "**CGUs**") in the advertising and media segment with reference to a valuation report performed by an independent valuer (the "**Valuer**") by comparing the carrying values and the recoverable amounts of the CGUs which are based on certain key assumptions (as detailed below). Accordingly, Impairment Loss of approximately HK$14.2 million on property, plant and equipment and right-of-use assets used in the advertising and media business was recognised for the year.

Save for the major factors of deteriorating economy and the COVID-19 pandemic as mentioned above, there are no other reasons for, or events and circumstances leading to, the recognition of the Impairment Loss which has been discussed with the auditors of the Company (the "**Auditors**").

Value of inputs used or key assumptions adopted in the valuation

With reference to the valuation conducted by the Valuer, the Group carried out a review of the recoverable amounts of the property, plant and equipment and right-of-use assets containing in the CGUs in the advertising and media segment based on the value-in-use approach using discounted cash flow method by comparing the carrying values and the recoverable amounts of the CGUs. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. Discount rates are estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the advertising and media segment. The growth rates are based on long-term average economic growth rate of the geographical areas in which the businesses of the advertising and media segment operate. Budgeted gross margins and turnover are based on past practices and expectations on market development.

The details of the key assumptions and inputs adopted in the impairment assessment of the CGUs are as follow:

(i) Budgeted turnover for the coming five years:

During the years 2021 to 2022, the turnover is estimated to have a steady growth per annum as the Hong Kong and Singapore economy is expected to be gradually recovered from the COVID-19 pandemic in these two years due to the availability of vaccines, i.e. the growth rate of turnover for Hong Kong CGU and Singapore CGU for these two years are 19.75% and 40.8% respectively; the estimated turnover of Hong Kong CGU for the years 2021 and 2022 are HK$25.7 million and HK$30.8 million, respectively; and the estimated turnover of Singapore CGU for the years 2021 and 2022 are HK$25.1 million and HK$35.3 million respectively. It is estimated that the turnover in year 2023 would resume to pre-COVID-19 level comparable with years 2017, 2018 and 2019 (Note), i.e. the estimated turnover for Hong Kong CGU and Singapore CGU for the year are HK$36.9 million and HK$49.7 million respectively. For the years 2024 to 2025, it is estimated that the growth of the turnover will be in line with the estimated Hong Kong inflation rate of 2.4% and Singapore inflation rate of 1.46% for the year 2025, which are based on the Bloomberg's estimated Hong Kong and Singapore inflation rates for year 2025, respectively. Accordingly, the estimated turnover for Hong Kong CGU for the years 2024 and 2025 are HK$37.8 million and HK$38.7 million respectively; and the estimated turnover for Singapore CGU for the years 2024 and 2025 are HK$50.5 million and HK$51.2 million, respectively.

Note: In view of the Covid-19 during the year 2020, it was considered that the turnover for the year was not in line with the normal financial condition of the Company. The turnover of Hong Kong CGU for the years 2017, 2018 and 2019 were HK$40.2 million, HK$40.6 million and HK$29.9 million, respectively and the average turnover of Hong Kong CGU for the three years was HK$36.9 million. The turnover of Singapore CGU for the years of 2017, 2018 and 2019 were HK$42.8 million, HK$48.8 million and HK$57.6 million, respectively and the average turnover of Singapore CGU for three years was HK$49.7 million. The average three years' turnover of Hong Kong CGU and Singapore CGU were the reference financial information in estimating the estimated turnover for the year 2023.

(ii) Budgeted gross profit margins for the coming five years:

During the years 2021 to 2022, it is estimated that the direct cost would grow steadily with turnover per annum as the Hong Kong and Singapore economy is expected to be gradually recovered from the COVID-19 pandemic in these two years due to the availability of vaccines, i.e. the growth rate of direct cost to revenue ratio for Hong Kong CGU and Singapore CGU are 5.62% and 40.67% respectively; the total estimated cost of service for Hong Kong CGU for the years 2021 and 2022 are HK$8.6 million and HK$9.1 million respectively; and the total estimated cost of service for Singapore CGU for the years 2021 and 2022 are HK$9.2 million and HK$13.1 million respectively. It is estimated that the cost to revenue ratio in year 2023 would resume to pre-COVID-19 level with reference to the average cost to revenue ratio for the years of 2017, 2018 and 2019 (Note), i.e. the total estimated cost of service for Hong Kong CGU and Singapore CGU for the year are HK$9.6 million and HK$18.5 million respectively. For the years 2024 to 2025, it is estimated that the cost to revenue ratio would be the same as 2023, i.e. the total estimated cost of service for Hong Kong CGU for the years 2024 and 2025 are HK$9.9 million and HK$10.1 million respectively; and the total estimated cost of service for Singapore CGU for the years 2024 and 2025 are HK$18.8 million and HK$19.1 million respectively.

Note: In view of the Covid-19 during the year 2020, it was considered that the cost to revenue ratio for the year was not in line with the normal financial condition of the Company. The cost to revenue ratio of Hong Kong CGU for the years of 2017, 2018 and 2019 were 24.18%, 24.30% and 29.80% respectively and the average cost to revenue ratio of Hong Kong CGU for three years was 26.09%. The cost to revenue ratio of Singapore CGU for the years of 2017, 2018 and 2019 were 36.57%, 42.42% and 32.65% respectively and the average cost to revenue ratio for three years was 37.21%. The average three years' cost to revenue ratio of Hong Kong CGU and Singapore CGU were the reference financial information in estimating the cost to revenue ratio for the year 2023.

(iii) Growth rates after five years:

The Group prepared cash flow forecasts deriving from the most recent financial budgets of the advertising and media segment for the next five years with the residual period using the growth rates for the Hong Kong CGU and Singapore CGU are 2.4% and 1.46% which are based on the Bloomberg's estimated Hong Kong and Singapore inflation rates for the year 2025, respectively. These rates do not exceed the average long-term growth rates for the relevant markets.

(iv) Pre-tax discount rates:

The rates used to discount the forecasted cash flows for the Hong Kong CGU and Singapore CGU are 15.78% and 16.15% respectively. These are weighted average cost of capital of the respective CGUs and then adjusted by iterative computations for the relevant markets.

The impairment assessment for the Hong Kong and Singapore CGUs were prepared with reference to the valuation conducted by the Valuer. Having discussed with the Auditors and the Valuer, it was believed that the valuation basis adopted by the Valuer and the key assumptions and inputs were in line with the management's estimation and it supported the decision to make the impairment amount for audit purposes and accordingly, the relevant adjustments had been made to the Group's audited financial statements.

Valuation method and reason for its adoption

The Group's impairment assessment policy on property, plant and equipment and right-of-use assets was set out in note 4(q) to the consolidated financial statements of the Company as included in the Annual Report.

At the end of the reporting period, the Group reviewed the carrying amounts of the Singapore and Hong Kong CGUs to determine whether there is any indication that the Singapore and Hong Kong CGUs have suffered an impairment loss according to the accounting policy of the Group. If any such indication exist, the recoverable amounts of the Singapore and Hong Kong CGUs are estimated in order to determine the extent of the impairment losses, if appropriate. Recoverable amount is the higher of fair value less costs of disposal and value-in-use.

Pursuant to Hong Kong Accounting Standards 36 "Impairment of Assets", value-in-use is defined as "the present value of the future cash flows expected to be derived from an asset or cash-generating unit" Accordingly, discount cashflow method was adopted in Singapore and Hong Kong CGUs valuation, which is based on a simple reversal calculation to restate all future cash flows in present terms in arriving value-in-use of the Singapore and Hong Kong CGUs.

Based on the impairment assessment, as at 31 December 2020, the carrying amount of the Hong Kong and Singapore CGUs exceeds their recoverable amounts and accordingly, impairment losses of approximately HK$2,816,000 and HK$11,378,000 were recognised and allocated to right-of-use assets and property, plant and equipment, respectively for the year ended 31 December 2020. As at 31 December 2020, the carrying amounts of the Group's property, plant and equipment and right-of-use assets (net of accumulated depreciation and impairment losses) attributable to the Hong Kong and Singapore CGUs were approximately HK$2,933,000 and HK$23,907,000, respectively.

EXPECTED CREDIT LOSS PROVISION FOR MARGIN LOANS RECEIVABLE RELATING TO THE FINANCIAL SERVICES SEGMENT

As stated in the Annual Report, the Company recognised a provision for impairment loss of approximately HK$14.3 million (2019: nil) on margin loans receivable in relation to the financial services segment (the "**Provision**") for FY2020. The asset impairment was supported by an independent valuation. Save as disclosed in the Annual Report, further information regarding the Provision is set out below:

Reasons for and the circumstances leading to the Provision

The outbreak of COVID-19 pandemic and recent deteriorating economy have caused reduction of business and social activities and severe economic uncertainty in 2020. As such, major stock market indexes purged as the number of confirmed COVID-19 cases increase dramatically and rapidly became a global issue. The breakthrough in the development of vaccine against COVID-19 and the economic measures taken by various government such as quantitative easing and stimulus packages to accelerate economic recovery were having positive impact to the stock market. Further, the stock market is vulnerable to the changes in general economic fundamental factors and stock prices would fluctuate and become more volatile as compared to previous periods. Since the Company's margin loan receivables were secured by collaterals pledged by the margin clients which are mainly listed stocks, as the fair value of the collateral fluctuates and falls below the margin loan receivables, the credit risk and default risks of our margin loan receivables would inevitably increase and attribute to the recognition of the Provision.

The Group's margin loan receivables are mainly attributable to the margin financing business of its financial services segment. It is the Group's policy to provide credit facility limits to margin clients taking into account of the financial strength, creditworthiness and the past collection statistics of the clients and also determined by the discounted market value of the collateral securities accepted by the Group, where the Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. The margin clients are required to make good the shortfall, if any. As at 31 December 2020, the gross margin loan receivables were HK$128,860,000. Owing to the deteriorating economy and fluctuations of market value of the underlying collateral securities, certain margin clients with an aggregate gross amount of approximately HK$109,457,000 had shortfalls on their collateral securities and did not make good on such shortfalls after margin calls had been made by the Group. With reference to the valuation report performed by the Valuer, it was estimated that the Provision for the expected credit loss (the "**ECL**") attributing to margin loan receivables amounting to approximately HK$14,346,000 for recognition during FY2020. Nevertheless, the responsible management team will continue to take all necessary measures to secure the shortfall from the margin clients.

So far as is known to the Directors, save for major factors of the deteriorating economy and the COVID-19 pandemic as mentioned above, there are no other reasons for, or events and circumstances leading to the recognition of the Provision which has been discussed with the Auditors.

Value of inputs used or key assumptions adopted in the valuation

With reference to the valuation report prepared by the Valuer, the Group carried out an assessment on the Provision for margin loan receivables and estimated the amount of ECL of margin loan receivables in the margin financing business of the financial services segment.

The estimation of the amount of ECL of margin loan receivables is based on the assessments considering the probability of default, expected recovery rates from loss given default, forward-looking information and macroeconomic environment as well as the fair value of the collateral pledged by the customers to the margin loan receivables.

The details of the key assumptions and inputs adopted in Provision assessment regarding ECL of margin loan valuation are as follow:

(i) Exposure of default: The exposure of default is the difference between the market value of securities collaterals after haircut and the book value of the margin loan receivables. As at 31 December 2020, since the gross market value of securities collaterals amounted to approximately HK$112,585,000 which was lower than the book value of the margin loan receivables amounted to approximately HK$128,860,000 and thus, there was exposure of default and thus, the haircut of 75% based on market practice was applied to reflect the market risk associated with the securities collaterals, according to the estimation of the management of the Company which was based on the historical volatility of the market price of the securities collaterals. As at 31 December 2019, the gross market value of securities collaterals amounted to approximately HK$351,609,000 which was much higher than the book value of the margin loan receivables amounted to approximately HK$162,190,000, it was therefore considered that there was no exposure of default on the margin loan receivables and no haircut ratio was applied accordingly.

(ii) Probability of default rate: For the year 2020, the calculation of the adopted probability of default was the sum of "Forward Looking Global Default", "Country Specific Risk Factor" and "Credit Rating Adjustment" less "Global Probability of Default".

	Percentage change	Sensitivity	Sensitivity Weighted Return
a) World Gross Domestic Product *(Note 1)*	5.485	(12.773)	(0.701)
Add: Intercept Return			(3.837)
Logit Forward Looking Global Probability of Default			(4.537)
Forward Looking Global Probability of Default (%)			1.059
b) Global Probability of Default *(Note 2)* (%)			3.140
c) Country Specific Factor *(Note 3)* (%)			0.709
d) Credit Rating Adjustment *(Note 4)* (%)			27.080
Adopted Probability of Default (%)			**25.708**

Remark: Totals may not correspond with the sum of separate figures due to rounding

Note 1: World Gross Domestic Product : Based on the percentage change in the IMF World Gross Domestic Product between 2020 and 2021 as extracted from Bloomberg

Note 2: Global Probability of Default : Global Probability of Default as extracted from S&P

Note 3: Country Specific Factor : Difference between the Rating-based Default Spread of Hong Kong and United States as extracted from Damodaran Online

Note 4: Credit Rating Adjustment : The probability of default based on specific credit rating as extracted from S&P Global.

For the year 2019, it was considered that the disclosure of inputs of probability of default rate is meaningless given that there is no significant exposure of default risk on the margin loan receivables as stated in (i) above.

(iii) Expected recovery rate from loss given default rate: For the year 2020, the rate (0% – 73%) was extracted from Global Credit Data LGD Report 2020 – Large Corporate Borrowers and further adjusted with the security status of the Loan Receivables (secured/unsecured).

For the year 2019, it was considered that the disclosure of expected recovery rate is meaningless given that there is no significant exposure of default risk on the margin loan receivables as stated in (i) above.

(iv) Discount factor: The discount factor was not applicable in this valuation because the expected settlement date is within one year from the date of the valuation.

The assessment on the Provision of margin loan receivables and the expected credit loss was prepared with reference to the valuation results conducted by the Valuer. Having discussed with the Auditors and the Valuer, it was believed that the above-mentioned valuation basis, key assumptions and inputs applied by the Valuer were consistent with the current market trends and conditions of the margin financing business and it supported the decision to make the provision amount for audit purposes. Accordingly, Provision of margin loan receivables has been made to the Group's audited financial statement for the year ended 31 December 2020.

Valuation method and reason for its adoption

The Group's impairment assessment policy on margin loan receivables was set out in note 4(r) to the consolidated financial statements of the Company as included in the Annual Report.

The Group estimated the ECL of margin loan receivables under general approach according to the accounting policy of the Group. The ECL of margin loan receivables was assessed based on the collateral of individual client.

Based on the valuation report, the Valuer adopted probability of default method for the valuation of Expected Credit Loss which is commonly used in measuring the expected credit loss of receivables. Under this method, the valuation of expected credit loss of margin loans receivable was based on the following formula:

Expected Credit Loss = Exposure of Default x Probability of Default x Loss Given Default x Discount Factor

Based on the valuation results, the estimated Provision regarding ECL for margin loan receivables of approximately HK$14,346,000 was recognised during the year ended 31 December 2020. As at 31 December 2020, the carrying amount of the Group's margin loan receivables, net of ECL impairment losses were approximately HK$114,514,000.

Consideration for impairment assessments during years 2019 and 2020

In view of the comparison of financial performance of the Group's advertising and media segment and financial services segment between 2019 and 2020, the justification for considering impairment assessments are as follow:

– Advertising and media segment – Segment revenue and results amounted to approximately HK$77,613,000 and HK$34,365,000, respectively for the year ended 31 December 2019. The performance of this business segment was considered as following its normal trend and there was no impairment indicators in the Group's Singapore and Hong Kong CGUs and accordingly, no impairment assessment was considered necessary and hence no valuation was, performed on the Group's Singapore and Hong Kong CGUs for that year.

– Financial services segment – Segment revenue and results amounted to approximately HK$14,427,000 and HK$12,835,000, respectively for the year ended 31 December 2019. Further, at 31 December 2019, the total market value of securities collaterals amounted to approximately HK$351,609,000 and margin loans receivable amounted approximately HK$162,190,000. With reference to the professional valuation on the ECL of margin loans receivable performed by the Valuer, no impairment loss was recognised regarding margin loan receivables for that year.

Based on the above analysis, it was satisfied that the Group's property, plant and equipment, right-of-use assets and margin loans receivables balances were fairly stated and well supported by the business results for the year ended 31 December 2019 and therefore, there was no impairment was required for 2019.

On the other hand, the financial performance of the Group's advertising and media segment and the financial services segment are adversely affected by the COVID-19 pandemic for the year ended 31 December 2020 and the details of the Company's considerations for impairment assessments are as follow:

– Advertising and media segment – Segment revenue and losses amounted to approximately HK$37,580,000 and HK$17,725,000, respectively and Group recorded losses for this segment for the year ended 31 December 2020.

– Financial services segment – Segment revenue and results amounted to approximately HK$13,393,000 and HK$2,788,000, respectively for the year ended 31 December 2020. Further, at 31 December 2020, the total market value of securities amounted to approximately HK$112,585,000 and margin loans receivable amounted approximately HK$128,860,000. Certain margin clients with an aggregate gross amount receivables of approximately HK$109,457,000 had shortfalls for the collateral securities and did not make good on such shortfalls. The responsible management team had taken out all necessary compliance measures including but not limited to making margin calls and issuing demand letters. It is reported that certain margin clients are unable to visit Hong Kong due to travel restriction and have verbally confirmed that they would make good the shortfall upon the uplifting of the travel restriction. The responsible management team will continue to take all necessary measures to secure the shortfall from the margin clients.

Based on the above analysis, it was considered that the drop in revenue and increase in losses as well as the shortfall in collaterals were impairment indicators in Singapore and Hong Kong CGUs and margin loan receivables for the year ended 31 December 2020. With the drastic changes in the business and global business environment, the Auditors has recommended and the Company agreed to conduct formal impairment assessments of Singapore and Hong Kong CGUs and margin loan receivables for the year ended 31 December 2020. Thus, the Company performed impairment assessments and engaged independent professional valuer to provide valuation results. Based on valuation and audited results, impairment losses on property, plant and equipment, right-of-use assets and margin loans receivables amounted to approximately HK$2,816,000, HK$11,378,000 and HK$14,346,000, respectively were recognised for the year ended 31 December 2020. The Company would continue to comply with the accounting standards and accounting policies to perform impairment reviews so as to ensure the financial statements are true and fairly stated.

As at the date of this announcement, there are no subsequent changes to the valuation methods as referred to above following their adoption.

By Order of the Board
CORNERSTONE FINANCIAL HOLDINGS LIMITED
Gao Ran
Chairman

Hong Kong, 20 May 2021

As at the date of this announcement, the Board comprises Mr. Gao Ran (Chairman), Mr. An Xilei (Deputy Chairman), Mr. Wong Hong Gay Patrick Jonathan and Mr. Mock Wai Yin as executive Directors; and Mr. Chan Chi Keung Alan, Mr. Lee Chi Hwa Joshua and Ms. Lau Mei Ying as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited 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.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting. This announcement will also be posted on the Company's website at www.cs8112.com.