



基石金融控股有限公司

CORNERSTONE FINANCIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

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Third Quarterly Report

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



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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

During the period ended 30 September 2018 (the "Reporting Period"), the Company and its subsidiaries (collectively the "Group") were principally engaged in (i) financial services including securities brokerage services and margin financing services; (ii) provision of out-of-home ("OOH") advertising services; and (iii) film development, production and distribution. The Group was also engaged in the retail of skin care products and the provision of early childhood education. For the Reporting Period, the advertising and media business remained the main contributor to the Group's revenue, accounted for approximately 76% of the Group's consolidated revenue. Meanwhile, the financial services business has experienced a significant growth in revenue which reached approximately HK\$10.8 million during the Reporting Period (2017: HK\$5.2 million). The details of the Group's principal businesses are as follows:

Financial Services

In November 2016, the Group acquired Glory Creator Limited ("GCL") and its non-wholly owned subsidiary, Cornerstone Securities Limited ("CSL" and together with GCL, the "GCL Group") (the "Acquisition"). CSL is a corporation licensed by the Securities and Futures Commission (the "SFC") to conduct Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). During the Reporting Period, CSL was principally engaged in the provision of securities brokerage and margin financing services, with a focus on securities listed on the Stock Exchange for trading.

After completion of the Acquisition in November 2016, the Company began to develop the financial services business operated by CSL. Following the launch of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, it was expected that the securities market in Hong Kong would benefit from such mutual market access schemes which would facilitate inflow of capital into the securities market in Hong Kong and have a positive impact on the stock market turnover in the long run. The Group was aware of the opportunities offered by such schemes, and invested substantial capital and resources in developing CSL's securities brokerage business so it would be in a position to benefit from the expected increase in turnover in the stock market.

CSL was granted authorisation from the SFC to provide margin financing services in March 2017, and thereafter began to roll out its margin financing business with the Group's internal resources. In August 2018, Cornerstone Asset Management Limited ("CAML"), a subsidiary of the Group, has been granted the approval from SFC to conduct Type 9 (asset management) regulated activity. During the Reporting Period, Target Charm Limited, a subsidiary of the Group has successfully obtained the Money Lenders Licence to conduct money lending activity. On 7 August 2018, GCL entered into a conditional sale and purchase agreement for the acquisition of 7.66% equity interests in both CSL and Cornerstone Strategic Holding Limited ("CSHL", the immediate holding company of CAML) from one of the minority shareholders (the "Vendor") for a consideration of HK\$25 million and HK\$2.5 million had been paid to the Vendor upon signing of the agreement. Upon completion, the Group's equity interests in each of CSL and CSHL will increase from 83.53% to 91.19%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For the Reporting Period, the total revenue from the securities brokerage business amounted to approximately HK\$10.8 million (2017: HK\$5.2 million) and GCL Group recorded an encouraging result of approximately HK\$7.2 million in profit (2017: HK\$0.5 million in loss) before taxation for the Reporting Period. As at 30 September 2018, the total net assets of CSL's client accounts amounted to approximately HK\$1,643 million, comprising net assets for margin account clients and cash account clients of approximately HK\$714 million and HK\$754 million respectively. Margin loan financing totalling approximately HK\$181 million was granted to margin account clients with aggregate net assets of approximately HK\$418 million in their respective securities accounts.

With the Group being backed by an experienced management team and its sound reputation in the industry, the Directors are optimistic that the Group's securities brokerage, margin financing business and asset management business will continue to widen its customer base through its extensive business platform and will enlarge its presence in the industry with advantage synergies aiming to optimize returns to the Company and its shareholders (the "Shareholders").

Advertising and media business

The Group is a well-established digital OOH media company in Hong Kong and Singapore, with an operating history since April 2004. It had pioneered the concept of creating a sizeable network of flat-panel displays in elevator lobbies of office and commercial buildings as well as the residential buildings to sell advertisement. In terms of the number of venues in which the Group deploys its digital flat-panel displays, the Group is the largest digital OOH media company in Hong Kong and Singapore. As of 30 September 2018, the Group has deployed its flat-panel displays in 1,628 venues in Hong Kong and Singapore.

During the nine months ended 30 September 2018, the number of venues in which the Group deployed its flat-panel displays over the corresponding period of the previous year is shown as follows:

| Region | Network | Nine months ended 30 September 2018 | Nine months ended 30 September 2017 |
|------------------------|--|---|---|
| Hong Kong | Office, Commercial and Residential Network | 883 | 846 |
| Hong Kong | In-store Network (Mannings) | 224 | 244 |
| Singapore | Office and Commercial Network | 521 | 511 |
| Total number of venues | | 1,628 | 1,601 |

As of 30 September 2018, the Group has deployed its branded flat-panel displays at 1,404 office, commercial and residential buildings in Hong Kong and Singapore under its digital OOH media network, and at 224 Mannings retail chain-stores in Hong Kong under its In-store digital OOH media network.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Under its OOH Billboard media network in Hong Kong, the Group continues to hold the exclusive advertising sales rights to both the Tsim Sha Tsui (“TST”) Interchange Subways and the Middle Road Subway (in total three subways); this underground transport hub beneath one of the busiest tourists and business districts in Hong Kong connects the TST MTR station and the East TST MTR station. In addition, the Group continues to hold the exclusive advertising sales rights to the billboard along the super-long pedestrian walkway leading to Knutsford Terrace at TST. Knutsford Terrace has been dubbed the “Lan Kwai Fong” of Kowloon, a popular dining/nightlife place and an entertainment hub in the heart of TST, with a strip of international/local restaurants and bars catering to both locals and tourists.

The Group also holds the exclusive advertising sales rights to a billboard on the rooftop and sidewall of the pedestrian subway between Charter Road and Connaught Road Central in Hong Kong. This billboard is located right next to the iconic Mandarin Oriental Hotel at the heart of the Central District, the financial hub of Hong Kong; it faces all vehicle traffic passing through Central towards the east and west side of Hong Kong island.

Under its OOH Billboard media network in Singapore, the Group continues to hold the exclusive advertising partnership for a large format illuminated billboard at Clifford Centre. This site faces the busy Raffles Green, just above Raffles MRT station, located right in the heart of Singapore’s financial district. It is located just beside the Group’s existing large format LED illuminated billboard at The Arcade and opposite the Group’s mega-size LED screen at One Raffles Place.

The Group also holds the exclusive advertising sales rights for all media and event spaces at Galaxis situated at One-North Buona Vista. Galaxis is a state-of-the-art business space that offers the very best in contemporary urban living and retail activities within a central plaza. Sitting above One-North MRT Station, Galaxis is the gateway to all other commercial buildings within the One-North business hub, which is a 200 hectares development strategically positioned in the heart of Singapore, designed to host a cluster of world-class research facilities and business park space.

In addition, the Group continues to hold the exclusive advertising sales rights to a billboard at AZ @ Paya Lebar building; centered within the districts of Paya Lebar, Ubi and Tai Seng; which is one of the busiest business and industrial hubs in Singapore. It faces heavy vehicle traffic at the cross junction of Paya Lebar Road, Ubi Avenue 2 and Circuit Link. Paya Lebar Road is also the main gateway to a major expressway where the exit and entry points are just 500 meters away. This billboard also targets foot-traffic flowing in and out of MacPherson MRT station, which is directly opposite of AZ @ Paya Lebar building.

As well, the Group continues to hold the exclusive operating and advertising sales rights to the mega-size LED screen at One Raffles Place (“ORP”), fronting Raffles Green; ORP is one of the three tallest buildings in Singapore and is a beacon in the heart of Singapore’s financial district. Moreover, the Group continues to hold the exclusive advertising sales rights (for static and digital) to the walkway at Orchard Gateway. It forms part of the underpass that links directly to the Somerset MRT station and also to both sides of Orchard Road. Orchard Gateway is the one-and-only shopping mall that straddles both sides of Orchard Road and is linked by a glass tubular bridge and an underpass — forming a “gateway” to the bustling shopping belt in Singapore.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group also holds the exclusive advertising sales rights to a billboard at Fortune Center in Singapore; it is located in the middle of the bustling Bugis District and faces all vehicle traffic at the cross junction of Middle Road and Waterloo Street. The Group also holds the exclusive advertising sales rights to a large format LED illuminated billboard at The Arcade in Singapore as well as the exclusive sales rights to the venue for event marketing. The Arcade faces the busy Raffles Green, just above the Raffles MRT station, located right in the heart of Singapore's financial district.

Furthermore, the Group continues to hold the exclusive advertising sales rights to a billboard on the facade of Furama City Centre Hotel in Singapore. This site is located in the heart of vibrant Chinatown, with a rich culture and longstanding history. The front lit large format billboard is visible to vehicle and human traffic along the extremely busy Eu Tong Sen Street and New Bridge Road.

The Group will continue to pursue the expansion of its digital OOH media networks, adding progressively one venue at a time as well as pursue new static OOH sites under its Static OOH billboard media network.

Film development, production and distribution

In August 2015, the Group completed the acquisition of Ricco Media Investments Limited ("RMI") which indirectly held 75% equity interest in Stan Lee Global Entertainment, LLC ("SLGE"). SLGE was engaged in the business of film development, production and distribution and owned intellectual property rights in three films in the script development phase, namely Realm, The Annihilator and Replicator & Antilight.

Since completion of acquisition of the rights in these films, the Group has been actively seeking collaborating partners among studios in Hollywood and/or China to co-finance the funding necessary for the production of the films. Among the potential investors with whom the Group had initiated contact, one China-based group showed interest in collaborating with the Group in developing one or two of the films in the form of a co-financing arrangement. As at the end of the Reporting Period, the Group has not yet entered into any formal contractual agreement in relation to the production of these films since the co-financier required the Group to contribute part of the production cost in the form of an equity co-financing arrangement. Due to the scale of the funding required to participate in the film production, the Group would be required to raise funds through equity financing or debt financing to fund the film production. The Group is still considering different fund raising methods to finance its contribution to the film production, accordingly, there was no significant further progress in negotiation with the co-financier. In view of the above, the Group anticipated a delay in the production of these films and recorded an impairment of approximately HK\$42 million in 2018. The Management will continue to identify potential investors to participate in the production of these films and will review the business strategy of this segment in order to optimize the financial resources of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Future Prospect

The Management believes the financial services segment of the Group has tremendous potential to develop into a sizeable financial corporation providing a wider range of financial products and services. While the Management will continue to operate and develop the advertising and media business, the Group will in the meantime focus on expanding CSL's financial services business and fully realising its potentials in the future.

The Management considers it is crucial for CSL to improve its profitability by focusing on financial products and services which provide a higher profit margin rather than traditional securities brokerage services. The Management plans to implement a range of measures to improve client services and build customer loyalty to the "Cornerstone" brand, expand the client base further, aggressively promote CSL's margin financing services, and to start a new line of asset management services.

In January 2018, the Company completed the change of its name to Cornerstone Financial Holdings Limited in order to increase exposure of the "Cornerstone" brand name to the financial markets and potential clients in Hong Kong and China.

In August 2018, CAML has been granted approval from SFC to conduct Type 9 (asset management) regulated activity. The Group has employed qualified staff to conduct Type 9 (asset management) regulated activity through CAML. The Management is confident that the newly set-up asset management business would contribute positive results to the Group in the long run. Furthermore, Target Charm Limited, a wholly owned subsidiary of the Group obtained the Money Lenders Licence in August 2018 which enabled the Group to offer a more comprehensive range of financial services to its clients. In the meantime, the Management would also further develop the new "Cornerstone" brand name and strengthen its position as a premium financial service provider.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review

| | Nine months ended 30 September | | |
|--------------------------|--------------------------------|-----------------------------|----------|
| | 2018 HK\$ (unaudited) | 2017 HK\$ (unaudited) | % Change |
| Revenue | 71,754,707 | 67,537,232 | 6% |
| Gross profit | 42,543,429 | 40,080,200 | 6% |
| EBITDA ^(Note) | (10,628,099) | (10,968,859) | N/A |
| Net loss | (68,076,829) | (17,344,202) | N/A |

Note: EBITDA represents earnings before finance costs, income tax, depreciation of property, plant and equipment, amortisation of intangible assets, share of profit/(loss) of an associate, impairment of interest in an associate, gain/(loss) on disposal of property, plant and equipment, provision for impairment loss of film deposits and rights, gain/(loss) on disposal of financial asset at fair value through other comprehensive income, fair value gain/(loss) on financial asset at fair value through profit or loss and net of the total comprehensive loss for the period attributable to non-controlling interests. While EBITDA is commonly used in the advertising and media industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with Hong Kong Financial Reporting Standards and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

The Group's revenue for the nine months ended 30 September 2018 was approximately HK\$71.8 million, representing an increase of approximately 6% over the corresponding period of the previous year. The increase in revenue was mainly due to the increase in revenue from financial services segment.

The Group's gross profit for the nine months ended 30 September 2018 was approximately HK\$42.5 million, representing an increase of approximately 6% over the corresponding period of the previous year. The Group's gross profit margin remained at approximately 59% for both periods due to the growing business in financial services and the higher cost of sales in the advertising and media business.

The Group's administrative expenses for the nine months ended 30 September 2018 was approximately HK\$80.3 million, representing an increase of approximately 41% over the corresponding period of the previous year. The significant increase in administrative expenses was mainly due to the office rental and remuneration of employees as well as the other operating expenses to cope with the business development of the Group. Owing to the delay in the production of films, the fair value of the film deposits and rights dropped and the provision for impairment loss of approximately HK\$42 million was recognised during the nine months ended 30 September 2018.

The Group's negative EBITDA amounted to approximately HK\$10.6 million for the nine months ended 30 September 2018 as compared to the Group's negative EBITDA amounted to approximately HK\$11 million for the corresponding period of the previous year.

The Group recorded a loss attributable to owners of the Company of approximately HK\$58.7 million for the nine months ended 30 September 2018 as compared to a loss attributable to owners of the Company of approximately HK\$17.1 million for the corresponding period of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

During the nine months ended 30 September 2018, the Group financed its daily operations with both internally generated resources and the net proceeds from the Rights Issue completed in 2017. As at 30 September 2018, the Group had net current assets of approximately HK\$270.7 million (31 December 2017: HK\$294.4 million) and cash and cash equivalents of approximately HK\$64.1 million (31 December 2017: HK\$134.7 million). The Group had no borrowings outstanding as at 30 September 2018.

The application of net proceeds from the Rights Issue is as follows:

| | Original allocation as stated in the Prospectus HK\$ million (approximately) | Actual use up to the date of this announcement HK\$ million (approximately) |
|--|--|---|
| (i) Repayment of debts of the Group (aggregate of principal and interests) | 44 | 45 |
| (ii) Capital injection to the securities brokerage business | 138 | 138 |
| (iii) General working capital: | | |
| — Rental related expenses | 4 | 4 |
| — Salary related expenses | 12 | 12 |
| — Audit and professional fees | 2 | 2 |
| — Promotion and advertising of the securities business | 2 | 1 |
| — Other operating expenses | 2 | 2 |
| Total: | 204 | 204 |

GEARING RATIO

The gearing ratio of the Group, calculated as total borrowings over Shareholders' fund, was nil as at 30 September 2018 (31 December 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FOREIGN EXCHANGE

For the nine months ended 30 September 2018, the Group was exposed to foreign currency risk with respect to its operations in Singapore where most of the business transactions, assets and liabilities were denominated in Singapore dollars. Despite most of RMI Group's business transactions, assets and liabilities were denominated in US dollars, the foreign currency risk associated with RMI Group was not significant due to the linked exchange rate system. The Group will monitor its foreign currency exposure closely. During the period under review, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on 28 July 2011. The capital of the Company comprises ordinary shares and capital reserves. As at 30 September 2018, the Company had 1,147,092,240 shares of HK\$0.10 each in issue.

DIVIDEND

The board of directors of the Company (the "Board") does not recommend the payment of any dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

INFORMATION ON EMPLOYEES

As at 30 September 2018, the Group had 96 (30 September 2017: 107) employees, including the executive Directors. Total staff costs of the Group (including Directors' emoluments) for the nine months ended 30 September 2018 were approximately HK\$41.7 million (nine months ended 30 September 2017: HK\$31.2 million). Remuneration was determined with reference to market norms and individual employee's performance, qualification and experience.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. For the nine months ended 30 September 2018, no bonus was accrued to any of the Directors and employees. Other staff benefits included contributions to Mandatory Provident Fund scheme in Hong Kong and Central Provident Fund in Singapore as well as share options and attending professional training courses at the Company's expenses.

SIGNIFICANT INVESTMENTS HELD

Except for investment in its subsidiaries and an associate, the Group did not hold any significant investment in equity interest in any company during the nine months ended 30 September 2018.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES AND FUTURE PLANS FOR MATERIAL INVESTMENTS

Save as disclosed herein, the Group did not make any material acquisition or disposal during the nine months ended 30 September 2018.

CHARGES OF ASSETS

As at 30 September 2018, the Group did not have any charges on its assets (31 December 2017: Nil).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2018 (31 December 2017: Nil).

- The Group's revenue for the nine months ended 30 September 2018 was approximately HK\$71.8 million, representing an increase of approximately 6% over the corresponding period of the previous year.
- The Group's gross profit for the nine months ended 30 September 2018 was approximately HK\$42.5 million, representing an increase of approximately 6% over the corresponding period of the previous year.
- The Group's other income for the nine months ended 30 September 2018 was approximately HK\$11.8 million and the increase was mainly due to the contribution from the financial services business.
- The Group's administrative expenses for the nine months ended 30 September 2018 was approximately HK\$80.3 million, representing an increase of approximately 41% over the corresponding period of the previous year.
- The Group recognised a provision for impairment loss on film deposits and rights amounted to approximately HK\$42 million for the nine months ended 30 September 2018 due to the delay in the production of films.
- The Group's negative EBITDA amounted to approximately HK\$10.6 million for the nine months ended 30 September 2018 as compared to the Group's negative EBITDA amounted to approximately HK\$11 million for the corresponding period of the previous year.
- The Group recorded a loss attributable to owners of the Company of approximately HK\$58.7 million for the nine months ended 30 September 2018 as compared to a loss attributable to owners of the Company of approximately HK\$17.1 million for the corresponding period of the previous year.
- Loss per share for the nine months ended 30 September 2018 was HK cents 5.12 as compared to loss per share of HK cents 6.30 for the corresponding period of the previous year.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2018.

UNAUDITED THIRD QUARTERLY RESULTS

The Board is pleased to present the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2018 together with comparative unaudited figures for the corresponding period ended 30 September 2017, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

| | Note | Three months ended 30 September | | Nine months ended 30 September | |
|---|------|------------------------------------|-----------------------------|-----------------------------------|-----------------------------|
| | | 2018 (Unaudited) HK\$ | 2017 (Unaudited) HK\$ | 2018 (Unaudited) HK\$ | 2017 (Unaudited) HK\$ |
| Revenue | 3 | 26,252,187 | 23,827,785 | 71,754,707 | 67,537,232 |
| Cost of sales | | (10,146,331) | (9,957,919) | (29,211,278) | (27,457,032) |
| Gross profit | | 16,105,856 | 13,869,866 | 42,543,429 | 40,080,200 |
| Other income | | 7,273,942 | 729,461 | 11,841,422 | 1,399,740 |
| Provision for impairment loss on film deposits and rights | | – | – | (42,053,131) | – |
| Administrative expenses | | (24,269,873) | (19,570,293) | (80,328,549) | (57,090,408) |
| Operating loss | | (890,075) | (4,970,966) | (67,996,829) | (15,610,468) |
| Finance costs | | – | (797,275) | – | (1,617,001) |
| Share of loss of an associate | | – | – | – | (116,733) |
| Loss before income tax | | (890,075) | (5,768,241) | (67,996,829) | (17,344,202) |
| Income tax expenses | 4 | (80,000) | – | (80,000) | – |
| Loss for the period | | (970,075) | (5,768,241) | (68,076,829) | (17,344,202) |
| Other comprehensive income/(loss) <i>Items that may be reclassified to profit or loss</i> | | | | | |
| Currency translation differences | | (99,303) | 215,532 | (369,407) | 1,363,569 |
| Total comprehensive loss for the period | | (1,069,378) | (5,552,709) | (68,446,236) | (15,980,633) |
| (Loss)/Profit for the period attributable to: | | | | | |
| Owners of the Company | | (1,959,787) | (5,704,934) | (58,687,281) | (17,077,274) |
| Non-controlling interests | | 989,712 | (63,307) | (9,389,548) | (266,928) |
| | | (970,075) | (5,768,241) | (68,076,829) | (17,344,202) |
| Total comprehensive (loss)/profit for the period attributable to: | | | | | |
| Owners of the Company | | (2,058,946) | (5,489,136) | (59,055,956) | (15,713,383) |
| Non-controlling interests | | 989,568 | (63,573) | (9,390,280) | (267,250) |
| | | (1,069,378) | (5,552,709) | (68,446,236) | (15,980,633) |
| Loss per share attributable to owners of the Company | 6 | (0.17) | (1.73) | (5.12) | (6.30) |
| Basic and diluted (HK cents) | | (0.17) | (1.73) | (5.12) | (6.30) |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

| | Attributable to owners of the Company | | | | | | | Non-controlling interests HK\$ | Total equity HK\$ |
|---|---------------------------------------|-----------------------|-------------------------|--------------------------|------------------------------|----------------------------|--------------------|-----------------------------------|----------------------|
| | Share capital HK\$ | Share premium HK\$ | Capital reserve HK\$ | Exchange reserve HK\$ | Share option reserve HK\$ | Accumulated losses HK\$ | Total HK\$ | | |
| Balance at 31 December 2016 and 1 January 2017 (audited) | 22,941,845 | 440,528,546 | (176,467,450) | (3,192,246) | 2,020,536 | (81,788,809) | 204,042,422 | 35,470,661 | 239,513,083 |
| Changes in equity for the nine months ended 30 September 2017 | | | | | | | | | |
| Comprehensive loss | | | | | | | | | |
| Loss for the period | - | - | - | - | - | (17,077,274) | (17,077,274) | (266,928) | (17,344,202) |
| Other comprehensive income/(loss) | - | - | - | - | - | - | - | - | - |
| Currency translation differences | - | - | - | 1,363,891 | - | - | 1,363,891 | (322) | 1,363,569 |
| Total comprehensive loss | - | - | - | 1,363,891 | - | (17,077,274) | (15,713,383) | (267,250) | (15,980,633) |
| Transactions with owners | | | | | | | | | |
| Rights Issue | | | | | | | | | |
| — Proceeds from rights issue | 91,767,379 | 119,297,593 | - | - | - | - | 211,064,972 | - | 211,064,972 |
| — Rights issue expenses | - | (6,893,907) | - | - | - | - | (6,893,907) | - | (6,893,907) |
| Capital contribution from non-controlling interests | - | - | - | - | - | - | - | 11,300,000 | 11,300,000 |
| Total transactions with owners | 91,767,379 | 112,403,686 | - | - | - | - | 204,171,065 | 11,300,000 | 215,471,065 |
| Balance at 30 September 2017 (unaudited) | 114,709,224 | 552,932,232 | (176,467,450) | (1,828,355) | 2,020,536 | (98,866,083) | 392,500,104 | 46,503,411 | 439,003,515 |
| Balance at 31 December 2017 and 1 January 2018 (audited) | 114,709,224 | 552,932,232 | (176,467,450) | (1,326,251) | 2,020,536 | (135,074,908) | 356,793,383 | 60,928,813 | 417,722,196 |
| Changes in equity for the nine months ended 30 September 2018 | | | | | | | | | |
| Comprehensive loss | | | | | | | | | |
| Loss for the period | - | - | - | - | - | (58,687,281) | (58,687,281) | (9,389,548) | (68,076,829) |
| Other comprehensive loss | - | - | - | - | - | - | - | - | - |
| Currency translation differences | - | - | - | (368,675) | - | - | (368,675) | (732) | (369,407) |
| Total comprehensive loss | - | - | - | (368,675) | - | (58,687,281) | (59,055,956) | (9,390,280) | (68,446,236) |
| Transactions with owners | | | | | | | | | |
| Capital contribution from non-controlling interests | | | | | | | | | |
| | - | - | - | - | - | - | - | 64,277 | 64,277 |
| Total transactions with owners | - | - | - | - | - | - | - | 64,277 | 64,277 |
| Balance at 30 September 2018 (unaudited) | 114,709,224 | 552,932,232 | (176,467,450) | (1,694,926) | 2,020,536 | (193,762,189) | 297,737,427 | 51,602,810 | 349,340,237 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Room 2703, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are (i) financial service including securities brokerage services and margin financing services, (ii) provision of out-of-home advertising services, (iii) retail of skin care products, (iv) provision of early childhood education, (v) film development, production and distribution.

The Company's share are listed on GEM of the Stock Exchange.

These unaudited condensed consolidated third quarterly financial information have been reviewed by the Company's audit committee.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated third quarterly financial information for the nine months ended 30 September 2018 has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

These unaudited condensed consolidated third quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31 December 2017.

These unaudited condensed consolidated third quarterly financial information are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Changes in accounting policy and disclosures

- (a) The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2018. The adoption of these new and amended standards and interpretations have no material effect on the Group's results and financial position:

| | |
|-----------------------|---|
| HKAS 28 (Amendments) | Investments in associates and joint ventures |
| HKAS 40 (Amendments) | Transfers of investment property |
| HKFRS 1 (Amendments) | First time adoption of HKFRS |
| HKFRS 2 (Amendments) | Classification and measurement of share-based payment transactions |
| HKFRS 4 (Amendments) | Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts |
| HKFRS 9 | Financial instruments |
| HKFRS 15 | Revenue from contracts with customers |
| HKFRS 15 (Amendments) | Clarifications to HKFRS 15 |
| HK (IFRIC)–Int 22 | Foreign currency transactions and advance consideration |

- (b) The following new and amended standards and interpretations have been published but are not yet effective for the period ended 30 September 2018 and which the Group has not early adopted:

| | | Effective for annual periods beginning on or after |
|--|---|---|
| HKAS 19 (Amendments) | Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| HKAS 28 (Amendments) | Long-term interests in associates and joint ventures | 1 January 2019 |
| HKFRS 9 (Amendments) | Prepayment features with negative compensation | 1 January 2019 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture | To be announced |
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 17 | Insurance contracts | 1 January 2021 |
| Annual Improvements Project (Amendments) | Annual improvements 2015-2017 cycle | 1 January 2019 |
| Hong Kong (IFRIC) Int 23 | Uncertainty over income tax treatments | 1 January 2019 |

The Group has not applied any new or revised standards and interpretations that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

3. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker (“CODM”) has been identified collectively as the executive directors of the Company. The executive directors review the Group’s internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

Management regularly reviews the operating results from a perspective of different activities. Management assesses the performance of the following operating segments:

- Advertising and media
- Retail of skin care products
- Provision of early childhood education
- Film development, production and distribution
- Financial services, mainly include securities brokerage business and margin financing business

Management assesses the performance of the operating segments based on a measure of gross profits.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

3. REVENUE AND SEGMENT INFORMATION (Continued)

The segment information provided to the CODM for the reportable segments for nine months ended 30 September 2018 and 2017 is as follows:

| | Advertising and media (Unaudited) HK\$ | Retail of skin care products (Unaudited) HK\$ | Provision of early childhood education (Unaudited) HK\$ | Film development, production and distribution (Unaudited) HK\$ | Financial services (Unaudited) HK\$ | Total (Unaudited) HK\$ |
|--|---|---|--|---|--|------------------------------|
| For the nine months ended 30 September 2018 | | | | | | |
| Segment revenue | 54,200,867 | 4,535,327 | 2,185,827 | - | 10,832,686 | 71,754,707 |
| Segment results | 28,000,894 | 1,589,672 | 2,120,177 | - | 10,832,686 | 42,543,429 |
| For the nine months ended 30 September 2017 | | | | | | |
| Segment revenue | 54,186,110 | 6,317,054 | 1,842,527 | - | 5,191,541 | 67,537,232 |
| Segment results | 30,200,629 | 2,919,911 | 1,768,119 | - | 5,191,541 | 40,080,200 |

4. INCOME TAX EXPENSES

Provision for Hong Kong profits tax of HK\$80,000 has been made in these unaudited condensed consolidated accounts for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil). The profits tax rates for Hong Kong, Singapore and the United States are 16.5% (2017: 16.5%), 17% (2017: 17%) and 40% (2017: 40%) respectively.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

5. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

6. LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on the consolidated loss attributable to owners of the Company for the nine months ended 30 September 2018 of HK\$58,687,281 (nine months ended 30 September 2017: loss of HK\$17,077,274) and on the weighted average number of 1,147,092,240 (nine months ended 30 September 2017: 271,096,973) ordinary shares in issue during the period ended 30 September 2018.

| | Nine months ended 30 September | |
|--|--------------------------------|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) |
| Loss attributable to owners of the Company (HK\$) | (58,687,281) | (17,077,274) |
| Weighted average number of ordinary shares in issue (Note) | 1,147,092,240 | 271,096,973 |
| Basic loss per share (HK cents) | (5.12) | (6.30) |

Note: On 22 September 2017, the Company completed a rights issue of four rights shares of every one existing share held by shareholders of the Company at the record date of 23 August 2017 at the subscription price of HK\$0.23 per rights share and a total of 917,673,792 rights shares of the Company were issued.

(b) Diluted

Diluted loss per share is the same as basic loss per share as potential dilutive ordinary shares outstanding during the nine months ended 30 September 2018 have no dilutive effect (nine months ended 30 September 2017: Same).

7. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED THIRD QUARTERLY FINANCIAL INFORMATION

The unaudited condensed consolidated third quarterly financial information was approved by the Board on 9 November 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(i) Long positions in the ordinary shares of HK\$0.10 each of the Company (the "Shares"), Underlying Shares and debentures of the Company

| Name of Directors | Nature of interests | Number of Shares held | Number of underlying Shares held (Note 1) | Total | Approximate % of shareholding in the Company (Note 4) |
|---------------------------------------|---|-----------------------|---|-------------|---|
| Mr. An Xilei | Interest of controlled corporation (Note 2) | 340,000,000 | — | 340,000,000 | 29.64% |
| Mr. Wong Hong Gay Patrick Jonathan | Interest of controlled corporation (Note 3) | 69,079,800 | — | 69,079,800 | 6.02% |
| | Beneficial owner | — | 85,627 | 85,627 | 0.01% |
| Mr. Chan Chi Keung Alan | Beneficial owner | — | 85,627 | 85,627 | 0.01% |

Notes:

- Being personal interests attributable to interests in the share options granted by the Company pursuant to the Share Option Scheme adopted on 26 March 2011, particulars of Directors' interests in such share options are set out in the section headed "Long positions in share options of the Company" below.
- These Shares are directly held by Profit Cosmo Group Limited ("PCG"), which is owned as to 40% by Mr. An.Xilei ("Mr. An"). Mr. An is therefore deemed to be interested in these shares by virtue of the SFO.
- These Shares are directly held by iMediaHouse Asia Limited ("iMHA") which is owned as to approximately 67.09% by iMediaHouse.com Limited ("iMH") which is in turn wholly owned by Mr. Wong Hong Gay Patrick Jonathan ("Mr. Wong"). The remaining interest in iMHA is held by entities ultimately wholly owned by Mr. Wong. Mr. Wong is therefore deemed to be interested in these shares by virtue of the SFO.
- For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,147,092,240 Shares in issue as at 30 September 2018.

OTHER INFORMATION (CONTINUED)

(ii) Long positions in share options of the Company

| Name of Directors | Date of grant | Exercisable period | Exercisable price per Share HK\$ | Number of share options/underlying Shares | | | | |
|-----------------------------------|---------------|--------------------------|-------------------------------------|---|---------------------------|-----------------------------|-------------------------------------|----------------------------------|
| | | | | Outstanding at 1 July 2018 | Granted during the period | Exercised during the period | Cancelled/ Lapsed during the period | Outstanding at 30 September 2018 |
| Wong Hong Gay Patrick Jonathan | 20/12/2011 | 20/12/2011 to 19/12/2021 | 2.777 | 85,627 | - | - | - | 85,627 |
| Chan Chi Keung Alan | 20/12/2011 | 20/12/2011 to 19/12/2021 | 2.777 | 85,627 | - | - | - | 85,627 |

Save as disclosed above, as at 30 September 2018, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2018, as far as the Directors or chief executives of the Company are aware, the following persons (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions, in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the Shares

| Name of Shareholders | Nature of interests | Number of Shares held | Approximate % of shareholding in the Company (Note 3) |
|-------------------------------------|------------------------------------|-----------------------|---|
| Profit Cosmo Group Limited (Note 1) | Beneficial owner | 340,000,000 | 29.64% |
| Mr. Liu Yanhong (Note 1) | Interest of controlled corporation | 340,000,000 | 29.64% |
| iMediaHouse Asia Limited (Note 2) | Beneficial owner | 69,079,800 | 6.02% |
| iMediaHouse.com Limited (Note 2) | Interest of controlled corporation | 69,079,800 | 6.02% |

Notes:

1. These Shares are directly held by PCG which is owned as to 60% by Mr. Liu Yanhong ("Mr. Liu"). Mr. Liu is therefore deemed to be interested in these shares by virtue of the SFO. The remaining 40% interest in PCG is held by Mr. An, whose interests are disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above.
2. These Shares are directly held by iMHA which is owned as to approximately 67.09% by iMH which is in turn wholly owned by Mr. Wong. The remaining interest in iMHA is held by entities ultimately wholly owned by Mr. Wong. iMH and Mr. Wong are therefore deemed to be interested in these shares by virtue of the SFO. Mr. Wong's interests are disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above.
3. For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,147,092,240 Shares in issue as at 30 September 2018.

Save as disclosed above, as at 30 September 2018, no other person (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months ended 30 September 2018, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's listed securities.

COMPETITION AND CONFLICT OF INTERESTS

During the nine months ended 30 September 2018, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective close associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the nine months ended 30 September 2018.

OTHER INFORMATION (CONTINUED)

CORPORATE GOVERNANCE PRACTICES

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that leads to the success of the Company and in balancing the interests of Shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

During the nine months ended 30 September 2018, the Company had complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 15 to the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established with written terms of reference in compliance with the GEM Listing Rules requirements from time to time. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of external auditors; to review the financial statements and to provide material advice in respect of financial reporting. It was also delegated the authority and responsibility to review the Company's risk management and internal control systems so as to make recommendations to the Board if necessary. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lee Chi Hwa Joshua (chairman of the Audit Committee), Mr. Chan Chi Keung Alan and Ms. Lau Mei Ying.

The unaudited condensed consolidated financial information of the Group for the nine months ended 30 September 2018 have not been audited or reviewed by the Company's auditor, PricewaterhouseCoopers, but have been reviewed by the Audit Committee, which is of the opinion that the third quarterly financial information comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

By order of the Board
Cornerstone Financial Holdings Limited
An Xilei
Chairman

Hong Kong, 9 November 2018

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



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