



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)

Stock Code 股份代號：8112



2019
3RD QUARTERLY REPORT
第三季業績報告

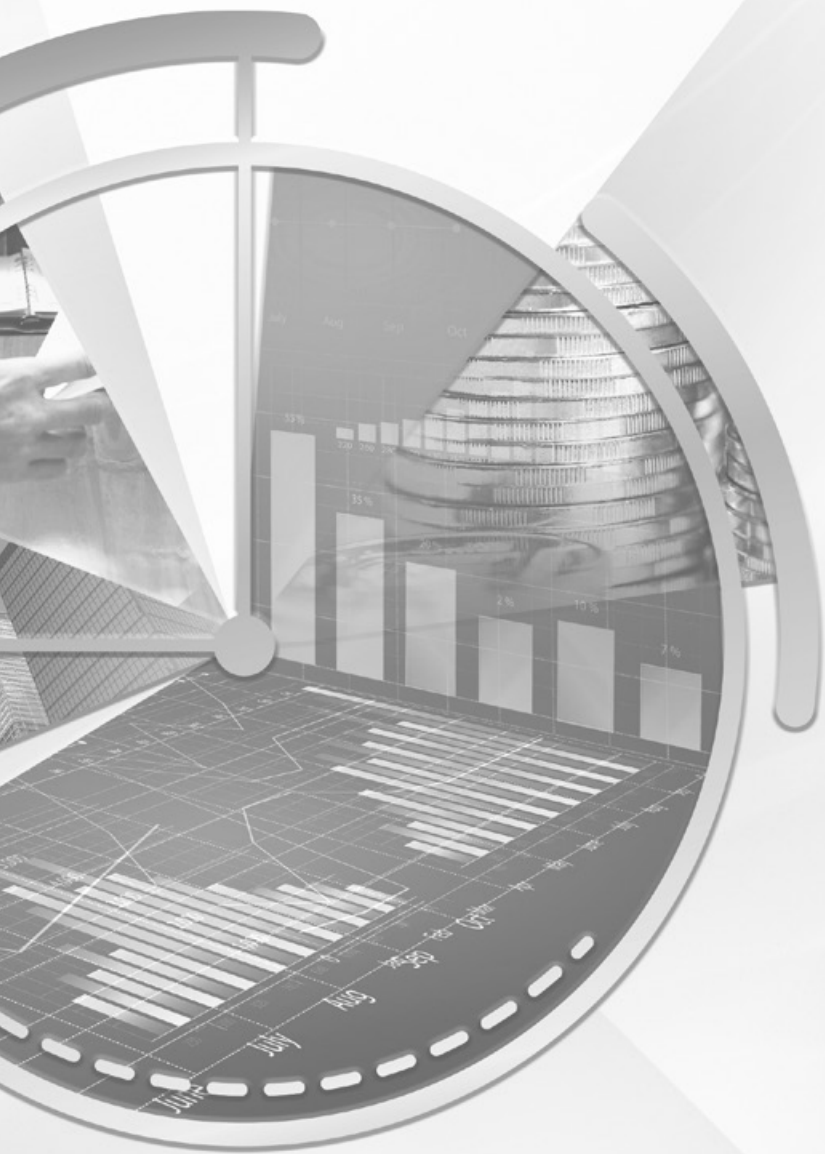
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This report, for which the directors (the “Directors”) of Cornerstone Financial Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing 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, 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 FUTURE PROSPECTS

During the period ended 30 September 2019 (the "Reporting Period"), Cornerstone Financial Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") were principally engaged in (i) financial services; (ii) provision of out-of-home ("OOH") advertising services; and (iii) film development, production and distribution. To allocate more resources in the development of the Group's principal businesses, the Group has disposed of the business in the provision of early childhood education and ceased the business in the retail of skin care products during the Reporting Period. The details of the Group's principal businesses are as follows:

Financial Services

During the Reporting Period, the Group's financial services business are mainly conducted under the brand name of "Cornerstone" and consisted of Type 1 (dealing in securities), Type 4 (advising on securities), Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and a wholly owned subsidiary of the Group also obtained the license to conduct money lending business. The performance of the Group's financial services business remained strong for the period ended 30 September 2019, the total revenue reached approximately HK\$11 million while the operating profit before tax reached approximately HK\$13 million. Margin financing business was the key income stream for the Group's financial services business and approximately HK\$164 million margin loan financing was granted to margin account clients as at 30 September 2019 while the total net assets of the Group's client accounts amounted to approximately HK\$2,920 million and the net assets for margin account clients and cash account clients were approximately HK\$761 million and HK\$2,159 million respectively.

On 19 July 2019, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose 80% equity interests in Cornerstone Strategic Holding Limited ("CSHL") (the "Disposal") which was incorporated for applying the licence to carry out Type 9 (asset management) regulated activity under the SFO, and such licence was granted to Cornerstone Asset Management Limited ("CAML", a wholly-owned subsidiary of CSHL) in August 2018. The Group's asset management business originally targeted at high net worth individuals and potential institutional clients in the mainland China and Hong Kong. The development of the asset management business was affected by the departure of the then chairman of the Company, who was responsible for promoting the financial services business, in particular, the formulation of strategies and implementation of development of the asset management projects. In response to such personnel change, the financial services team had a succession plan in place to ensure the furtherance of the asset management projects. However, the progress was dampened by the economic slowdown in China and the escalating China-US Trade War in late 2018. In view of the economic uncertainties associated with the China-US Trade War, it is believed that commencing new asset management projects would be challenging and seeking support from institutional investors would be difficult. Therefore, CAML has not launched any asset management project after obtaining the approval from the SFC to conduct Type 9 (asset management) regulated activity. It is anticipated that the China-US Trade War would continue in the near future and the recent unprecedented political and social conditions in Hong Kong would cast further uncertainties in the economy. New asset management projects are generally associated with higher risks than traditional financial services activities like the securities trading and margin financing businesses. The Company believes that adjusting its corporate strategy in asset management business would be more beneficial to the Group as a whole. The Disposal is still subject to approval from the SFC.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The management is optimistic on the business prospect of the financial services business, in particular, the securities brokerage and margin financing businesses. Backed by the experienced management team and its sound reputation in the industry, the Directors are confident that the financial services segment will continue to contribute positive results to the Group in the near future.

Advertising and Media Business

The Group is a well-established digital out-of-home (“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.

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 2019	Nine months ended 30 September 2018
Hong Kong	Office, Commercial and Residential Network	943	883
Singapore	Office and Commercial Network	517	521
Total number of venues		1,460	1,404

As of 30 September 2019, the Group has deployed its branded flat-panel displays at 1,460 office, commercial and residential buildings in Hong Kong and Singapore under its digital OOH media network.

Under its OOH large format media network in Hong Kong, the Group continues to hold the exclusive advertising sales rights to the billboard along the super-long pedestrian walkway leading to Knutsford Terrace at Tsim Sha Tsui (“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 held the exclusive advertising sales rights to the Tsim Sha Tsui Interchange Subways and the Middle Road Subway (in total three subways) and such sales rights had expired on 30 September 2019. The Group decided to better deploy its resources to other new OOH large format LED sites with higher profit margin which will be launched in the fourth quarter of 2019. More details shall be disclosed in due course.

Under its OOH large format media network in Singapore, the Group continues to hold exclusive advertising rights for seven strategically located OOH sites. The Group has two illuminated large static billboard sites within the busy Raffles Green, namely Clifford Centre and The Arcade, which are just above the Raffles Place MRT station, located right in the heart of Singapore’s financial district. The Group’s advertising right to One Raffles Place LED screen had expired on 15 September 2019 and we will announce the launch of another huge LED screen within the Raffles Green soon.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's other OOH large static format includes exclusive partnerships with AZ @ Paya Lebar and Furama City Centre. AZ @ Paya Lebar building is 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. Furama City Centre Hotel 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 also holds 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.

Targeting shoppers around the Orchard shopping belt, 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.

The Group foresees the demand in reaching new suburban town thus went into partnership with Waterway Point for their façade LED screen. This is a major suburban shopping mall located in the town centre of Punggol New Town, next to the Punggol MRT/LRT station. The mall was built as part of Punggol's first integrated waterfront residential and retail development and serves Punggol and Sengkang dwellers.

To further solidify their position as the leading OOH media player, the Group has entered into partnership with the co-founder of one of the top media owners in Thailand. Their expansion into Singapore and our exclusive media representation with BL Falcon adds another five strategic locations which comprises of three LED screens namely at People's Park Centre, Sim Lim Tower and Fortune Centre and two static format at Enterprise One and Sim Lim Square. The LED screen at People's Park Centre is the first free form LED screen in Singapore known as “The Triple Horizon”, which is made up of 3 separate LED strips measuring a total of 164sqm and strategically located at the busy cross junction of Upper Cross Street and Eu Tong Sen Street.

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/LED OOH sites under its OOH large format media network.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 period under review, the Group has not yet entered into any formal contractual agreement in relation to the production of these films. To better elaborate the Company’s business model in relation to the investments in the film projects, the Company would develop the film rights in form of script for shooting, but would not participate in the actual shooting or filming of the motion pictures, such is left to the collaborating partner. The Company’s role was merely to develop the rights of the superhero characters and to participate as one of the production equity investors of the production costs. The Company will continue to explore the potential value attributing to the film business and will keep on trying to identify potential investors to the development of the films as well as continuously review the business strategy of this segment.

FINANCIAL REVIEW AND HIGHLIGHTS

	Nine months ended 30 September		% Change
	2019 HK\$ (Unaudited)	2018 HK\$ (Unaudited)	
Revenue	73,437,380	71,754,707	2%
– continuing operations	73,149,829	69,568,880	5%
– discontinued operations	287,551	2,185,827	(87%)
Gross profit	42,935,350	42,543,429	1%
– continuing operations	42,655,537	40,423,252	6%
– discontinued operations	279,813	2,120,177	(87%)
EBITDA ^(Note)	(1,193,395)	(10,628,099)	N/A
Net loss	(5,305,595)	(68,076,829)	N/A

Note: EBITDA represents earnings before finance costs, income tax, depreciation of property, plant and equipment and right-of-use assets, amortization of intangible assets, gain/(loss) on disposal of property, plant and equipment, provision for impairment of film deposits and rights, fair value gain/(loss) on financial asset at fair value through profit or loss, gain/(loss) on disposal of financial assets at fair value through profit or loss, share of profit/(loss) of an associate and the total comprehensive loss for the period attributable to non-controlling interests. While EBITDA is commonly used 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's revenue from continuing operations for the nine months ended 30 September 2019 was approximately HK\$73.1 million, representing an increase of approximately 5% over the corresponding period of the previous year while the Group's revenue from discontinued operation for the nine months ended 30 September 2019 was approximately HK\$0.3 million, representing a decrease of approximately 87% over the corresponding period of the previous year.

The Group's gross profit from continuing operations for the nine months ended 30 September 2019 was approximately HK\$42.7 million, representing an increase of approximately 6% over the corresponding period of the previous year while the Group's gross profit from discontinued operation for the nine months ended 30 September 2019 was approximately HK\$0.3 million, representing a decrease of approximately 87% over the corresponding period of the previous year. The Group's gross profit margin decreased approximately from 59% to 58% due to the rising in cost of sales in operations.

The Group's administrative expenses from continuing operations for the nine months ended 30 September 2019 was approximately HK\$54.2 million, representing a decrease of approximately 31% over the corresponding period of the previous year while the Group's administrative expenses from discontinued operation for the nine months ended 30 September 2019 was approximately HK\$0.5 million, representing a decrease of approximately 79% over the corresponding period of the previous year. The decrease in administrative expenses was mainly due to the cost saving in operating expenses such as staff costs of the Group.

The Group's negative EBITDA amounted to approximately HK\$1.2 million for the nine months ended 30 September 2019 as compared to the Group's negative EBITDA amounted to approximately HK\$10.6 million for the corresponding period of the previous year. The improvement in EBITDA was due to the drop in administrative expenses mentioned above.

Loss per share for the nine months ended 30 September 2019 was approximately HK cents 0.55 as compared to a loss per share of HK cents 5.12 for the corresponding period of the previous year.

The Group recorded a loss attributable to owners of the parent of approximately HK\$6.3 million for the nine months ended 30 September 2019 as compared to a loss attributable to owners of the parent of approximately HK\$58.7 million for the corresponding period of the previous year. The improvement in the financial results was due to the increase in revenue, stable gross profit margin and the cost saving in administrative expenses as well as no provision for impairment loss on film deposits and rights was made during the period as compared to the corresponding period of last year.

LIQUIDITY AND FINANCIAL RESOURCES

During the Reporting Period, the Group financed its daily operations from internally generated resources. As at 30 September 2019, the Group had net current assets of approximately HK\$234 million (31 December 2018: net current assets of HK\$245 million) and cash and cash equivalents of approximately HK\$84 million (31 December 2018: HK\$79 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

GEARING RATIO

The gearing ratio of the Group, calculated as total borrowings over Shareholders' fund, was approximately 7.7% as at 30 September 2019 (31 December 2018: approximately 7.5%).

FOREIGN EXCHANGE

For the nine months ended 30 September 2019, 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 2019, 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 2019 (nine months ended 30 September 2018: Nil).

INFORMATION ON EMPLOYEES

As at 30 September 2019, the Group had 83 employees (30 September 2018: 96), including the executive Directors. Total staff costs of the Group (including Directors' emoluments) for the nine months ended 30 September 2019 were approximately HK\$32 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. 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

SIGNIFICANT INVESTMENTS HELD

Except for investment in subsidiaries, joint ventures and an associate, the Group held approximately HK\$11 million listed investments as at 30 September 2019.

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

On 4 March 2019, Creative Execution Limited (“CEL”), an indirect wholly-owned subsidiary of the Group, that owns 70% of the issued share capital of Babysteps Limited (“Babysteps”) and the 30% non-controlling interest shareholder of Babysteps agreed to sell their entire interest in Babysteps for a consideration of HK\$1 to an independent third party buyer. Since the incorporation of Babysteps in 2014, it has been engaged in the provision of early childhood education business and the accumulated loss since incorporation to the end of 2018 was approximately HK\$6 million with net liabilities of approximately HK\$5.1 million. The Group considered the disposal of Babysteps was in the best interest of the shareholders as Company can focus its resources for the development of its principal businesses. On 19 July 2019, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose 80% equity interests in CSHL for a consideration of HK\$10 million. CSHL was incorporated for applying the licence to carry out Type 9 (asset management) regulated activity under the SFO. The Company would update the status on the Disposal of CSHL to the Shareholders, if necessary.

Save as disclosed herein, the Group did not make any material acquisition or disposal, nor had other plans for material investments and capital assets during the reporting period.

CHARGES ON ASSETS

As at 30 September 2019, the Group did not have any charges on its assets (31 December 2018: Nil).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2019 (31 December 2018: Nil).

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 2019 together with comparative unaudited figures for the corresponding period ended 30 September 2018, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	Note	Three months ended 30 September		Nine months ended 30 September	
		2019 HK\$ (Unaudited)	2018 HK\$ (Unaudited)	2019 HK\$ (Unaudited)	2018 HK\$ (Unaudited)
Revenue	3	24,853,862	25,404,061	73,149,829	69,568,880
Cost of sales		(9,629,372)	(10,476,941)	(30,494,292)	(29,145,628)
Gross profit		15,224,490	14,927,120	42,655,537	40,423,252
Other income and gains, net		(2,775,355)	7,273,942	10,485,392	11,841,422
Administrative expenses		(16,652,930)	(23,076,473)	(54,180,403)	(78,026,607)
Provision for impairment loss on film deposits and rights		–	–	–	(42,053,131)
Loss on disposal of a subsidiary		–	–	(1,351,277)	–
Finance costs		(444,827)	–	(1,523,274)	–
Loss before tax		(4,648,622)	(875,411)	(3,914,025)	(67,815,064)
Income tax expenses	4	(500,000)	(80,000)	(1,198,000)	(80,000)
Loss for the period from continuing operations		(5,148,622)	(955,411)	(5,112,025)	(67,895,064)
Loss for the period from discontinued operations		(3,630)	(14,664)	(193,570)	(181,765)
Loss for the period		(5,152,252)	(970,075)	(5,305,595)	(68,076,829)
OTHER COMPREHENSIVE LOSS					
<i>Item that may be reclassified to profit or loss in subsequent period:</i>					
Exchange differences on translation of foreign operations		(290,288)	(99,303)	(507,037)	(369,407)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(5,442,540)	(1,069,378)	(5,812,632)	(68,446,236)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	Note	Three months ended 30 September		Nine months ended 30 September	
		2019 HK\$ (Unaudited)	2018 HK\$ (Unaudited)	2019 HK\$ (Unaudited)	2018 HK\$ (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD					
ATTRIBUTABLE TO:					
Owners of the parent					
– from continuing operations		(5,026,008)	(1,949,522)	(6,203,655)	(58,557,705)
– from discontinued operations		(3,630)	(10,265)	(136,978)	(129,576)
Non-controlling interests					
– from continuing operations		(122,614)	994,111	1,091,630	(9,337,359)
– from discontinued operations		–	(4,399)	(56,592)	(52,189)
		(5,152,252)	(970,075)	(5,305,595)	(68,076,829)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD					
ATTRIBUTABLE TO:					
Owners of the parent					
– from continuing operations		(5,316,376)	(2,048,681)	(6,710,710)	(58,926,380)
– from discontinued operations		(3,630)	(10,265)	(136,978)	(129,576)
Non-controlling interests					
– from continuing operations		(122,534)	993,967	1,091,648	(9,338,091)
– from discontinued operations		–	(4,399)	(56,592)	(52,189)
		(5,442,540)	(1,069,378)	(5,812,632)	(68,446,236)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic and Diluted	6	HK cents	HK cents	HK cents	HK cents
– Loss for the period		(0.44)	(0.17)	(0.55)	(5.12)
– Loss for the period from continuing operations		(0.44)	(0.17)	(0.54)	(5.10)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	Attributable to owners of the parent						Total HK\$	Non- controlling interests HK\$	Total equity HK\$
	Share capital HK\$	Share premium HK\$	Capital reserve HK\$	Exchange fluctuation reserve HK\$	Share option reserve HK\$	Accumulated losses HK\$			
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
Loss for the period	-	-	-	-	-	(58,687,281)	(58,687,281)	(9,389,548)	(68,076,829)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	-
Exchange difference related to foreign operations	-	-	-	(368,675)	-	-	(368,675)	(732)	(369,407)
Total comprehensive loss for the period	-	-	-	(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
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
At 31 December 2018 and 1 January 2019 (audited)	114,709,224	552,932,232	(176,467,450)	(1,512,963)	2,020,536	(247,790,206)	243,891,373	15,762,063	259,653,436
Effect of adoption of HKFRS 16	-	-	-	-	-	(337,883)	(337,883)	(4,571)	(342,454)
At 1 January 2019 (restated)	114,709,224	552,932,232	(176,467,450)	(1,512,963)	2,020,536	(248,128,089)	243,553,490	15,757,492	259,310,982
(Loss)/Profit for the period	-	-	-	-	-	(6,340,633)	(6,340,633)	1,035,038	(5,305,595)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	-
Exchange difference related to foreign operations	-	-	-	(507,055)	-	-	(507,055)	18	(507,037)
Total comprehensive (loss)/income for the period	-	-	-	(507,055)	-	(6,340,633)	(6,847,688)	1,035,056	(5,812,632)
Transactions with owners	-	-	-	-	-	-	-	-	-
Disposal of a subsidiary	-	-	-	-	-	-	-	1,598,836	1,598,836
Total transactions with owners	-	-	-	-	-	-	-	1,598,836	1,598,836
At 30 September 2019 (unaudited)	114,709,224	552,932,232	(176,467,450)	(2,020,018)	2,020,536	(254,468,722)	236,705,802	18,391,384	255,097,186

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Cornerstone Financial Holdings Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located at Room 2703, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

During the period, the Company and its subsidiaries (collectively, the “Group”) was involved in the following principal activities: (i) financial services including securities dealings and brokerage services and margin financing services, (ii) provision of advertising and media services, (iii) film development, production and distribution, (iv) retail of skin care products (ceased business during the period) and (v) provision of early childhood education (disposed during the period).

The Company’s share are listed on GEM of the Stock Exchange of Hong Kong Limited (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 2019 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 on 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 2018.

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)

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

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 2019:

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as described below for HKFRS 16, the adoption of above new and revised standards has had no significant financial effect on the unaudited condensed consolidated third quarterly financial information.

HKFRS 16 “Leases” replaced HKAS 17 and three related Interpretations.

Upon the adoption of HKFRS 16, at the commencement date of the lease, the lessee recognises a “lease liability” and a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee recognises interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses continue to be recognised on a systematic basis over the lease term.

HKFRS 16 primarily affect the Group’s accounting as a lessee of premises which are classified as operating leases in previous year. The application of the new accounting model leads to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

HKFRS 16 has been applied modified retrospective approach, with the cumulative effect of initial application recognised as an adjustment to the opening balances of accumulated losses and non-controlling interests as at 1 January 2019. Comparative information has not been restated. In addition, the Group elected the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group has used the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

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

Changes in accounting policy and disclosures (Continued)

- (a) The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2019: (Continued)

Upon the initial application of HKFRS 16, the Group measured the rights-of-use assets as if HKFRS 16 had always been applied by using the incremental borrowing rate at initial application date and the opening balances of lease liabilities and the corresponding right-of-use assets has been adjusted as at 1 January 2019.

The following table summarises the impact, net of tax, of transition to HKFRS 16 on the opening balance of accumulated losses and non-controlling interest:

	Impact of adopting HKFRS16 on opening balances HK\$
Accumulated losses	
Recognition of interest of lease liabilities and depreciation of right-of-use asset	337,883
Impact at 1 January 2019	337,883
Non-controlling interest	
Recognition of interest of lease liabilities and depreciation of right-of-use asset	4,571
Impact at 1 January 2019	4,571

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

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

Changes in accounting policy and disclosures (Continued)

- (b) The following new and amended standards and interpretations have been published but are not yet effective for the period ended 30 September 2019 and which the Group has not early adopted:

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	<i>Definition of a Business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>	1 January 2020
HKFRS 17	<i>Insurance Contracts</i>	1 January 2021
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	No mandatory effective date yet determined but available for adoption

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

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
- Financial services, mainly include securities dealings and brokerage business and margin financing business
- Film development, production and distribution

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

3. REVENUE AND SEGMENT INFORMATION (Continued)

- Retail of skin care products (ceased business during the period)
- Provision of early childhood education (disposed during the period)

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

The segment information provided to the CODM for the reportable segments for nine months ended 30 September 2019 and 2018 is as follows:

	Continuing operations					Discontinued operations
	Advertising and media HK\$ (Unaudited)	Retail of skin care products HK\$ (Unaudited)	Film development, production and distribution HK\$ (Unaudited)	Financial services HK\$ (Unaudited)	Total HK\$ (Unaudited)	Provision of early childhood education HK\$ (Unaudited)
For the nine months ended 30 September 2019						
Segment revenue	62,207,971	–	–	10,941,858	73,149,829	287,551
Segment results	31,713,679	–	–	10,941,858	42,655,537	279,813
For the nine months ended 30 September 2018						
Segment revenue	54,200,867	4,535,327	–	10,832,686	69,568,880	2,185,827
Segment results	28,000,894	1,589,672	–	10,832,686	40,423,252	2,120,177

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

4. INCOME TAX EXPENSES

The provision for Hong Kong profits tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits, 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 of HK\$1,198,000 has been made in these unaudited condensed consolidated accounts for the nine months ended 30 September 2019 (nine months ended 30 September 2018: HK\$80,000).

5. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2019 (nine months ended 30 September 2018: Nil).

6. LOSS PER SHARE

(a) Basic

	Nine months ended 30 September	
	2019	2018
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Losses:		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:		
– from continuing operations	(6,203,655)	(58,557,705)
– from discontinued operations	(136,978)	(129,576)
Loss attributable to ordinary equity holders of the parent	(6,340,633)	(58,687,281)
	Nine months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares in issue during the period, used in the basic loss per share calculation	1,147,092,240	1,147,092,240

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

6. LOSS PER SHARE (Continued)

(b) Diluted

No diluted loss per share has been presented as there was no dilutive ordinary shares outstanding during the nine months ended 30 September 2019 and 2018.

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 12 November 2019.

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 2019, 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:

Long positions in the ordinary shares of HK\$0.10 each in the Company (the "Shares") and underlying Shares in the capital of the Company

Name of directors	Nature of interests	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholding in the Company
			(Note 1)		(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:

1. 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
2. These Shares are directly held by Profit Cosmo Group Limited, 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.
3. These Shares are directly held by iMediaHouse Asia Limited ("iMHA"), which is owned as to approximately 67.09% by iMediaHouse.com Limited 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.
4. 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 2019.

OTHER INFORMATION (CONTINUED)

Save as disclosed above, as at 30 September 2019, 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.

SHARE OPTION SCHEME

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") on 26 March 2011. As at 30 September 2019, share options outstanding under the Pre-IPO Share Option Scheme and the Share Option Scheme were 513,769 and 376,968 respectively.

During the nine months ended 30 September 2019, the Company has neither adopted any share option scheme nor granted any options.

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

As at 30 September 2019, 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 Profit Cosmo Group Limited ("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 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. 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 2019.

Save as disclosed above, as at 30 September 2019, 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 2019, 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 2019, none of the Directors, the Management or the 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 the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors, having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the nine months ended 30 September 2019.

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 2019, 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 Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the requirements of the GEM Listing Rules from time to time. The Audit Committee was delegated the authority and responsibility to review the Company's risk management and internal control systems and to make recommendations to the Board in such regard, in addition to its primary duties 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. The Audit Committee currently comprises three independent non-executive Directors.

The unaudited condensed consolidated financial information of the Group for the nine months ended 30 September 2019 have been reviewed by the Audit Committee together with the management of the Company, 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, 12 November 2019

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