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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 ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

RESULTS

The board (the "**Board**") of directors (the "**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 2019, with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$	2018 HK$ (Note)
Commission and fee income from customers	4	**358,648,790**	443,052,558
Interest revenue	4	**535,096,512**	433,136,939
Net investment income and gains or losses	4	**367,817,965**	134,856,105
Total revenue	4	**1,261,563,267**	1,011,045,602
Other income	4	**131,340,135**	53,584,083
Share of result of a joint venture		**(7,188,844)**	(498,698)
Finance costs		**(569,952,191)**	(386,951,178)
Commission and fee expenses		**(72,846,533)**	(111,605,723)
Staff costs	5	**(232,101,080)**	(187,040,901)
Other operating expenses		**(175,163,993)**	(182,361,532)
Impairment losses on financial assets	5	**(874,301,268)**	(6,105,250)
Other gains or losses	5	**1,027,010**	10,483,808
(Loss)/profit before taxation	5	**(537,623,497)**	200,550,211
Taxation	6	**75,764,050**	(56,749,540)
(Loss)/profit for the year		**(461,859,447)**	143,800,671
Total comprehensive income for the year attributable to owners of the Company		**(461,859,447)**	143,800,671
(Loss)/earnings per share			
Basic *(expressed in HKD)*	7	**(0.1155)**	0.0360

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

Details of dividends declared for the year are set out in note 13.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**2019** **HK$**	2018 HK$ (Note)
Non-current assets			
Property and equipment		**29,522,322**	26,668,610
Intangible assets		**6,897,819**	2,822,898
Interest in a joint venture		**32,345,418**	39,534,262
Financial assets at fair value through profit or loss	*12*	**48,004,707**	46,987,812
Reverse repurchase agreements		**169,074,404**	–
Statutory deposits		**12,094,229**	11,132,259
Deferred tax assets		**84,368,068**	3,896,066
Deposits, other receivables, prepayments and other assets		**48,187,079**	13,546,949
		430,494,046	144,588,856
Current assets			
Accounts receivable	*9*	**5,543,114,617**	6,907,207,392
Loans receivable	*8*	**–**	71,444,048
Reverse repurchase agreements		**856,955,362**	334,317,392
Financial assets at fair value through profit or loss	*12*	**9,077,929,636**	8,734,109,327
Statutory deposits		**14,133,035**	11,859,727
Deposits, other receivables, prepayments and other assets		**1,171,699,907**	394,214,270
Tax receivable		**64,522**	43,178
Bank balances – trust accounts		**1,850,331,251**	5,228,829,297
Bank balances – general accounts and cash		**5,359,950,333**	1,517,226,830
		23,874,178,663	23,199,251,461
Current liabilities			
Accounts payable	*10*	**3,411,501,538**	5,991,194,627
Accruals and other payables		**179,145,153**	181,422,911
Amount due to a related party		**5,744,417**	3,174,615
Contract liabilities		**179,333**	126,000
Tax payable		**66,906,352**	86,791,183
Financial liabilities at fair value through profit or loss		**39,401,016**	288,701,100
Repurchase agreements		**3,101,099,261**	1,542,080,825
Bank borrowings		**6,371,479,379**	5,586,797,616
Other borrowings		**196,217,064**	1,485,297,574
Notes		**31,302,195**	62,850,751
Bonds		**2,173,672,130**	–
Lease liabilities		**13,404,498**	–
Other liabilities		**546,215,309**	399,729,979
		16,136,267,645	15,628,167,181
Net current assets		**7,737,911,018**	7,571,084,280

	Notes	2019	2018
		HK$	*HK$*
			(Note)
Non-current liabilities			
Accruals and other payables		**–**	785,704
Financial liabilities at fair value through profit or loss		**639,840,032**	–
Repurchase agreements		**340,765,474**	–
Bank borrowings		**3,348,128,927**	3,322,863,676
Deferred tax liabilities		**28,715**	950,184
		4,328,763,148	3,324,599,564
Net assets		**3,839,641,916**	4,391,073,572
Capital and reserves			
Share capital	*11*	**400,000,000**	400,000,000
Share premium		**3,379,895,424**	3,379,895,424
(Accumulated loss)/retained earnings		**(394,273,173)**	157,158,483
Other reserve		**11,577,844**	11,577,844
Capital reserve		**442,441,821**	442,441,821
Equity attributable to owners of the Company		**3,839,641,916**	4,391,073,572

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

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. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019.

Comparative information has not been restated and continues to be reported under HKAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are in relation to properties.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.72%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$
Operating lease commitments at 31 December 2018	47,067,005
Less: short term leases with remaining lease term ending on or before 31 December 2019 that are exempt from capitalisation	(569,382)
Less: total future interest expenses	(1,286,616)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	45,211,007
Analysed as	
Current	32,294,847
Non-current	12,916,160
	45,211,007

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of HKFRS 16).

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	**Derecognition of accrued rent under HKAS 17**	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	HK$	*HK$*	*HK$*	*HK$*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:				
Property and equipment	26,668,610	–	44,042,009	70,710,619
Total non-current assets	144,588,856	–	44,042,009	188,630,865
Accruals and other payable	(181,422,911)	2,811,085	–	(178,611,826)
Lease liabilities	–	–	(32,294,847)	(32,294,847)
Total current liabilities	(15,628,167,181)	2,811,085	(32,294,847)	(15,657,650,943)
Net current assets	7,571,084,280	2,811,085	(32,294,847)	7,541,600,518
Accruals and other payable (non-current)	(785,704)	785,704	–	–
Lease liabilities (non-current)	–	–	(12,916,160)	(12,916,160)
Total non-current liabilities	(3,324,599,564)	785,704	(12,916,160)	(3,336,730,020)
Net assets	4,391,073,572	3,596,789	(1,168,998)	4,393,501,363

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	As at 31 December 2019	As at 1 January 2019
	HK$	*HK$*
Included in "property and equipment"		
Other properties leased for own use, carried at depreciated cost	**12,843,200**	44,042,009

c. ***Impact on the financial result and cash flows of the Group***

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17. Impact of the adoption of HKFRS 16 on the Group's segment results are not prepared as the leases are unallocated.

	For the year ended 31 December				
	2019				2018
	Amounts reported under HKFRS 16	**HKFRS 16 depreciation and interest expense**	**Deduct: estimated amounts related to operating lease as if under HKAS 17**	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	HK$	***HK$***	***HK$***	***HK$***	*HK$*
Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Finance costs	**(569,952,191)**	**1,142,215**	**–**	**(568,809,976)**	(386,951,178)
Other operating expenses	**(175,163,993)**	**31,198,809**	**(30,137,639)**	**(174,102,823)**	(182,361,532)
(Loss)/profit before taxation	**(537,623,497)**	**32,341,024**	**(30,137,639)**	**(535,420,112)**	200,550,211
(Loss)/profit for the period	**(461,859,447)**	**32,341,024**	**(30,137,639)**	**(459,656,062)**	143,800,671

	For the year ended 31 December			
	2019			2018
	Amounts reported under HKFRS 16	**Deduct: estimated amounts related to operating lease as if under HKAS 17**	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	HK$	***HK$***	***HK$***	*HK$*
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Net cash generated from/(used in) operating activities	**2,699,796,223**	**(32,948,724)**	**2,666,847,499**	(3,058,078,377)
Net cash used in investing activities	**(8,792,174)**	**–**	**(8,792,174)**	(44,802,644)
Net cash generated from financing activities	**1,151,719,454**	**32,948,724**	**1,184,668,178**	3,438,736,921

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

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 – 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 2019

	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	167,797,427	479,197,671	154,775,270	36,076,093	55,898,841	–	893,745,302
Net gains on financial products and investments	–	–	–	–	367,817,965	–	367,817,965
Inter-segment revenue	2,322,166	–	–	33,468,628	–	(35,790,794)	–
Segment revenue and net gains on financial products and investments	170,119,593	479,197,671	154,775,270	69,544,721	423,716,806	(35,790,794)	1,261,563,267
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							1,261,563,267
Segment results	83,443,930	(776,274,497)	60,512,183	34,530,612	64,203,622	–	(533,584,150)
Unallocated expenses							(4,039,347)
Loss before taxation presented in the consolidated statement of profit or loss and other comprehensive income							(537,623,497)
Other segmental information included in the measure of segment results							
Impairment losses on financial assets	–	874,301,268	–	–	–	–	874,301,268
Depreciation	30,723	–	–	–	–	–	30,723
Unallocated:							44,327,469
							44,358,192
Amortisation	1,493,474	–	–	–	–	–	1,493,474
Unallocated:							356,848
							1,850,322
Interest income	67,813,584	479,203,008	601,484	9,428	460,776,508	–	1,008,404,012
Unallocated:							25,948,158
							1,034,352,170
Interest expenses	3,005,764	277,915,931	–	–	298,148,766	–	579,070,461
Unallocated:							(9,118,270)
							569,952,191
Dividend income	–	–	–	–	8,210,326	–	8,210,326

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

Geographical information

For the years ended 31 December 2019 and 2018, 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

	2019 *HK$*	2018 *HK$*
Commission and fee income from customers		
Brokerage:		
Commission and fee income from securities brokerage	**137,547,325**	182,195,344
Commission and fee income from futures and options brokerage	**24,283,654**	27,042,191
Commission income from insurance brokerage	**5,966,448**	3,257,129
	167,797,427	212,494,664
Corporate finance:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	**62,580,777**	124,986,524
– Equity securities	**53,820,935**	50,221,728
Corporate advisory fee income	**830,464**	3,141,044
Sponsor fee income	**7,800,000**	7,990,000
Arrangement fee	**29,743,094**	24,992,911
	154,775,270	211,332,207
Asset management:		
Asset management fee income	**31,834,962**	16,412,089
Investment advisory fee income	**4,241,131**	2,813,598
	36,076,093	19,225,687
	358,648,790	443,052,558

	2019	2018
	HK$	*HK$*
Interest revenue		
Loans and financing:		
Interest income from margin financing	**477,843,577**	422,945,725
Interest income from money lending activities	**1,354,094**	5,224,634
	479,197,671	428,170,359
Financial products and investments:		
Interest income from reverse repurchase agreements	**55,898,841**	4,966,580
	535,096,512	433,136,939
Net investment income and gains or losses		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	**372,191,758**	461,578,805
Dividend income from financial assets at fair value through profit or loss	**8,210,326**	12,189,462
Net realised gain/(loss) on financial assets at fair value through profit or loss	**56,272,961**	(258,760,737)
Net unrealised loss on financial assets at fair value through profit or loss	**(59,186,141)**	(215,663,069)
Interest income from derivatives	**10,406,981**	–
Net realised (loss)/gain on derivatives	**(66,079,277)**	28,323,024
Net unrealised gain on derivatives	**26,259,591**	6,323,484
Net realised loss on financial liabilities at fair value through profit or loss	**(6,365,184)**	(1,774,809)
Net unrealised gain on financial liabilities at fair value through profit or loss	**26,106,950**	102,639,945
	367,817,965	134,856,105
Total revenue	**1,261,563,267**	1,011,045,602

Timing of revenue recognition for commission and fee income from customers

	2019	2018
	HK$	*HK$*
A point in time	**308,519,103**	411,702,093
Over time	**50,129,687**	31,350,465
Total	**358,648,790**	443,052,558

Performance obligations for commission and fee income from customers

(1) Brokerage

The Group provides broking and dealing services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group also provide handling service for securities, futures and options customer accounts. Fee income is recognised when the transaction is executed.

The Group provides custodian services for securities, futures and options customer accounts. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time.

The Group also provides placement services for insurance and wealth products to customers. Commission income is recognised at a point in time when the placement is completed and is calculated at a certain percentage of the premium paid for certain period of the insurance and wealth products.

(2) Corporate finance

The Group provides placing, underwriting or sub-underwriting services to customers for their fund raising activities in equity and debt capital markets, and also structured products arrangement services. Revenue is recognised when the relevant placing, underwriting, sub-underwriting or structured products arrangement activities are completed. Accordingly, the revenue is recognised at a point in time.

The Group also provides sponsoring services to clients for their fund raising activities and corporate advisory services to corporate clients for their corporate actions. The Group considers that all the services promised in a particular contract of being a sponsor or corporate advisor are interdependent and interrelated and should be therefore accounted for as a single performance obligation. As there is enforceable right to payment for the Group for the performance of services completed up to date based on the contracts with customers regarding sponsor or corporate advisory services, the revenue is recognised over time.

(3) Asset management

The Group provides asset management and investment advisory services on diversified and comprehensive investment products to customers. The customers simultaneously receive and consume the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group. Investment advisory fee income is charged at a fixed amount per month for managing the investment portfolio of each client.

The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

Transaction price allocated to the remaining performance obligation for contracts with customers

The following table shows the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partly unsatisfied) as at 31 December 2019 and 2018 and the expected timing of recognising revenue are as follows:

	2019	2018
	HK$	*HK$*
Within one year	**5,000,000**	10,550,000

Performance obligations for commission and fee income from customers

This amount represents revenue expected to be recognised in the future from the contracts for corporate advisory services. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 months.

Other Income

	2019	2018
	HK$	*HK$*
Interest income from financial institutions	**116,656,919**	47,769,201
Sundry income	**14,683,216**	5,814,882
	131,340,135	53,584,083

5. (LOSS)/PROFIT BEFORE TAXATION

	2019	2018
	HK$	*HK$*
(Loss)/profit before taxation has been arrived at after charging/(crediting):		
Staff costs (including directors' remuneration and five highest paid employees) *(note a)*	**232,101,080**	187,040,901
Salaries and bonuses	**227,654,163**	183,449,208
Contribution to the MPF Scheme	**3,323,910**	2,757,924
Other staff costs	**1,123,007**	833,769
Auditor's remuneration	**2,200,000**	2,779,561
Legal and professional fee	**16,665,860**	21,769,909
Expenses on transfer of listing	**–**	5,856,211
Minimum operating lease payments	**–**	29,917,847
Amortisation of intangible assets	**1,850,322**	551,226
Depreciation of property and equipment	**44,358,192**	9,799,999
Telephone and postage	**4,258,286**	4,589,329
Maintenance fee	**19,869,431**	16,768,135
Transportation expenses	**6,376,466**	4,941,763
Entertainment expenses	**7,243,039**	7,525,643
Impairment losses on financial assets	**874,301,268**	6,105,250
Impairment losses on secured margin loans *(note c)*	**874,471,268**	3,534,383
Impairment losses on accounts receivable (except for secured margin loans)	**–**	1,160,867
(Reversal of)/impairment losses on loans receivable	**(170,000)**	170,000
Impairment losses on reverse repurchase agreements	**–**	990,000
Impairment losses on bank balances – trust accounts	**–**	250,000
Other gains or losses	**(1,027,010)**	(10,483,808)
Exchange losses, net	**28,271,494**	5,421,402
Other gains *(note b)*	**(29,298,504)**	(15,936,005)
Losses on written off/disposal of property and equipment, net	**–**	30,795

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$29,298,504 (2018: net gain of HK$15,936,005).

(c) According to the assessment of the expected credit loss model, impairment losses on secured margin loans of HK$874,471,268 (2018:HK$3,534,383) were made for the year, including (i) impairment losses recognised of HK$942,528,700 (2018:HK$22,999,486); net of (ii) reversal of impairment losses of HK$33,527,296 (2018:HK$19,465,103); and reversal of impairment losses upon the recognition of guarantees amounted to HK$34,530,136 (2018: nil).

6. TAXATION

	2019	2018
	HK$	*HK$*
Hong Kong Profit Tax:		
Current year	**5,026,863**	61,784,010
Under/(over) provision in prior years	**602,558**	(1,197,069)
	5,629,421	60,586,941
Deferred Tax:		
Current year	**(81,393,471)**	(3,837,401)
	(75,764,050)	56,749,540

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of $20,000 for each business (2018: a maximum reduction of $30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

The tax (credit)/charge for the years ended 31 December 2019 and 2018 can be reconciled to the (loss)/profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019	2018
	HK$	*HK$*
(Loss)/profit before taxation	**(537,623,497)**	200,550,211
Notional tax on (loss)/profit before taxation, calculated at 16.5% (2018: 16.5%)	**(88,707,877)**	33,090,785
Tax effect of expenses not deductible for tax purpose	**24,205,817**	40,337,438
Tax effect of income not taxable for tax purpose	**(29,274,620)**	(17,004,969)
Tax at concessionary tax rate of 8.25% (2018: 8.25%)	**(165,000)**	(165,000)
Tax effect of deductible temporary difference not previously provided for	**849,429**	(4,120,000)
Tax effect of tax losses not recognised	**16,198,609**	9,429,259
Utilisation of tax losses previously not recognised	**(30,660)**	(3,707,438)
Under/(over) provision in prior years	**602,558**	(1,197,069)
Others	**557,694**	86,534
Tax (credit)/charge for the year	**(75,764,050)**	56,749,540

7. (LOSS)/EARNINGS PER SHARE

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

	2019	2018
	HK$	*HK$*
(Loss)/earnings *(HK$)*		
(Loss)/earnings for the purpose of basic (loss)/earnings per share:		
(Loss)/profit for the year attributable to owners of the Company	**(461,859,447)**	143,800,671
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**4,000,000,000**	4,000,000,000

For each of the years ended 31 December 2019 and 2018, there were no potential ordinary shares in issue, thus no diluted (loss)/earnings per share is presented.

8. LOANS RECEIVABLE

	2019	2018
	HK$	*HK$*
Fixed-rate loans receivable	**–**	71,614,048
Less: impairment allowance	**–**	(170,000)
	–	71,444,048
Analysed as:		
Current	**–**	71,444,048
Non-current	**–**	–
	–	71,444,048

The credit quality of loans receivable are summarised as follows:

	2019	2018
	HK$	*HK$*
Neither past due nor credit-impaired	**–**	71,614,048

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

	2019	2018
	HK$	*HK$*
Within one year	**–**	71,614,048
Effective interest rate	**N/A**	3.00% to 8.38% per annum

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 were secured by listed securities from the borrowers and cash balance in their cash clients' accounts with an aggregate fair value of HK$103,133,000.

All of the loans receivable were settled during the year ended 31 December 2019.

9. ACCOUNTS RECEIVABLE

	2019	2018
	HK$	*HK$*
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	**4,248,656,051**	6,226,035,162
Less: impairment allowance	**(405,810,868)**	(323,921,857)
	3,842,845,183	5,902,113,305
Clearing house	**1,148,102,205**	366,488,173
Cash clients	**126,836,285**	85,689,554
Brokers	**57,056,336**	10,361,343
Clients for subscription of new shares in IPO	**30,302**	97,743
Less: impairment allowance	**(560,000)**	(560,000)
	1,331,465,128	462,076,813
	5,174,310,311	6,364,190,118

	2019	2018
	HK$	*HK$*
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing house	**36,125,995**	53,940,464
Brokers	**129,540,770**	169,970,214
Less: impairment allowance	**(88,000)**	(88,000)
	165,578,765	223,822,678
Accounts receivable arising from the business of corporate finance	**17,695,697**	20,526,889
Accounts receivable arising from the business of asset management	**28,823,967**	12,637,892
Less: impairment allowance	**(512,867)**	(512,867)
	28,311,100	12,125,025
Accounts receivable arising from the business of financial products and investments:		
Brokers	**157,218,744**	286,542,682
	5,543,114,617	6,907,207,392

Secured margin loans

The Group provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The Group seeks to maintain strict control over its outstanding receivables and has a credit risk management department to monitor credit risks. To minimise the Group's exposure to credit risk, the credit risk management department is responsible for the evaluation of the customers' credit rating, financial background and repayment abilities. Management of the Group has set up the credit limits for each individual customer which could be changed at the Group's discretion. Any further extension of credit beyond these approval limits has to be first approved by the credit risk management department and then by the senior management of the Group on individual basis. The maximum credit limit granted for each customer is based on the customer's creditworthiness, financial strength, the past collection statistic and the quality of related collateral. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group.

As at 31 December 2019 and 2018, the loans are repayable on demand subsequent to settlement date and are analysed as follows:

	2019	2018
	HK$	*HK$*
Non credit-impaired secured margin loans		
– Gross amount	**3,172,077,966**	4,339,375,688
– Carrying amount	**3,152,414,321**	4,317,543,447
Credit-impaired secured margin loans		
– Gross amount	**1,076,578,085**	1,886,659,474
– Carrying amount	**690,430,862**	1,584,569,858
Market value of securities pledged in respect of all margin loans	**13,969,953,000**	17,905,274,000

Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the margin value of securities deposited. The Group has obtained additional guarantee arrangements for margin clients who had repayment difficulties.

The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan. As at 31 December 2019 and 2018, no bank borrowing were secured by charges over client's pledged securities.

During the year ended 31 December 2019, the Group has issued structured notes to third parties to transfer the cash flows of margin loans amounting to HK$1,876 million at a consideration of HK$1,339 million. Substantially all the risks and rewards have been transferred to the third party investors as the Group will pass all collected cash without material delay and is not obliged to pay if no cash is received by the Group. As a result, the related margin loans have been derecognised. The difference between consideration received and the carrying value of the relevant margin loans has been recognised an impairment loss in the consolidated statement of profit or loss and other comprehensive income.

Accounts receivable (except for secured margin loans)

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 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 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. Included in accounts receivable due from brokers arising from the business of financial products and investments, there is cash collateral of HK$43,170,824 paid under total return swap which is repayable upon expiry of relevant total return swap.

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 at the reporting date:

Corporate finance clients

	2019	2018
	HK$	*HK$*
Less than 31 days	**11,886,520**	6,855,259
31–60 days	**–**	4,775,135
61–90 days	**116,807**	1,004,012
91–180 days	**–**	5,723,815
Over 180 days	**5,692,370**	2,168,668
	17,695,697	20,526,889

Asset management clients

	2019	2018
	HK$	*HK$*
Less than 31 days	**18,434,772**	1,489,528
31–60 days	**1,549,502**	1,852,007
61–90 days	**1,362,061**	1,683,734
91–180 days	**3,034,312**	3,567,853
Over 180 days	**4,443,320**	4,044,770
	28,823,967	12,637,892

During the years ended 31 December 2019 and 2018, 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

	2019	2018
	HK$	*HK$*
Accounts payable arising from the business of dealing in securities:		
Clearing house	**15,699,420**	26,949,086
Brokers	**8,448,927**	9,925,735
Clients	**2,988,451,031**	5,582,040,242
	3,012,599,378	5,618,915,063
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	**324,921,275**	350,780,379
Accounts payable arising from the business of financial products and investments:		
Brokers	**73,980,885**	21,499,185
	3,411,501,538	5,991,194,627

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.

The Group has accounts payable arising from the business of dealing in securities of HK$98,718,717 due to the immediate holding company as at 31 December 2019 (2018: HK$53,006,312).

11. SHARE CAPITAL

Details of the movement of 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 2018, 31 December 2018 and 31 December 2019	20,000,000,000	2,000,000,000
Issued and fully paid:		
As at 1 January 2018, 31 December 2018 and 31 December 2019	4,000,000,000	400,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$	*HK$*
Equity securities		
– Listed in Hong Kong	**137,131,620**	171,742,442
– Listed outside Hong Kong	**196,490,625**	78,745,632
– Unlisted *(note a)*	**241,171,753**	374,529,995
Debt securities *(note b)*		
– Listed in Hong Kong	**4,939,309,654**	2,984,265,913
– Listed outside Hong Kong	**512,412,359**	1,658,668,927
– Unlisted	**2,887,543,807**	1,784,955,456
Foreign currency forward contracts *(note c)*	**3,936,218**	2,322,556
Credit derivative *(note d)*	**1,183,320**	2,747,716
Funds		
– Listed in Hong Kong	**101,311,650**	69,441,600
– Unlisted	**69,242,666**	160,337,247
Convertible bonds		
– Listed in Hong Kong	**–**	148,120,335
– Listed outside Hong Kong	**36,200,671**	65,128,500
Unlisted equity-linked note	**–**	398,055,808
Unlisted debt-linked note	**–**	882,035,012
	9,125,934,343	8,781,097,139
Analysed as		
Current	**9,077,929,636**	8,734,109,327
Non-current *(note e)*	**48,004,707**	46,987,812
	9,125,934,343	8,781,097,139

Notes:

(a) For the years ended 31 December 2019 and 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 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. 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. There was no such arrangement at 31 December 2019. Apart from this, there were arrangements to sell debts securities under a repurchase agreement for the year ended 31 December 2019.

(c) For the year ended 31 December 2019, the Group entered into foreign currency forward contracts with total notional amount of US$400,505,697 (2018: US$30,000,000) with a non-bank financial institution. The foreign currency forward contracts sell USD and buy HKD at forward rate USD:HKD at 1:7.834 and buy USD and sell HKD at weighted average rate USD:HKD at 1:7.814 (2018: 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 2019, notional amount of credit derivative contract with a non-bank financial institution was US$100,000,000 (2018: US$100,000,000).

(e) As at 31 December 2019 and 2018, included in the non-current portion is an unlisted investment fund that the directors of the Group do not expect to realise within twelve months after the reporting period.

13. DIVIDENDS

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

	2019	2018
	HK$	*HK$*
2018 Final – HK$0.023 (2018: 2017 Final – HK$0.03) per share	**92,000,000**	120,000,000

Subsequent to the end of the reporting period, the director of the Company did not recommend any payment of final dividend in respect of the year ended 31 December 2019 (2018: a final dividend in respect of the year ended 31 December 2018 of HK$0.023 per ordinary share, in an aggregate amount of HK$92,000,000, has been proposed by the directors of the Company) and is subject to approval by the shareholders in the forthcoming general meeting.

14. COMMITMENTS

(a) 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
	HK$
Within one year	33,518,106
In the second to fifth year inclusive	13,548,899
	47,067,005

For the year ended 31 December 2018, the Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. 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.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies.

(b) Investment commitments

In the normal course of business, the Group had investment commitments contracted for amounting to HK$451,494,998 (2018: nil) as at 31 December 2019.

15. DISPOSAL OF A CONSOLIDATED STRUCTURED ENTITY

In October 2018, the Group disposed of one 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

16. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

In April 2019, the Group acquired approximately 62.12% of issued units of Alpha-H for a consideration of HK$5,000,000.

Consideration transferred

	HK$
Cash	5,000,000

Assets acquired and liabilities recognised at the date of acquisition

	HK$
Bank balances	5,302,964
Financial assets at fair value through profit or loss	2,303,460
Accounts receivable	794,213
Accounts payable	(351,692)
	8,048,945

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

	HK$
Net assets acquired at the date of acquisition (HK$)	8,048,945
Proportion of the Group's interest	62.12%
Net assets acquired at the date of acquisition attributable to the Group (HK$)	5,000,000

Third-party interests at the acquisition date were measured at the proportionate share of the fair value of identifiable net assets of Alpha-H, 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	5,302,964
Less: consideration paid in cash	(5,000,000)
	302,964

17. NON-ADJUSTING EVENT AFTER REPORTING PERIOD

Impact of outbreak of novel coronavirus

Since early January 2020, the novel coronavirus pandemic has spread globally, causing disruption to business and economic activity. This may affect the fair value of the financial assets and impairment assessment of the secured margin loans of the Group. The degree of the impact depends on the duration of the pandemic, the implementation of preventive measures and fiscal easing policies posted by the impacted countries.

Global stock markets in early 2020 have been adversely affected by concerns over the outbreak of coronavirus, resulting in increasing volatility and substantial decline. As the situation is rapidly evolving, the directors do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The Group will continue to monitor the situation and actively react to the impacts to the Group's financial position and operating results. Such impact is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019.

SCOPE OF WORK OF KPMG

The financial 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 2019 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other 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 the auditor.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OVERVIEW

For the year ended 31 December 2019, the Group achieved operating revenue of HK$1,261.56 million (2018: HK$1,011.05 million), representing an increase of 24.8% over last year. For the year ended 31 December 2019, net loss after taxation of the Group amounted to HK$461.86 million (2018: profit of HK$143.80 million).

In terms of service/business types, the Group recorded a year-on-year decrease of 21.0% and 26.8% in revenue from brokerage services and corporate finance services, respectively. Revenue from asset management services, loans and financing services, and financial products and investment business recorded a year-on-year increase of 87.6%, 11.9% and 203.0%, respectively.

ANALYSIS ON PRINCIPAL BUSINESSES

(I) Policy Review

The "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" was officially issued on 18 February 2019, in which plans have been set out to consolidate and enhance Hong Kong's status as an international financial center, strengthen Hong Kong's status as a global offshore RMB business hub and its role as an international asset management center and a risk management center, and promote the development of high-end and high value-added financial and professional services.

The Guidelines for Securities Margin Financing Activities issued by the Securities and Futures Commission of Hong Kong came into effect officially on 4 October 2019. According to the guidelines, the maximum total margin loans-to-capital multiple that brokers can adopt is set at five times to avoid excessive leverage. Brokers are also advised to control the concentration risks posed by the holding of individual or related securities as collateral and by significant exposure to margin customers. In addition, brokers should set prudent triggers for margin call and strictly enforce the margin call policies.

(II) Market Review

Driven by the temporary easing of Sino-US trade friction, the monetary easing policy implemented by the Federal Reserve and the strong economic data including consumer spending and low unemployment rate, the US stock market surged in 2019. The Dow Jones Index, the S&P 500 Index and the Nasdaq Index for the year increased by 22.3%, 28.9% and 35.2% respectively. Along with the rise of US stock market, the major stock markets in Europe bounced in 2019 following the adjustment in the previous year. FTSE UK Index, Germany DAX Index and France CAC Index increased by 12.1%, 25.5% and 26.4% respectively.

Asian stock markets produced satisfying returns. Other than Malaysia, the major Asian markets recorded an increase ranging from 1.0% in Thailand to 23.3% in Taiwan. The Shanghai Composite Index and the Shenzhen Composite Index accumulatively rose by 22.3% and 35.9%, respectively.

At the end of 2019, Hong Kong Hang Seng Index closed at 28,189.8, representing an increase of approximately 9.1% as compared to the end of 2018. The average daily stock trading turnover in 2019 was HK$87.2 billion, representing a decline of 18.9% compared with HK$107.4 billion in 2018. The market capitalization of Hong Kong securities market reached HK$38.2 trillion at the end of 2019, representing a year-on-year increase of 27.6%.

The proportion of trading turnover arising from "mutual market access" mechanism in Hong Kong stock market continued to increase in 2019. Northbound average daily turnover (including all trading transactions) in aggregate was RMB41.7 billion, accounting for 4.0% of the Mainland market (2018: average RMB20.4 billion, accounting for 2.8% of the Mainland market). Southbound average daily turnover (including all trading transactions) was RMB9.6 billion, accounting for 6.2% of Hong Kong market (2018: average RMB10.8 billion, accounting for 5.9% of Hong Kong market). In addition, Bond Connect average daily turnover in 2019 reached RMB10.7 billion, representing a year-on-year increase of approximately 200%.

In 2019, Hong Kong once again ranked first globally in terms of Initial Public Offering (IPO) proceeds. During the year, 183 companies were listed in the Hong Kong Stock Exchange, representing a decrease of 16.1% from 218 companies in 2018 (including the transfer of listing from GEM to Main Board). A total of HK$452.0 billion was accumulatively raised from the issuance of shares throughout the year, representing a decline of approximately 16.9% from HK$544.1 billion in 2018. IPO proceeds amounted to HK$312.9 billion, increasing by 8.6% from HK$288.0 billion in 2018.

(III) Competitive Environment

For Chinese background brokers, the Hong Kong securities market presents both challenges and opportunities. As at the end of December 2019, the market capitalisation of Hong Kong securities market went up over 27% from the end of 2018 to HK$38 trillion, maintaining its fifth place in the world and third place in Asia. As at the end of 2019, 606 licensed corporations were participants of the Hong Kong Stock Exchange, representing an increase of 29 participants or approximately 5% from the end of 2018.

(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

For the year ended 31 December 2019, the Group recorded commission and fee income from brokerage services of HK$167.80 million (2018: HK$212.49 million), a year-on-year decrease of 21.0%.

In 2019, the turnover of the Hong Kong stock market shrank, and the accumulated trading amount of the Group's clients declined as a result of that. For the year ended 31 December 2019, the Group recorded commission and fee income from securities brokerage services of HK$137.55 million (2018: HK$182.20 million), representing a year-on-year decrease of 24.5%.

In 2019, thanks to 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. As of the end of 2019, the number of institutional clients and their assets increased by 32% and approximately 84% respectively, as compared to the beginning of the year.

In the future, the Group will endeavor to facilitate the transformation of cross-border brokerage business into a wealth management model by providing clients with diversified wealth management services and accelerating the launch of online customer service and the optimization of account setup system. Institutional sales business will explore the resources and channels of mutual funds, private funds, listed companies and corporate customers with overseas investment and financing needs, particularly the cross-border institutional clients based in core regions in the Mainland, to strengthen the access to institutional clients and accelerate the matching and consummation of projects.

Corporate finance

For the year ended 31 December 2019, the Group recorded income from corporate finance business of HK$154.78 million (2018: HK$211.33 million), a year-on-year decrease of 26.8%.

For the year ended 31 December 2019, the Group's commission income on placing, underwriting and sub-underwriting of debt securities amounted to HK$62.58 million (2018: HK$124.99 million), representing a decrease of 49.9% over last year.

In 2019, the Group's bond issue and underwriting business made good progress. The clients were mainly Chinese state-owned enterprises and major private enterprises engaging in various industries such as finance and real estate. According to data from Bloomberg, in the whole year of 2019, the Group completed 48 projects of issue and underwriting of publicly offered and privately placed bonds denominated in G3 currencies (including preferred shares) and raised approximately US$2,263 million for clients. In addition, the Group's fixed-income structured products issuance business generated arrangement fee income of HK$29.74 million.

The Group's equity financing related business achieved robust development. For the year ended 31 December 2019, the Group's commission income on placing, underwriting and sub-underwriting of equity securities amounted to HK$53.82 million (2018: HK$50.22 million), representing an increase of 7.2% over last year.

In 2019, the Group, as a sponsor, submitted the applications for 2 sponsorship projects, which were completed in January 2020. At the beginning of 2019, the Group, as a co-sponsor, completed the transfer of listing of the Group. In 2019, the Group newly entered into 7 compliance/finance/independent financial advisory projects, and completed a total of 15 IPO underwriting projects and placing projects in the secondary market. In 2019, the Group's equity financing business helped raised approximately HK$2,119 million in the primary market and the secondary market for enterprises, completing premium projects including C&D International Group, Weimob Group, Duiba, Koolearn, Scholar Education, CSSC shipping, Languang Justbon, Powerlong Commercial.

In the future, as for the equity financing business, the Group will step up its efforts in introducing and building of professional teams to improve business capability and profitability and enhance brand awareness, closely follow market trends to actively look for high-quality corporate projects in new economy and biotechnology, and further explore projects in core regions by strengthening the cooperation with banks and other financial institutions.

As for the bond issue and underwriting business, the Group will continue to invest resources in recruiting talents and soliciting projects to ensure the completion of projects launched and expand the coverage of investors and funders, and to leverage on our advantage of rating advisor to serve undertaking/underwriting teams and offer clients with high value-added rating service.

Asset management

For the year ended 31 December 2019, the Group recorded income from asset management business of HK$36.08 million (2018: HK$19.23 million), representing an increase of 87.6% over last year.

In 2019, the Group successfully issued the first public offering fund, namely Chinese Core Asset Fund. As at the end of 2019, clients' asset scale (including RQFII (RMB Qualified Foreign Institutional Investor) funds, public offering funds, private offering funds, and discretionary portfolio management) managed by the Group's asset management team amounted to HK$8.95 billion.

In the future, the Group will continue to promote the sales and refine the asset management of its core-asset fund to establish brand awareness, and to invest in the sales channels and product innovation to improve product research and development and sales capabilities.

Loans and financing

The Group prudently developed loan and financing business under the precondition of strict risk control. For the year ended 31 December 2019, the Group's income from loans and financing business increased by 11.9% from last year to HK$479.20 million (2018: HK$428.17 million).

After the Group conducted a regular review of its clients' margin account portfolio and financial status in 2019, impairment provisions were made for the relevant margin loans pursuant to the Group's internal impairment management method and based on the expected credit loss model. The Group has taken a series of clean-up and recovery actions, including legal means. It will continue to proceed with the work.

In line with the regulatory requirements set out by the Securities and Futures Commission of Hong Kong to tighten up the risk control over margin financing business, the Group will further contain the total scale of margin financing business, while adjusting and optimizing customer structure and income structure.

Financial products and investments

For the year ended 31 December 2019, thanks to its effective risk control measures, the Group recorded income from financial products and investments (including interest income) amounting to HK$423.72 million (2018: HK$139.82 million), representing a significant increase of 203.0% 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 2019, the Group recorded satisfying investment return resulting from the increasing yields of US$ bonds issued by PRC-based companies against the considerable decline of yields of US 10-year treasury bonds, due to Sino-US trade friction, the continuous interest rate reduction by global central banks, the Brexit and other geopolitical factors.

In the future, the Group will continue to adopt prudent investment strategy and stringent measures to control investment risk, while actively seizing the opportunities of market arbitrage and prime asset allocation to steadily improve investment return.

FINANCIAL POSITIONS

As at 31 December 2019, the total assets of the Group increased by 4.1% to HK$24,304.67 million (31 December 2018: HK$23,343.84 million). As at 31 December 2019, the total liabilities of the Group increased by 8.0% to HK$20,465.03 million (31 December 2018: HK$18,952.77 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 31 December 2019, the net current assets of the Group increased by 2.2% to HK$7,737.91 million (31 December 2018: HK$7,571.08 million). As at 31 December 2019, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year) maintained stable at 1.5 times (31 December 2018: 1.5 times).

For the year ended 31 December 2019, the net cash inflows of the Group were HK$3,842.72 million (31 December 2018: HK$335.86 million). As at 31 December 2019, the bank balances of the Group were HK$5,359.95 million (31 December 2018: HK$1,517.23 million).

As at 31 December 2019, the Group's bank and other borrowings in aggregate decreased by 4.6% to HK$9,915.83 million (31 December 2018: HK$10,394.96 million).

As at 31 December 2019, the notes outstanding of the Group amounted to HK$31.30 million (31 December 2018: HK$62.85 million). The Company entered into subscription agreements in connection with the issue of US$200 million and US$75 million 5% guaranteed bonds due 2020 on 26 August 2019 and 26 September 2019, respectively. The bonds outstanding of the Group amounted to HK$2,173.67 million (31 December 2018: Nil). The gearing ratio of the Group (defined as the sum of bank borrowings, other borrowings, notes outstanding and bonds divided by total equity) increased by approximately 32.5% to 3.157 (31 December 2018: 2.382).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK$3,839.64 million as at 31 December 2019 (31 December 2018: HK$4,391.07 million).

PROSPECTS AND FUTURE PLAN

In the first quarter of 2020, the novel coronavirus outbreak has spread across the globe, resulting in disruption of commercial and economic activities, adversely affecting global stock markets with increased volatility and expanded decline. The Group will closely monitor the situation and proactively respond to its impact on the Group's financial position and operating results.

In the future, the Group will continue to increase the income proportion of its fee-based business, prudently develop capital-consumption business, and realize internal growth and high-quality development of its business.

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 2019.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2019, the Group's assets pledged were mainly collaterals pledged as debt securities for repurchase agreements.

EMPLOYEE INFORMATION

As at 31 December 2019, the Group had 219 full-time employees (31 December 2018: 202 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2019 was HK$232.10 million (2018: HK$187.04 million). The Group will review its remuneration policy from time to time in accordance with market practice. Employee benefits include performance-linked bonuses, contributions to the Mandatory Provident Fund Scheme, etc.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2019 and to the date of this announcement.

EVENT AFTER THE REPORTING PERIOD

After the reporting period, the board did not recommend any payment of a final dividend for the year ended 31 December 2019.

The impact of the novel coronavirus outbreak does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019.

RISK MANAGEMENT

The Group has in place the risk management structure and implements a series of risk control policies, 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 credit management committee responsible for reviewing and monitoring the implementation of risk management policies for credit business of principal business units, identifying risks, approving trading limit and credit limit, and updating relevant risk management policies in response to changes;

The Group has 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 loans and financing business), and requires loans and financing clients to provide margin deposit or acceptable collateral (as the case may be) to minimise risk; and

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 heads 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; the Group has established credit policy with respect to the trading limit, credit line and credit period granted to loans and financing clients, and will review and revise 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 procedures to identify, treat, monitor and control potential liquidity risk and maintains the 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 has authorisation limits in place for any commitment or capital outflow, such as procurement, investments, loans, etc., and assesses the impact of those transactions on the capital level; and

The Group meets its funding requirements primarily through bank borrowings from multiple banks. The Group obtained financing capital by issuing bonds for the first time in 2019, expanding its financing channels. The Group has also adopted stringent liquidity management measures to ensure that the Group has satisfied the capital requirements under the applicable laws.

Compliance and Legal Risks

The Group has implemented "know your clients" and "due diligence" procedures in different business functions. For instance, the executive teams of the corporate finance business perform due diligence on each transaction, which includes reviewing due diligence materials, paying site visits, attending meetings, and having interviews with issuers or listing applicants and their respective directors, senior management and employees;

The Group's compliance department will closely monitor the operations of the Group's licensed business and ensure that the operations comply with relevant regulatory requirements and are arranged for renewal of licenses before expiration. The compliance department is required to notify regulatory bodies in accordance with the Code of Conduct and/or other applicable laws, rules, regulations and guidelines. The compliance department arranges continuous professional training on topics from time to time, such as combating money laundering, for the employees of the Group and ensures that the Group's business activities comply with various regulations including those related to anti-money laundering; and

The Group's compliance department and professional talents closely work with external legal consultants in order to ensure that the Group can avert and handle legal risks such as those arising from complaints lodged by clients against the Group's regulated activities in a timely manner.

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 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 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 investment strategies; the Group diversifies the fixed income investment portfolios, limits the investment scale 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 assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and profitability of different types of bonds, and controls 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 establishes mechanisms that set pre-determined points to halt profit or loss on an overall basis or on a single bond.

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 has been monitoring closely 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, their prices at fair value are subject to the effect of 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; and

The management of the Group closely monitors exposure related to interest rate risk and ensures that it is maintained at an acceptable level. The Group's exposure to cash flow interest rate risks is mainly concentrated on the Hong Kong Interbank Offered Rate and London Interbank Offered Rate, which is due to 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, and formulates and updates the operational manual for each business function department based on regulatory and industrial requirements to standardise the operational procedures and reduce human errors; and

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 did not recommend any payment of a final dividend for the year ended 31 December 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, 19 May 2020 to Friday, 22 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 18 May 2020.

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 2019.

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 2019.

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 and the code of conduct regarding securities transactions by Directors adopted by the Company during the year ended 31 December 2019.

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 2019.

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 annual results for the year ended 31 December 2019 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
Huang Yilin
Chairman

Hong Kong, 27 March 2020

As at the date of this announcement, the Board comprises one non-executive Director, namely Mr. Huang Yilin (Chairman), four executive Directors, namely Mr. Li Baochen, Mr. Wang Xiang, Ms. Zeng Yanxia and Ms. Zhang Chunjuan, and three independent non-executive Directors, namely Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo.