兴证国际
INDUSTRIAL SECURITIES INTERNATIONAL

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: 6058)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2018 HK$	2017 HK$
Commission and fee income from customers	*4*	**443,052,558**	318,439,402
Interest revenue	*4*	**433,136,939**	310,521,831
Net investment income and gains or losses	*4*	**134,856,105**	298,762,993
Total revenue	*4*	**1,011,045,602**	927,724,226
Other income	*4*	**53,584,083**	23,630,339
Share of result of a joint venture		**(498,698)**	–
Finance costs		**(386,951,178)**	(166,817,874)
Commission and fee expenses		**(111,605,723)**	(101,172,102)
Staff costs	*5*	**(187,040,901)**	(163,560,791)
Other operating expenses		**(182,361,532)**	(130,199,762)
Impairment losses on financial assets	*5*	**(6,105,250)**	(290,394,561)
Other gains or losses	*5*	**10,483,808**	78,875,531
Profit before taxation	*5*	**200,550,211**	178,085,006
Taxation	*6*	**(56,749,540)**	(25,253,165)
Profit for the year		**143,800,671**	152,831,841
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		**–**	16,043,397
Disposal of available-for-sale financial assets		**–**	14,065,775
Other comprehensive income for the year		**–**	30,109,172
Total comprehensive income for the year attributable to owners of the Company		**143,800,671**	182,941,013
Earnings per share			
Basic (expressed in HKD)	*7*	**0.0360**	0.0382

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2018 HK$	2017 HK$
Non-current assets			
Property and equipment		**26,668,610**	20,583,936
Intangible assets		**2,822,898**	1,616,541
Interest in a joint venture		**39,534,262**	–
Available-for-sale financial assets	*13*	**–**	11,423,329
Financial assets at fair value through profit or loss	*12*	**46,987,812**	–
Loans receivable	*8*	**–**	3,000,000
Statutory deposits		**11,132,259**	13,361,721
Deferred tax assets		**3,896,066**	–
Deposits, other receivables and prepayments		**13,546,949**	11,666,181
		144,588,856	61,651,708
Current assets			
Accounts receivable	*9*	**6,907,207,392**	5,007,801,784
Loans receivable	*8*	**71,444,048**	109,900,000
Reverse repurchase agreements		**334,317,392**	–
Available-for-sale financial assets	*13*	**–**	1,872,333,774
Financial assets at fair value through profit or loss	*12*	**8,734,109,327**	5,106,108,484
Statutory deposits		**11,859,727**	15,977,608
Deposits, other receivables and prepayments		**394,214,270**	302,695,425
Tax receivable		**43,178**	5,943,628
Bank balances – trust accounts		**5,228,829,297**	3,389,991,675
Bank balances – general accounts and cash		**1,517,226,830**	1,181,370,930
		23,199,251,461	16,992,123,308
Current liabilities			
Accounts payable	*10*	**5,991,194,627**	4,203,671,739
Accruals and other payables		**181,422,911**	175,425,279
Amount due to a related party		**3,174,615**	2,957,147
Contract liabilities		**126,000**	–
Other liabilities		**399,729,979**	278,866,324
Tax payable		**86,791,183**	40,347,249
Financial liabilities at fair value through profit or loss		**288,701,100**	161,958,014
Repurchase agreements		**1,542,080,825**	1,094,855,904
Bank borrowings		**5,586,797,616**	5,404,592,664
Other borrowings		**1,485,297,574**	1,203,876,281
Notes		**62,850,751**	62,549,900
		15,628,167,181	12,629,100,501
Net current assets		**7,571,084,280**	4,363,022,807

	Note	2018	2017
		HK$	*HK$*
Non-current liabilities			
Accruals and other payables		**785,704**	3,234,406
Financial liabilities at fair value through profit or loss		**–**	23,282,776
Bank borrowings		**3,322,863,676**	–
Deferred tax liabilities		**950,184**	891,519
		3,324,599,564	27,408,701
Net assets		**4,391,073,572**	4,397,265,814
Capital and reserves			
Share capital	*11*	**400,000,000**	400,000,000
Share premium		**3,379,895,424**	3,379,895,424
Retained earnings		**157,158,483**	171,346,158
Investments revaluation reserve		**–**	(7,995,433)
Other reserve		**11,577,844**	11,577,844
Capital reserve		**442,441,821**	442,441,821
Equity attributable to owners of the Company		**4,391,073,572**	4,397,265,814

Notes:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. Its immediate holding company is China Industrial Securities International Holdings Limited ("CISI Holdings") and CISI Holdings is 100% owned by Industrial Securities (Hong Kong) Financial Holdings Limited, the intermediate holding company of the Company. Industrial Securities Company Limited ("Industrial Securities"), a company incorporated in the 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 GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange. The address of the registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands and the address of principal place of business of the Company is 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

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 Stock Exchange and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS HKFRSs

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- commission income arising from broking business of securities, futures and option contracts dealing and insurance brokerage business;
- commission income arising from placing, underwriting and sub-underwriting;
- corporate advisory fee income;
- sponsor fee income;
- asset management fee income;
- investment advisory fee income;
- arrangement fee income; and
- custodian and handling fee income.

There was no material impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

2.1.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and loan commitment and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Available-for-sale — debt instruments and unlisted investment funds	Accounts receivable	Financial assets at fair value through profit or loss	Investments revaluation reserve	Retained earnings
		HK$	HK$	HK$	HK$	HK$
Closing balance at 31 December 2017 — HKAS 39		1,883,757,103	5,007,801,784	5,106,108,484	(7,995,433)	171,346,158
Reclassification from available-for-sale	(a)	(1,883,757,103)	–	1,883,757,103	7,995,433	(7,995,433)
Remeasurement of impairment under ECL model	(d)	–	(29,992,913)	–	–	(29,992,913)
Opening balance at 1 January 2018		–	4,977,808,871	6,989,865,587	–	133,357,812

Notes:

(a) Debt instruments and unlisted investment funds with a fair value of HK$1,883,757,103 were classified as available-for-sale ("AFS") under HKAS 39. These debt instruments and unlisted investment funds were reclassified to financial assets at fair value through profit or loss ("FVTPL") since the directors of the Group considered that these financial assets were held within a business model whose objective is achieved by selling these assets. Related net fair value loss of HK$7,995,433 has been transferred from the investments revaluation reserve to retained earnings on 1 January 2018.

(b) Unlisted structured products issued by the Group were measured at FVTPL under HKFRS 9, however, the amount of change in the fair value of these financial liabilities that was attributable to changes in the credit risk of those liabilities were recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. This was different from the HKAS 39 under which the entire change in fair value of the financial liabilities was recognised in profit or loss. The change in fair value attributed to a change in credit risk of these financial liabilities was not significant and did not have significant impact in other comprehensive income when HKFRS 9 was applied.

(c) All other financial assets and financial liabilities were measured on the same bases that were measured under HKAS 39.

(d) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable arising from contracts with customers under HKFRS 15. Except for those which had been determined as credit impaired, accounts receivable (except for secured margin loans) are grouped based on past due analysis.

Except for those which had been determined as credit impaired, ECL for other financial assets at amortised cost and loan commitment, including secured margin loans, bank balances, loans receivable, deposits and other receivables, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition, except for certain secured margin loans which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$29,992,913 has been recognised against retained earnings. The additional loss allowance is mainly charged against secured margin loans (included in accounts receivable) while the impact to other financial assets and loan commitment is not significant. All loss allowances for financial assets as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 are as follows:

	Accounts receivable — Loss allowance HK$
Loss allowance at 31 December 2017 under HKAS 39	290,394,561
Amounts remeasured through opening retained earnings	29,992,913
Loss allowance at 1 January 2018 under HKFRS 9	320,387,474

2.2 New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015–2017 Cycle*[1]

[1] Effective for annual periods beginning on or after 1 January 2019.
[2] Effective for annual periods beginning on or after 1 January 2021.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
[5] Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2.2.1 HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$47,067,005 as disclosed in note 15. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$13,244,252 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an arrangement contains a lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. SEGMENT REPORTING

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group's operations are located in Hong Kong.

The Group's reportable and operating segments under HKFRS 8 are 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;

Corporate finance (previously named 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 – 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.

For the year ended 31 December 2018

	Brokerage HK$	Loans and financing HK$	Corporate finance HK$	Asset management HK$	Financial products and investments HK$	Eliminations HK$	Consolidated HK$
Segment revenue and result							
Revenue from external customers	212,494,664	428,170,359	211,332,207	19,225,687	4,966,580	–	876,189,497
Net gains on financial products and investments	–	–	–	–	134,856,105	–	134,856,105
Inter-segment revenue	4,287,884	–	–	23,037,687	–	(27,325,571)	–
Segment revenue and net gains on financial products and investments	216,782,548	428,170,359	211,332,207	42,263,374	139,822,685	(27,325,571)	1,011,045,602
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							1,011,045,602
Segment results	90,987,409	226,431,938	112,075,789	22,605,370	(223,586,908)	–	228,513,598
Unallocated expenses							(27,963,387)
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							200,550,211
Other segmental information included in the measure of segment results							
Impairment losses on financial assets	898,000	3,704,383	–	512,867	990,000	–	6,105,250
Depreciation	140,265	–	513	–	–	–	140,778
Unallocated:							9,659,221
							9,799,999
Amortisation	281,835	–	333	–	–	–	282,168
Unallocated:							269,058
							551,226
Interest income	43,760,755	428,171,679	440,769	4,640	467,081,623	–	939,459,466
Unallocated							3,025,479
							942,484,945
Interest expenses	4,895,755	114,494,448	–	–	294,726,071	(27,165,096)	386,951,178
Dividend income	–	–	–	–	12,189,462	–	12,189,462

For the year ended 31 December 2017

	Brokerage HK$	Loans and financing HK$	Corporate finance HK$	Asset management HK$	Financial products and investments HK$	Eliminations HK$	Consolidated HK$
Segment revenue and result							
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
Other segmental information included in the measure of segment results							
Impairment losses on financial assets	–	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

Geographical information

For the years ended 31 December 2018 and 2017, 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 excluding 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

	2018	2017
	HK$	*HK$*
Commission and fee income from customers		
Brokerage:		
Commission and fee income from securities brokerage	**182,195,344**	160,360,628
Commission and fee income from futures and options brokerage	**27,042,191**	18,134,536
Commission income from insurance brokerage	**3,257,129**	3,739,533
	212,494,664	182,234,697
Corporate finance:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	**124,986,524**	31,865,379
– Equity securities	**50,221,728**	20,673,686
Corporate advisory fee income	**3,141,044**	1,215,640
Sponsor fee income	**7,990,000**	7,060,000
Arrangement fee	**24,992,911**	62,473,593
	211,332,207	123,288,298
Asset management:		
Asset management fee income	**16,412,089**	9,467,366
Investment advisory fee income	**2,813,598**	3,449,041
	19,225,687	12,916,407
	443,052,558	318,439,402
Interest revenue		
Loans and financing:		
Interest income from margin financing	**422,945,725**	304,576,242
Interest income from money lending activities	**5,224,634**	5,945,589
	428,170,359	310,521,831
Financial products and investments:		
Interest income from reverse repurchase agreements	**4,966,580**	–
	433,136,939	310,521,831

	2018	2017
	HK$	*HK$*
Net investment income and gains or losses		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	**461,578,805**	127,042,093
Dividend income from financial assets at fair value through profit or loss	**12,189,462**	7,994,084
Net realised (loss) gain on financial assets at fair value through profit or loss	**(258,760,737)**	26,279,987
Net unrealised (loss) gain on financial assets at fair value through profit or loss	**(215,663,069)**	20,988,702
Interest income from available-for-sale financial assets	**–**	137,445,058
Net realised loss on available-for-sale financial assets	**–**	(14,065,775)
Net realised gain (loss) on derivatives	**28,323,024**	(13,898,296)
Net unrealised gain on derivatives	**6,323,484**	3,182,197
Net realised loss on financial liabilities at fair value through profit or loss	**(1,774,809)**	–
Net unrealised gain on financial liabilities at fair value through profit or loss	**102,639,945**	3,794,943
	134,856,105	298,762,993
Total revenue	**1,011,045,602**	927,724,226

Other Income

	2018	2017
	HK$	*HK$*
Interest income from financial institutions	**47,769,201**	21,968,355
Sundry income	**5,814,882**	1,661,984
	53,584,083	23,630,339

5. PROFIT BEFORE TAXATION

	2018	2017
	HK$	*HK$*
Profit before taxation has been arrived at after charging (crediting):		
Staff costs (including directors' remuneration and five highest paid employees) *(note a)*	**187,040,901**	163,560,791
Salaries and bonuses	**183,449,208**	160,915,558
Contribution to the MPF Scheme	**2,757,924**	2,217,306
Other staff costs	**833,769**	427,927
Auditor's remuneration	**2,779,561**	1,801,856
Legal and professional fee	**21,769,909**	14,651,171
Expenses on transfer of listing	**5,856,211**	–
Minimum operating lease payments	**29,917,847**	28,743,021
Amortisation of intangible assets	**551,226**	1,052,293
Depreciation of property and equipment	**9,799,999**	8,354,881
Telephone and postage	**4,589,329**	4,152,222
Maintenance fee	**16,768,135**	12,218,536
Transportation expenses	**4,941,763**	3,606,932
Entertainment expenses	**7,525,643**	4,762,608
Impairment losses on financial assets	**6,105,250**	290,394,561
Impairment losses on secured margin loans	**3,534,383**	290,394,561
Impairment losses on accounts receivable (except for secured margin loans)	**1,160,867**	–
Impairment losses on loans receivable	**170,000**	–
Impairment losses on reverse repurchase agreements	**990,000**	–
Impairment losses on bank balances-trust accounts	**250,000**	–
Other gains or losses	**(10,483,808)**	(78,875,531)
Exchange losses (gains), net	**5,421,402**	(78,795,813)
Other gains *(note b)*	**(15,936,005)**	(102,018)
Losses on written off/disposal of property and equipment, net	**30,795**	22,300

Notes:

(a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance.

(b) Included in other gains is the net gain of consolidated investment funds attributable to third-party unit holders/shareholders of HK$15,936,005 (2017: net gain of HK$102,018).

6. TAXATION

	2018	2017
	HK$	*HK$*
Hong Kong Profit Tax:		
Current year	**61,784,010**	24,259,698
(Over) under provision in prior year	**(1,197,069)**	850,243
	60,586,941	25,109,941
Deferred Tax:		
Current year	**(3,837,401)**	143,224
	56,749,540	25,253,165

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2017.

7. EARNINGS PER SHARE

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

	2018	2017
	HK$	*HK$*
Earnings (HK$)		
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to owners of the Company	**143,800,671**	152,831,841
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,000,000,000**	4,000,000,000

For each of the years ended 31 December 2018 and 2017, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

8. LOANS RECEIVABLE

	2018	2017
	HK$	*HK$*
Fixed-rate loans receivable	**71,614,048**	112,900,000
Less: impairment allowance	**(170,000)**	–
	71,444,048	112,900,000
Analysed as:		
Current	**71,444,048**	109,900,000
Non-current	**–**	3,000,000
	71,444,048	112,900,000

The credit quality of loans receivable are summarised as follows:

	2018	2017
	HK$	*HK$*
Neither past due nor credit-impaired	**71,614,048**	112,900,000

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

Fixed-rate loans receivable denominated in HKD

	Effective interest rate	**2018** ***HK$***	2017 *HK$*
Within one year	(2018: 3.13% to 8.38% per annum; 2017: 3.00% to 8.25% per annum)	**71,614,048**	109,900,000
In more than one year but not more than two years	(2017: 6.00% per annum)	**–**	3,000,000
		71,614,048	112,900,000

As at 31 December 2018, included in the Group's loans receivable balance are debtors with aggregate gross amount and carrying amount of HK$71,614,048 and HK$71,444,048 respectively which are not past due as at the reporting date. The directors of the Company are of the view that there have been no significant increase in credit risk nor default because no loans receivable has been overdue.

As at 31 December 2018, the loans receivable amounting to HK$66,974,995 (2017: HK$111,400,000) were secured by listed securities from the borrowers and cash balance in their cash clients' accounts with aggregate fair value of HK$103,133,000 (2017: HK$258,890,000). At 31 December 2017, the fair value of the collateral was 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 was an unsecured loan receivable of HK$1,500,000, the directors of the Company consider the amount to be recoverable based on the evaluation of the repayment capacity of the borrower.

9. ACCOUNTS RECEIVABLE

	2018	2017
	HK$	*HK$*
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	**6,226,035,162**	4,692,352,438
Less: impairment allowance	**(323,921,857)**	(290,394,561)
	5,902,113,305	4,401,957,877
Clearing house	**366,488,173**	268,876,197
Cash clients	**85,689,554**	61,117,959
Brokers	**10,361,343**	11,106,841
Clients for subscription of new shares in IPO	**97,743**	682,984
Less: impairment allowance	**(560,000)**	-
	462,076,813	341,783,981
	6,364,190,118	4,743,741,858
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing house	**53,940,464**	19,255,638
Brokers	**169,970,214**	178,656,783
Less: impairment allowance	**(88,000)**	–
	223,822,678	197,912,421
Accounts receivable arising from the business of corporate finance	**20,526,889**	58,567,106
Accounts receivable arising from the business of asset management	**12,637,892**	6,645,151
Less: impairment allowance	**(512,867)**	–
	12,125,025	6,654,151
Accounts receivable arising from the business of financial products and investments:		
Brokers	**286,542,682**	935,248
	6,907,207,392	5,007,801,784

For secured margin loans, as at 31 December 2018 and 2017, 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 2018 and 2017.

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 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 corporate finance and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided.

Normal settlement terms of accounts receivable arising from brokers 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.

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.

The following is an aging analysis of gross accounts receivable arising from the business of corporate finance and asset management based on date of invoice/revenue recognition date at the reporting date:

Corporate finance clients

	2018	2017
	HK$	*HK$*
Less than 31 days	**6,855,259**	40,133,081
31–60 days	**4,775,135**	3,127,120
61–90 days	**1,004,012**	468,588
91–180 days	**5,723,815**	11,183,496
Over 180 days	**2,168,668**	3,654,821
	20,526,889	58,567,106

Asset management clients

	2018	2017
	HK$	HK$
Less than 31 days	**1,489,528**	2,087,648
31–60 days	**1,852,007**	2,259,816
61–90 days	**1,683,734**	551,320
91–180 days	**3,567,853**	760,541
Over 180 days	**4,044,770**	985,826
	12,637,892	6,645,151

During the years ended 31 December 2018 and 2017, 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

	2018	2017
	HK$	*HK$*
Accounts payable arising from the business of dealing in securities:		
Clearing house	**26,949,086**	5,857,460
Brokers	**9,925,735**	21,025,415
Clients	**5,582,040,242**	3,675,453,119
	5,618,915,063	3,702,335,994
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	**350,780,379**	310,087,267
Accounts payable arising from the business of financial products and investments:		
Brokers	**21,499,185**	–
Secured margin loans from brokers	**–**	191,248,478
	21,499,185	191,248,478
	5,991,194,627	4,203,671,739

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.

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 brokers, 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. The Group has no secured margin loans from brokers as at 31 December 2018.

The Group has accounts payable arising from the business of dealing in securities of HK$53,006,312 due to the immediate holding company as at 31 December 2018 (2017: HK$1,615,942).

11. SHARE CAPITAL

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

	Number of ordinary shares of HK$0.10 each	**Share capital**
		HK$
Authorised:		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	20,000,000,000	2,000,000,000
Issued and fully paid:		
As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	4,000,000,000	400,000,000

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	HK$	HK$
Equity securities		
– Listed in Hong Kong	**171,742,442**	194,579,762
– Listed outside Hong Kong	**78,745,632**	65,132,742
– Unlisted *(note a)*	**374,529,995**	–
Debt securities *(note b)*		
– Listed in Hong Kong	**2,984,265,913**	2,903,831,104
– Listed outside Hong Kong	**1,658,668,927**	463,239,548
– Unlisted	**1,784,955,456**	718,618,170
Foreign currency forward contracts *(note c)*	**2,322,556**	–
Credit derivative *(note d)*	**2,747,716**	3,193,943
Funds		
– Listed in Hong Kong	**69,441,600**	–
– Unlisted	**160,337,247**	375,621,692
Convertible bonds		
– Listed in Hong Kong	**148,120,335**	32,240,418
– Listed outside Hong Kong	**65,128,500**	–
Unlisted collateralised loan obligation *(note e)*	**–**	40,066,225
Unlisted credit-linked notes *(note f)*	**–**	67,233,080
Unlisted preference share linked note *(note g)*	**–**	242,351,800
Unlisted equity-linked note *(note g)*	**398,055,808**	–
Unlisted debt-linked notes *(note h)*	**882,035,012**	–
	8,781,097,139	5,106,108,484
Analysed as:		
Current	**8,734,109,327**	5,106,108,484
Non-current *(note i)*	**46,987,812**	–
	8,781,097,139	5,106,108,484

Notes:

(a) For the year ended 31 December 2018, the Group invested in an unlisted equity investment of which the principal business was in the telecommunication industry.

(b) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK$1,743,086,603 (2017: HK$970,278,494) at 31 December 2018, 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 2018 as the Group retains significant risks and rewards of the transferred debt securities.

(c) For the year ended 31 December 2018, the Group entered into foreign currency forward contracts with total notional amount of US$30,000,000 with a non-bank financial institution. The foreign currency forward contracts sell USD and buy RMB at weighted average forward exchange rate USD:RMB at 1:6.79. The maturity date of the foreign currency forward contracts is within one year.

(d) As at 31 December 2018, notional amount of credit derivative contract with a non bank financial institution was US$100,000,000 (2017: US$100,000,000).

(e) During the year ended 31 December 2017, the Group purchased an unlisted collateralised loan obligation with a nominal amount of US$5,000,000, in which the Group would be exposed to the risk of underlying loan obligation (primarily secured), issued by a non bank financial institution.

(f) For the year ended 31 December 2017, 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.

(g) For the years ended 31 December 2018 and 2017, the Group invested in unlisted equity-linked note and preference share linked note issued by a special purpose entity. The return of the equity-linked note and preference share linked note are linked to the fair value of the underlying assets which are equity shares and preference shares respectively.

(h) For the year ended 31 December 2018 , the Group invested in unlisted debt-linked notes issued by a special purpose entity and non bank financial institution. The return of the debt-linked notes is linked to the fair value of the underlying assets which are debt securities.

(i) As at 31 December 2018, included in the non-current portion is an unlisted investment fund which the directors of the Company do not expect to realise within twelve months after the reporting period.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 *HK$*
Measured at fair value:	
Debt securities *(note)*	
– Listed in Hong Kong	813,720,566
– Listed outside Hong Kong	659,784,232
– Unlisted	398,828,976
Unlisted investment funds	11,423,329
	1,883,757,103
Analysed as:	
Current	1,872,333,774
Non-current	11,423,329
	1,883,757,103

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, 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 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.

14. DIVIDENDS

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

	2018	2017
	HK$	*HK$*
2017 Final — HK$0.03 (2017: 2016 Final — HK$0.02) per share	**120,000,000**	80,000,000

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK$0.023 (2017: final dividend in respect of the year ended 31 December 2017 of HK$0.03) per ordinary share, in an aggregate amount of HK$92,000,000 (2017: HK$120,000,000), 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:

	2018	2017
	HK$	*HK$*
Within one year	**33,518,106**	27,027,784
In the second to fifth year inclusive	**13,548,899**	36,745,494
	47,067,005	63,773,278

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.

16. DISPOSAL OF A CONSOLIDATED STRUCTURED ENTITY

In October 2018, the Group disposed of a consolidated structured entity, IS Investment Fund Segregated Portfolio Company — CIS Excellent Select Fund Segregated Portfolio ("CISEF"). The net assets of CISEF at the date of disposal were as follows:

Consideration received

	HK$
Cash	12,907,712

Analysis of assets and liabilities over which control was lost

	HK$
Financial assets at fair value through profit or loss	25,699,671
Accounts receivable	16,116,049
Other receivables	35,332
Other payables	(147,156)
Other liabilities — interest held by third-party unit holders/shareholders	(28,800,529)
Bank balance	4,345
Net assets disposed of	12,907,712

Gain on disposal

	HK$
Consideration received	12,907,712
Net assets disposed of at the date of disposal	(12,907,712)
Gain on disposal	–

Net cash inflow arising on disposal

	HK$
Consideration received	12,907,712
Less: bank balances disposed of	(4,345)
	12,903,367

17. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

In May 2017, the Group acquired approximately 38.45% of issued units of CISEF for a consideration of HK$39,880,000.

Consideration transferred

	HK$
Cash	39,880,000

Assets acquired and liabilities recognised at the date of acquisition

	HK$
Bank balances	90,361,196
Financial assets at fair value through profit or loss	57,032,087
Accounts payable	(43,673,867)
	103,719,416

Net assets acquired at the date of acquisition attributable to the Group

Net assets acquired at the date of acquisition (HK$)	103,719,416
Proportion of the Group's interest	38.45%
Net assets acquired at the date of acquisition attributable to the Group (HK$)	39,880,000

Third-party interests at the acquisition date were measured at the proportionate share of the fair value of identifiable net assets of CISEF, which are reflected as other liability in the consolidated statement of financial position.

At the acquisition date, included in the financial assets at fair value through profit or loss represents the listed equity securities with the quoted market price.

	HK$
Net cash inflow on acquisition of a consolidated structured entity	
Cash and cash equivalent balances acquired	90,361,196
Less: consideration paid in cash	(39,880,000)
	50,481,196

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 2018 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

For the year ended 31 December 2018, the Group achieved operating revenue of HK$1,011.05 million (2017: HK$927.72 million), representing an increase of 9.0% over last year. The profit before taxation was HK$200.55 million (2017: HK$178.09 million), representing an increase of 12.6% over last year. The profit after taxation amounted to HK$143.80 million (2017: HK$152.83 million), representing a decrease of 5.9% over last year.

During the period under review, in terms of revenue types, the Group's revenue structure was further optimized. The proportion of commission and fee income from customers to total revenue increased, and the aggregate proportion of interest income, net investment income and gain or losses to total revenue decreased. For the year ended 31 December 2018, the Group's commission and fee income from customers (revenue from brokerage services, corporate finance services and asset management services) was HK$443.05 million (2017: HK$318.44 million), representing 43.8% of the total operating revenue (2017: 34.3%). The Group recorded interest revenue amounting to HK$433.14 million (2017: HK$310.52 million), representing 42.8% of the total operating revenue (2017: 33.5%). The Group recorded a gain of HK$134.86 million (2017: a gain of HK$298.76 million) in net investment income and gains or losses, representing 13.3% of the total operating revenue (2017: 32.2%).

In terms of services/business types, the Group recorded year-on-year increases of 16.6%, 71.4%, 48.8% and 37.9% in revenue from brokerage services, corporate finance services, asset management services, and loans and financing services, respectively. Revenue from financial products and investment business reached a year-on-year decrease of 53.2%.

The Group's operating revenue for 2018 achieved only a slight increase due to the decline in revenue from the financial products and investment business. In 2018, the stock markets in Hong Kong and Mainland China recorded a relatively sharp drop. At the same time, the pressure on the secondary market price of USD-denominated bonds issued by Chinese enterprises was heightened by the US interest rate-hike and the frequent credit risk issues in China's bond market. Changes in the fair value of financial assets held by the Group had a significant impact on revenue.

The decrease in profit after taxation was mainly attributable to the increase in total finance costs as a combined result of the moderate increase in gearing ratio to cope with the business development of the Company and the significant increase in market interest rates. For the year ended 31 December 2018, the Group's finance costs were HK$386.95million (2017: HK$166.82 million), representing an increase of 132.0% over last year.

ANALYSIS ON PRINCIPAL BUSINESSES

(I) Policy Review

In 2018, the financial market in Hong Kong continued to strengthen its reform and "mutual access" mechanism. With regard to the "mutual access" mechanism, on 11 April 2018, the Securities and Futures Commission of Hong Kong and the China Securities Regulatory Commission announced the fourfold increase in the daily quota of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect from its existing level. The increased quota was RMB52 billion for the Northbound trading and RMB42 billion for the Southbound trading, with effect from 1 May 2018.

On 30 April 2018, the new amendment in the Listing Rules came into effect. The Listing Rules was revised by the Hong Kong Stock Exchange to broaden Hong Kong's listing regime. The Hong Kong Stock Exchange revised the Listing Rules to (i) permit listings of biotech companies that do not meet any of the Main Board financial eligibility tests; (ii) permit listings of companies with weighted voting right (WVR) structures; and (iii) establish a new concessionary secondary listing route for Greater China and international companies seeking secondary listing in Hong Kong. This reform brought new momentum to the Hong Kong capital market and also created opportunities for the corporate finance arms of financial institutions in Hong Kong.

(II) Market Review

In 2018, while the US stock market remained stable for most of the year due to strong fundamental factors and influx of liquidity, the first whole year decline since 2008 was recorded. The Dow Jones Index, the S&P 500 Index and the Nasdaq Index for the year fell 5.6%, 6.2% and 3.9% respectively.

Under the influence of various factors such as the strengthening of the US dollar and the US interest rate hike, Asian stock markets experienced volatility. Other than India, the major Asian markets recorded a decline ranging from 2.5% in Indonesia to 17.3% in South Korea. Mainland China stock market was a underperformer when compared to other major overseas markets. The Shanghai Composite Index and the Shenzhen Composite Index decreased by 24.6% and 33.2%, respectively.

The performance in Hong Kong stock market was affected by the external environment. In 2018, the Hang Seng Index and the Hang Seng China Enterprises Index decreased by 13.6% and 13.5%, respectively. The Hang Seng Index hit a record high in January 2018. It began to adjust due to the Sino-US trade friction and fell to a 17-month low in October 2018.

The average daily turnover of Hong Kong stocks in 2018 reached a record high of HK$107.41 billion, representing an increase of 21.7% from HK$88.25 billion in 2017. The average daily turnover (including trading turnover) of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, on an aggregated basis, was RMB20.4 billion, accounting for 2.8% of the turnover in the Mainland market (2017: average RMB9.6 billion, accounting for 1.1% of the market turnover). As for the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, on an aggregated basis, the average daily turnover of the Hong Kong Stock Connect (including trading turnover) was RMB10.8 billion, accounting for 5.9% of the turnover in Hong Kong market (2017: average RMB8.6 billion, accounting for 5.6% of the market turnover).

In 2018, given the downward trend of the Hang Seng Index, the equity financing market in Hong Kong remained relative buoyant. In 2018, there were 218 newly listed companies in Hong Kong, representing an increase of 25.3% from 174 companies in 2017 (including transfers of Listing from GEM to Main Board). The funds raised by IPOs in Hong Kong in 2018 amounted to HK$286.50 billion, representing an increase of 122.9% from HK$128.54 billion in 2017, ranking first in the global market. The total funds raised in the Hong Kong equity securities market in 2018 amounted to HK$541.71 billion, representing a decrease of 6.8% from HK$581.39 billion in 2017.

(III) Competitive environment

For Chinese mainland background brokers, the Hong Kong securities market presents both challenges and opportunities. As of the end of December 2018, the market capitalisation of Hong Kong securities market went up over 11% from the end of 2017 to HK$38 trillion, advancing its ranking from the seventh to the fifth in the world and remaining as the third in Asia. Meanwhile, the growing trend of participants in the Hong Kong securities market has slowed down. As at the end of 2018, 577 licensed corporations were Stock Exchange Participants, representing an increase of 22 participants or 3.9% from the end of 2017, lower than the increase of 10.8% in 2017.

(IV) Business Review

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

Brokerage services

For the year ended 31 December 2018, the Group recorded a year-on-year increase of 16.6% in commission and fee income from brokerage services to HK$212.49 million (2017: HK$182.23 million).

The increase in commission and fee income from brokerage services of the Group was mainly attributable to the securities brokerage business. In 2018, thanks to the increase in the total turnover of the Hong Kong stock market and the efforts of the Group's institutional sales team in developing its client base of public offering funds and insurance institutions, the number of institutional clients and assets continued to increase. For the year ended 31 December 2018, the Group recorded commission and fee income from securities brokerage services amounting to HK$182.20 million (2017: HK$160.36 million), representing a year-on-year increase of 13.6%.

In the future, the Group will enhance the loyalty of institutional clients through research services and roadshow services, and turn the institutional sales business a driving force to develop the corporate finance business and asset management business; actively expand its operation team and brokerage team, and broaden marketing channels; actively explore the development model of Internet securities, build an online customer marketing and service system based on Internet mobile terminal, thereby achieving a continuous growth in the number of institutional and retail clients and assets.

Corporate finance

For the year ended 31 December 2018, the Group recorded a significant year-on-year increase of 71.4% in income from corporate finance business to HK$211.33 million (2017: HK$123.29 million).

For the year ended 31 December 2018, the Group's commission income on placing, underwriting and sub-underwriting of debt securities amounted to HK$124.99 million (2017: HK$31.87 million), representing an increase of 292.2% over last year.

In 2018, the Group's bond issue and underwriting business made good progress. The clients were mainly state-owned enterprises and major private enterprises in China engaged in various industries such as finance and real estate. According to data from Bloomberg, in 2018, the Group completed 56 projects of issue and underwriting of public offered and privately placed bonds denominated in G3 currencies (including preferred shares) and raised approximately US$2.336 billion for clients. In addition, the Group's fixed-income structured products issuance business generated arrangement fee income amounting to HK$24.99 million.

The Group's equity financing related business achieved robust development. For the year ended 31 December 2018, the Group's commission income on placing, underwriting and sub-underwriting of equity securities amounted to HK$50.22 million (2017: HK$20.67 million), representing an increase of 143.0% over last year.

In 2018, the Group completed 1 sponsorship project, submitted applications for 3 sponsorship projects, newly entered into 4 compliance/finance/independent financial advisory projects, and completed 16 IPO underwriting projects and 8 placing projects in the secondary market. In 2018, the Group's equity financing business helped raised approximately HK$3.446 billion in the primary market and the secondary market for clients. Among the above projects, the Group acted as the sole sponsor for the IPO project of Xin Yuan Enterprises Group Limited. The Group also participated in and completed a number of large-scale equity financing projects, such as the IPO project of the H shares of Jiangxi Bank Co., Ltd. (stock code: 1916) and the placing project of the H shares of China Zheshang Bank Co., Ltd. (stock code: 2016).

In the future, as for the equity financing business, the Group will step up its efforts in introducing and building of professional teams, strengthening its full-service business chain including soliciting, undertaking and underwriting, and enhancing brand awareness, thereby improving the business capability and profitability. As for the bond issue business, we will actively participate in various projects such as public offered bonds, privately placed bonds and financing for specific projects, expand the institutional client base, increase its sales efforts, so as to further promote the overall development of the business.

Asset management

For the year ended 31 December 2018, the Group recorded income from asset management business amounting to HK$19.23 million (2017: HK$12.92 million), representing an increase of 48.8% over last year.

In 2018, the Group issued two equity investment funds for the first time. As of the end of 2018, the Group's assets under management (including RQFII (RMB Qualified Foreign Institutional Investor) funds, privately offered funds and discretionary portfolio management) amounted to HK$7.769 billion.

In the future, the Group will focus on the core assets in China and continue to enrich product categories, while keep improving the operational capabilities of asset management business and brand building. Meanwhile, the Group will further diversify the product categories and structures of asset management business, and expand the asset under management.

Loans and financing

With risk prevention in mind, the Group's loan and financing business developed steadily. For the year ended 31 December 2018, the income increased by 37.9% from last year to HK$428.17 million (2017: HK$310.52 million).

In 2018, the Group continued to review and revise its risk management policies covering credit risks by improving its risk management system, strengthening its management functions on credit risk, market risk, operational risk and operating risks, and establishing a quantitative risk management model.

In the future, the Group will continue to closely monitor market volatility and control the scale of margin financing in a stringent manner, while optimizing the structure of margin financing business.

Financial products and investments

For the year ended 31 December 2018, the Group recorded income from financial products and investments (including interest income) amounting to HK$139.82 million (2017: HK$298.76 million), representing a decrease of 53.2% over last year.

The financial products and investments business of the Group mainly includes USD-denominated bonds and other investments in fixed-income products. In 2018, certain factors, including the US interest rate-hike, heightened the pressure on the secondary market price of USD-denominated bonds issued by Chinese issuers, resulting in a fluctuation in the Group's income from financial products and investments. The Group assessed the credit risks, interest rate risks and liquidity risks of the issuer in a prudent manner, timely adjusted and modified the investment allocation and portfolio with an aim to achieve a more stable investment income.

In the coming year, the Group will continue to invest in a prudent manner with a focus on fixed-income investments, carefully assess the risks and optimize its investment portfolio. At the same time, there are increasing uncertainty in the global financial market due to macroeconomic factors, the Group will timely adopt hedging measures to control risks.

FINANCIAL POSITIONS

As at 31 December 2018, the total assets of the Group increased by 36.9% to HK$23,343.84 million (31 December 2017: HK$17,053.78 million). As at 31 December 2018, the total liabilities of the Group increased by 49.7% to HK$18,952.77 million (31 December 2017: HK$12,656.51 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 31 December 2018, the net current assets of the Group increased by 73.5% to HK$7,571.08 million (31 December 2017: HK$4,363.02 million). As at 31 December 2018, the current ratio of the Group (defined as current assets to current liabilities as at the end of the respective financial year/period) increased to approximately 1.5 times (31 December 2017: 1.3 times)

For the year ended 31 December 2018, the net cash inflows of the Group were HK$335.86 million (2017: HK$208.48 million). As at 31 December 2018, the bank balances of the Group was HK$1,517.23 million (31 December 2017: HK$1,181.37 million).

As at 31 December 2018, the Group's bank and other borrowings in aggregate increased by 57.3% to HK$10,394.96 million (31 December 2017: HK$6,608.47 million).

As at 31 December 2018, the notes outstanding of the Group amounted to HK$62.85 million (31 December 2017: HK$62.55 million). As at 31 December 2018, the gearing ratio of the Group (defined as bank and other borrowings and notes outstanding divided by total equity) increased by 57.0% to 2.382 (31 December 2017: 1.517).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK$4,391.07 million as at 31 December 2018 (31 December 2017: HK$4,397.27 million).

PROSPECTS AND FUTURE PLAN

In the coming year, the Group will continue to capitalize on the major development opportunities arising from the PRC's "Belt and Road" Initiative, the mutual market access mechanism between the mainland and Hong Kong markets, and the Listing reform of the Hong Kong stock market. At the same time, there is still uncertainty in the global financial market with much stricter regulations. While grasping the opportunities, the Group will further enhance its standards and capabilities on compliance operation and risk management.

In the future, the Group will continue to consolidate the foundation of its fee-charging businesses, develop its capital investment business in a prudent manner and explore its capital-based intermediary business, thereby optimizing the overall business structure. At the same time, the Group will strictly control its risks and strive to enhance the return to its shareholders.

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.

	Proposed use of proceeds as disclosed in the Prospectus *(note)*	**Use of proceeds by 31 December 2018, as allocated in accordance with the Prospectus** *(note)*		**Use of proceeds as at 31 December 2018, as actually applied**		**Outstanding proceeds allocated as at 31 December 2018**	
	Approximate percentage of allocation	*Approximate percentage of application*	*HK$'million (approx.)*	*Approximate percentage of application*	*HK$'million (approx.)*	*Approximate percentage of outstanding allocation*	*HK$'million (approx.)*
Expansion of the loans and financing business	40%	40.0%	515.3	40.0%	515.3	Nil	Nil
Development of proprietary trading business (currently known as financial products and investments)	20%	20.0%	257.6	20.0%	257.6	Nil	Nil
Development of capital-based intermediary business	10%	10.0%	128.8	10.0%	128.8	Nil	Nil
Development of asset management business	8%	8.0%	103.1	8.0%	103.1	Nil	Nil
Development of investment banking business	8%	8.0%	103.1	8.0%	103.1	Nil	Nil
Development of institutional sales capabilities	4%	4.0%	51.5	4.0%	51.5	Nil	Nil
Working capital and other general corporate purposes	10%	10.0%	128.8	10.0%	128.8	Nil	Nil
Total		100.0%	1,288.2	100.0%	1,288.2	Nil	Nil

Note: The implementation plan as set out in the Prospectus is based on the mid-range expected offer price as at the latest practicable date of the Prospectus. The allocation percentages reflect the percentage of the proceeds of the Company's listing as stated in the implementation plan, while the actual amounts allocated have been adjusted to reflect the percentage of the net proceeds actually received pursuant to the listing of the Company on the GEM.

During the year ended 31 December 2018, the Group has applied its proceeds from its listing on GEM to various businesses gradually in accordance with the proceed allocation as 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 2018.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2018, 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 to this annoucement.

EMPLOYEE INFORMATION

As at 31 December 2018, the Group had 202 full-time employees (31 December 2017: 165 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2018 was HK$187.04 million (2017: HK$163.56 million).

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2018 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$0.023 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;

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

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

The senior management and head of business units of the Group regularly review the balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, especially during adverse market movements; and the Group have established credit policy with respect to the trading limit, credit line and credit period granted to brokerage and loans and financing clients, and the Group reviews and revises such policy on an ongoing basis; the Group conducts 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 the Group's 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. The Group have authorisation limits in place for any commitment or fund outlay, such as procurement, investments, loans, etc., and the Group assesses the impact of those transactions on the capital level;

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

The Group 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;

The Group's 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 the Group's 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 the Group's investment strategies; the Group diversifies the fixed income investment portfolios, limits the investment in any single product, client or type of investment and continually tracks 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 the Group's 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 the Group's business units and staff on a real-time basis.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.023 per share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on 15 May 2019. The final dividend will be payable on or about 5 June 2019.

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 Tuesday, 30 April 2019 to Monday, 6 May 2019, 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 Monday, 29 April 2019.

For determining the entitlement to the proposed final dividend for the year ended 31 December 2018, the transfer books and register of members of the Company will be closed from Friday, 10 May 2019 to Wednesday, 15 May 2019, 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 Thursday, 9 May 2019.

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 2018.

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 Listing Rules had any interest in business that competed or might compete with business of the Group during the year ended 31 December 2018.

COMPLIANCE ADVISER'S INTERESTS

As at 31 December 2018, 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 Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2018.

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 14 to the Listing Rules during the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established with written terms of reference in compliance with the Listing Rules and code provision under 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 2018 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 Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

By Order of the Board
China Industrial Securities International Financial Group Limited
Yang Huahui
Chairman

Hong Kong, 21 March 2019

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.