兴证国际
INDUSTRIAL SECURITIES INTERNATIONAL

興證國際金融集團有限公司
China Industrial Securities International Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)
Stock code： 6058

2018
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Directors

Mr. Yang Huahui *(Chairman)*
Mr. Huang Yilin

Executive Directors

Mr. Huang Jinguang *(Chief Executive Officer)*
Mr. Wang Xiang
Ms. Zeng Yanxia

Independent Non-executive Directors

Ms. Hong Ying
Mr. Tian Li
Mr. Qin Shuo

BOARD COMMITTEES

Audit Committee

Ms. Hong Ying *(Chairlady)*
Mr. Huang Yilin
Mr. Tian Li

Remuneration Committee

Mr. Tian Li *(Chairman)*
Mr. Yang Huahui
Mr. Qin Shuo

Nomination Committee

Mr. Yang Huahui *(Chairman)*
Mr. Tian Li
Mr. Qin Shuo

COMPANY SECRETARY

Mr. Cho Ka Wai

COMPLIANCE OFFICER

Ms. Zeng Yanxia

AUTHORISED REPRESENTATIVES

Ms. Zeng Yanxia
Mr. Cho Ka Wai

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISER

Haitong International Capital Limited

REGISTERED OFFICE

PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial Bank Co., Ltd., Hong Kong Branch
Wing Lung Bank Limited
Fubon Bank (Hong Kong) Limited
China Citic Bank International Limited
Shanghai Pudong Development Bank Co., Ltd.,
Hong Kong Branch
China Everbright Bank Co., Ltd., Hong Kong Branch
Chiyu Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited
China Minsheng Bank Corp., Ltd., Hong Kong Branch

WEBSITE

www.xyzq.com.hk

STOCK CODE

6058

FINANCIAL HIGHLIGHTS

RESULTS

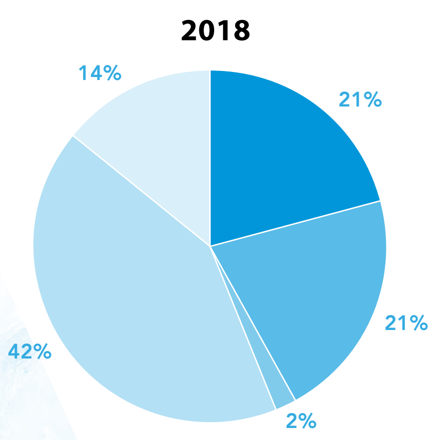
	For the year ended 31 December		
	2018 HK$	2017 HK$	Change %
Commission and fee income from brokerage services *(note a)*	**212,494,664**	182,234,697	16.6%
Commission and advisory fee income from corporate finance services	**211,332,207**	123,288,298	71.4%
Management fee and advisory fee income from asset management services	**19,225,687**	12,916,407	48.8%
Interest income from loans and financing services	**428,170,359**	310,521,831	37.9%
Income from financial products and investments	**139,822,685**	298,762,993	-53.2%
Revenue	**1,011,045,602**	927,724,226	9.0%
Profit for the year	**143,800,671**	152,831,841	-5.9%
Per share			
Basic earnings per share (HK$) *(note b)*	**0.0360**	0.0382	-5.8%
Dividend per share (HK$)	**0.023**	0.03	-23.3%
Net assets per share *(note c)*	**1.10**	1.10	0.0%

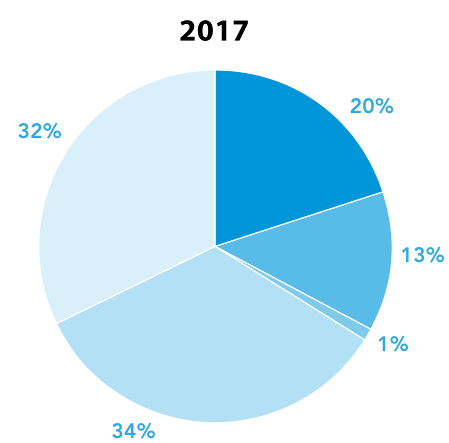
Notes:

a. Such services include securities, futures and options and insurance brokerage services.

b. Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares.

c. Net assets per share is calculated by dividing the net assets at the end of the year by the number of shares in issue as at the end of the year.





FINANCIAL CONDITIONS

	As at 31 December 2018 HK$	As at 31 December 2017 HK$	Change %
Total assets	**23,343,840,317**	17,053,775,016	36.9%
Equity attributable to owners of the Company	**4,391,073,572**	4,397,265,814	-0.1%
Number of issued shares	**4,000,000,000**	4,000,000,000	0.0%
Net profit margin	**14.2%**	16.5%	-13.9%
Return on equity *(note a)*	**3.3%**	3.5%	-5.7%
Return on total assets	**0.6%**	0.9%	-33.3%
Gearing ratio *(note b)*	**238.2%**	151.7%	57.0%
Net debt to equity ratio *(note c)*	**203.6%**	124.8%	63.1%

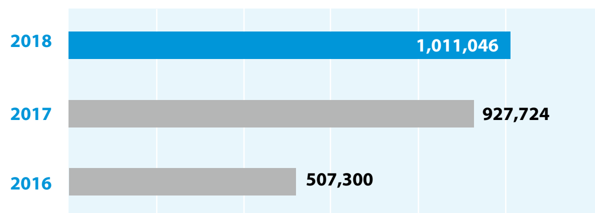
Notes:

a. Return on equity is calculated by dividing the profit for the year by the weighted average equity attributable to owners of the Company. The weighted average equity attributable to owners of the Company for 2018 was HK$4,376,754,911 (2017: HK$4,379,826,393).

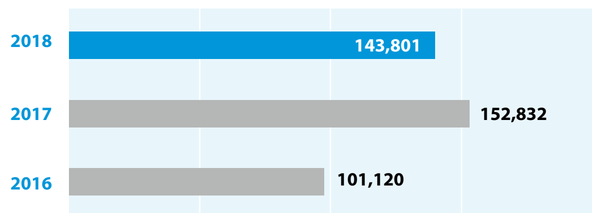
b. Gearing ratio is calculated by dividing the total of the bank borrowings, other borrowings and notes as at the end of the year by the equity attributable to owners of the Company as at the end of the year.

c. Net debt to equity ratio is calculated by dividing the total of the bank borrowings, other borrowings and notes less cash and cash equivalents as at the end of the year by the equity attributable to owners of the Company as at the end of the year.

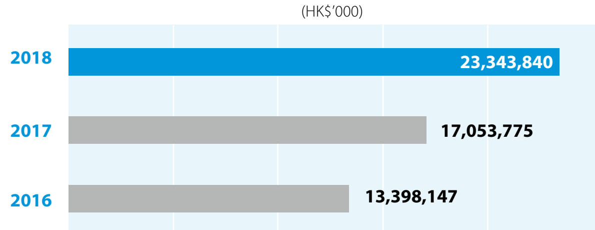
Revenue
(HK$'000)



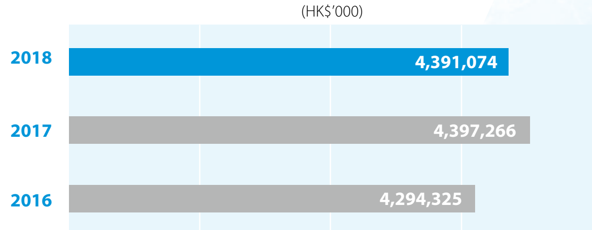
Profit for the year
(HK$'000)



Total assets
(HK$'000)



Equity attributable to owners of the Company
(HK$'000)



CHAIRMAN'S STATEMENT

I hereby report to the shareholders that the Group delivered stable operating results for the financial year of 2018 by mitigating the negative impacts from the complicated and volatile markets in 2018. For the year ended 31 December 2018, the Group's operating revenue was HK$1,011.05 million (2017: HK$927.72 million), representing a year-on-year growth of 9.0%, and its profit after taxation was HK$143.80 million (2017: HK$152.83 million), representing a year-on-year decrease of 5.9%.

PERFORMANCE REVIEW

Looking back to 2018, although the world's economy maintained its growth, the divergence in recovery momentum has accelerated the accumulation of risks. Under the influence of various factors such as the weakening global financial market sentiment and uncertain trade policies, "Black Swan" and "Gray Rhino" events, including price shocks in stock and oil markets, trade slowdown and decline in investments, continued to occur globally.

Meanwhile, in 2018, China's economic reforms, which have entered a crucial period, were in throes of restructuring. Facing such complicated domestic and international environment, the China's economy maintained a reasonable pace of growth and continued to show a stable and sound development as a whole in 2018. According to the preliminary estimation of the National Bureau of Statistics of China, the Gross Domestic Product (GDP) of China in 2018 was RMB90,030.9 billion, an increase of 6.6% at constant price as compared with 2017, achieving the expected development goal of approximately 6.5%.

Hong Kong economy maintained steady growth but with a slowing pace. For 2018 as a whole, Hong Kong's Gross Domestic Product (GDP) increased by 3.0% in real terms over 2017. In the fourth quarter of 2018, the Gross Domestic Product (GDP) increased by 1.3% in real terms over a year earlier, compared with the increase of 2.8% in the third quarter.

In 2018, the major world stock indexes in US dollars declined in different degrees. Moreover, China's A shares market became one of the worst performers while Hong Kong stock market adjusted notably. Amidst such unfavorable market conditions, the Group continuously improved its risk management standards and adjusted its business structure.

In line with the institutional investor-oriented market structure and development trends in Hong Kong and overseas markets, the Group promoted the development of businesses under a "broader concept of investment banking and asset management" with institutional sales so as to accelerate the optimization and transformation of overseas business structure.

In 2018, the Group continued to consolidate the foundation of its fee-based businesses and increase its investments in institutional sales, corporate finance business and asset management business, and achieved continuous and rapid increase in related revenue. The Group prudently developed its capital related and investment related business, with optimal adjustment of the portfolio's varieties and structure to reduce the investment risks. The Group also explored and developed its capital-based intermediary business, as the Group maintained a good development momentum for structured product business.

In terms of the operating results in 2018, the increase in operating revenue from the Group's fee-based businesses such as brokerage, corporate finance and asset management was much higher than that of other businesses. The aggregate revenue of above mentioned businesses contributed a higher percentage to the total operating revenue, showing preliminary positive results from the business structure adjustment.

During the period under review, the Group's futures brokerage business was awarded the "2018 Fastest Growing Mainland Future Broker Award (二零一八年期貨內地經紀最快增長獎)" from HKEx and its asset management business was awarded the "2018 Jun Ding Award for Excellent Hong Kong Wealth Management Institution (二零一八年香港優秀財富管理機構君鼎獎)" from Securities Times (《證券時報》) in the PRC. In addition, the Group was also awarded the "2018 Golden Lion Award for the Listed Companies in the Hong Kong Stock Market (二零一八年港股上市公司金獅獎)", "Jin Wu Award — Listed Company with the Highest Investment Value (金吾獎 — 最具投資價值上市公司)" and "2018 Golden Hong Kong Stocks Award — Most Valuable Listed Financial Company (二零一八年金港股最具價值金融股公司)", reflecting the recognition from certain media and institutions of the Group's potential investment value as a listed company.

PROSPECTS

Looking forward to 2019, the macro environment is still under pressure. In the meantime, various factors, including the changes in relationship between major countries, sluggish global monetary environment and adjustment cycle of the Chinese economy, will all lead to the rise of US Treasury yields, increase in risk premium of assets and downturn in global economic fundamentals, thereby adding pressure on the financial market. Furthermore, due to the strengthening of global financial regulations and increasingly fierce competition in the industry, the financial institutions will face higher requirements and more challenges in terms of operation capabilities and management standards.

Meanwhile, thanks to the further implementation of the PRC's Belt and Road Initiative, the introduction of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area and further internationalization of the capital market in the PRC, the Group believes that securities brokerage firms with Chinese background will have abundant room for overseas business development in the future.

In 2018, by formulating a strategic plan for international development in the next five years which further elaborated the objectives, competitive strategies and supporting measures of its international development, Industrial Securities Co., Ltd.*, the controlling shareholder of the Group, has set internationalization as one of its key development strategies in the next five years. Such plan will provide strong support and guarantee for the future development of the Group.

On 3 January 2019, the Group successfully transferred its listing to the Main Board with the approval from the Hong Kong Stock Exchange, unveiling a new chapter in its business development.

Looking ahead, as an enterprise based in Hong Kong and reaching the world, the Group is committed to become a leading Chinese background securities financial group with international competitiveness. The Group will strive for balance between development and risks as well as stability and innovation, so as to achieve sustainable and high-quality development, meet the diversified investment and financing needs of its customers, and continuously create value for its customers and bring returns to its shareholders.

Yang Huahui
Chairman

21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OVERVIEW

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

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

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

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

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

ANALYSIS ON PRINCIPAL BUSINESSES

(I) Policy Review

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

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

(II) Market Review

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

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

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

The average daily turnover of Hong Kong stocks in 2018 reached a record high of HK$107.41 billion, representing an increase of 21.7% from HK$88.25 billion in 2017. The average daily northbound turnover (including buy and sell trades) of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, on an aggregated basis, was RMB20.4 billion, accounting for 2.8% of the turnover in the Mainland market (2017: average RMB9.6 billion, accounting for 1.1% of the market turnover). As for the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, on an aggregated basis, the average daily southbound turnover (including buy and sell trades) was RMB 10.8 billion, accounting for 5.9% of the turnover in Hong Kong market (2017: average RMB8.6 billion, accounting for 5.6% of the market turnover).

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

(III) Competitive environment

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

(IV) Business Review

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

Brokerage services

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

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

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

Corporate finance

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

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

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

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

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

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

Asset management

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

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

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

Loans and financing

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

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

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

Financial products and investments

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

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

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

FINANCIAL POSITIONS

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

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

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

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

As at 31 December 2018, the notes outstanding of the Group amounted to HK$62.85 million (details of which are set out in note 33 to the consolidated financial statements, 31 December 2017: HK$62.55 million). As at 31 December 2018, the gearing ratio of the Group (defined as bank and other borrowings and notes outstanding divided by total equity) increased by 57.0% to 2.382 (31 December 2017: 1.517).

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

PROSPECTS AND FUTURE PLAN

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

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

USE OF PROCEEDS

On 20 October 2016, the Group listed on the GEM of the Stock Exchange. A total of 1,000,000,000 shares were offered under the global offering at an offer price of HK$1.33 per share. The net proceeds (net of issuance expenses) amounted to HK$1,288.2 million.

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

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

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

SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There were no significant acquisitions or disposals of subsidiaries and affiliated companies by the Group for the year ended 31 December 2018.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2018, the Group's assets pledged were mainly debt securities pledged as collaterals for other borrowings or margin loans from broker. For details please refer to note 41 to the consolidated financial statements.

COMMITMENTS UNDER OPERATING LEASE

Details of commitments under operating leases of the Group are set out in note 36 to the consolidated financial statements.

EMPLOYEE INFORMATION

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

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2018 and to the date of this report.

EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors of the Company recommended a final dividend of HK$0.023 per share. Further details are set out in the Report of the Board of Directors.

RISK MANAGEMENT

The Group has in place the risk management structure and implemented the compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures for control of exposure to credit, liquidity, market and operational risks during the course of business activities.

Credit risks

The Group has established the risk management committee responsible for reviewing and monitoring the implementation of risk management policies for principal business units, identifying risks, approving trading limit and credit limit, and updating the risk management policies in response to changes;

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

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

The senior management and head of business units of the Group regularly review the balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, especially during adverse market movements; and the Group have established credit policy with respect to the trading limit, credit line and credit period granted to brokerage and loans and financing clients, and the Group reviews and revises such policy on an ongoing basis; the Group conducts regular review in respect of outstanding margin loans to assess exposure to credit risks.

Liquidity risks

The Group has in place liquidity risk management system to identify, treat, monitor and control potential liquidity risk and to maintain the Group's liquidity and financial resources requirements as specified under applicable laws and regulations, such as Financial Resources Rules;

The Group has established a multi-tiers authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. The Group have authorisation limits in place for any commitment or fund outlay, such as procurement, investments, loans, etc., and the Group assesses the impact of those transactions on the capital level;

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

The Group have established limits and controls on margin loans and money lending loans on an aggregate and individual loan basis.

Market risks

The Group has established policy and procedures to monitor and control the price risk in the ordinary and usual course of business;

The Group's staff with professional qualification and industry experience in the business units discusses and evaluates the underlying market risks prior to engaging in any such new transaction or launching of any such new business;

The Group reviews market risk limits for certain business lines such as the asset management and financial products and investments business to manage risk and periodically review and adjust the Group's market strategies in response to changes in the business performance, risk tolerance levels and market conditions;

In terms of the financial products and investments business, the Group formulates different selection criteria for bonds and other fixed income products, limits the investment in industries and enterprises with excess capacity and negative news, and tracks and monitors the trends of macro economy and investment concentration ratio to optimise the Group's investment strategies; the Group diversifies the fixed income investment portfolios, limits the investment in any single product, client or type of investment and continually tracks the changes on the operation, credit rating and solvency of the issuers; and

The Group also assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and capability of revenue generation of different types of bonds and control the investment horizon of debt securities investment; the Group monitors investments on a timely basis, including trading positions, unrealised profit or loss, risk exposure and trading activities, and establish mechanisms that set pre-determined points to take profit or stop loss on an overall basis or on each individual stock.

Foreign currency risks

The Group's exposure to foreign currency risks is primarily related to transactions denominated in a currency other than Hong Kong dollars. The Group's financial products and investments business primarily comprises investment in bonds and other fixed income products denominated in US dollars. The Group continuously monitors the exchange rate trend and adopts hedging measures when appropriate, so as to prevent significant foreign exchange risk arising from US dollar denominated monetary items.

Interest rate risks

The interest rate risks of the Group mainly come from fixed-rate loans receivable and fixed-rate debt securities. For debt securities included in financial assets, the fair value measurement is subject to the market interest rate. The Group has adopted the US Treasury bond futures and other instruments to hedge against interest rate risks.

The Group may also expose to cash flow interest rate risks primarily arising from bank balances, secured margin loans and bank borrowings which carry interest at prevailing market interest rates;

The management of the Group closely monitors exposure related to interest rate risks and ensures it is maintained at an acceptable level. The Group's exposure to cash flow interest rate risks is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's financial instruments denominated in Hong Kong dollars and US dollars.

Operational risks

The Group has responsible officers in charge of overseeing the day-to-day operations, controlling and monitoring compliance issues and solving dealing problems; they also formulate and update the operational manual for each business function based on regulatory and industrial requirements to standardise the Group's operational procedures and reduce human errors;

The Group sets authorisation hierarchy and procedures for its daily operations, and has surveillance systems to monitor the trading activities of the Group's business units and staff on a real-time basis.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Mr. Yang Huahui ("Mr. Yang"), aged 53, Ph.D in Economics, is a senior economist. He was appointed as a non-executive Director, the chairman of the Board, the chairman of nomination committee and a member of remuneration committee under the Board on 30 January 2018. Mr. Yang has over 28 years of experience in financial services industry.

Mr. Yang is currently the secretary of the party committee and the chairman of the board of directors of Industrial Securities Co. Ltd. From January 2010 to October 2017, he served as the secretary of party committee and the chairman of China Industrial International Trust Limited. He was served as the deputy manager of Shanghai Securities Business Department of Industrial Bank Co., Ltd. headquarters. He had served as the general manager of Shanghai Business Department of Industrial Securities Company, the member of party committee and the vice president of Shanghai Branch of Industrial Bank Co., Ltd., the secretary of party committee and the president of Hangzhou Branch of Industrial Bank Co., Ltd., and the secretary of party committee and the chairman of Union Trust Limited.

Mr. Yang was appointed as director and chairman of the board of directors of Industrial Securities (Hong Kong) Financial Holdings Limited and China Industrial Securities International Holdings Limited on 30 January 2018 which are the controlling shareholders of the Company (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")).

Mr. Huang Yilin ("Mr. Huang"), aged 50, Ph.D, is a member of the Communist Party of China. He was appointed as a non-executive Director on 12 July 2017 and a member of audit committee under the Board. Mr. Huang has over 18 years of experience in the financial services industry.

Mr. Huang is currently the vice president of Industrial Securities Co. Ltd. and legal representative and executive director of Industrial Securities Investment Management Limited, and director of Aegon-Industrial Fund Management Co., Ltd. He was the general manager of R&D Center, the general manager of customers of asset management, the assistant to the president and the general manager of investment bank headquarters, the general manager of fixed income and derivatives product department, and general manager of fixed income business headquarters of Industrial Securities Co. Ltd. Mr. Huang was also appointed as director of Industrial Securities (Hong Kong) Financial Holdings Limited and China Industrial Securities International Holdings Limited on 12 July 2017 which are the controlling shareholders of the Company (as defined in the Listing Rules).

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Huang Jinguang ("Mr. Huang"), aged 49, was appointed as a Director on 21 July 2015 and re-designated as an executive Director on 1 June 2016, and was further appointed as chief executive officer of the Company on 8 June 2016. Mr. Huang is primarily responsible for the overall management of the operations of the Group, and the day-to-day management of the Group's businesses and operations. Mr. Huang has over 28 years of experience in the financial services industry.

From November 1992 to January 2001, Mr. Huang successively served as a staff member and the deputy general member of the Industrial Securities Group's Nanping operations' division. From January 2001 to November 2001, Mr. Huang served as the general manager of the Industrial Securities Group's Chengdu operations' division. From November 2001 to November 2004, Mr. Huang successively served as the office manager, and then general manager of operations for the brokerage division of the Industrial Securities Group. From November 2004 to October 2007, Mr. Huang served concurrently as general manager of operations for the brokerage division of the Industrial Securities Group and the general manager of the Industrial Securities Group's Hangzhou operations' division. From October 2007 to July 2011, Mr. Huang served successively as, among others, office manager and general manager of the margin trading division of the Industrial Securities Group. Mr. Huang was appointed as director and vice president of Chinese Securities Association of Hong Kong Company Limited on 25 February 2019.

Since July 2011, Mr. Huang has been a director and the chief executive officer of Industrial Securities (Hong Kong) Financial Holdings Limited. Currently, Mr. Huang is also a director of various subsidiaries of the Company.

Mr. Huang obtained a master's degree in business administration from Nanyang Technological University, Singapore in May 2010.

Mr. Wang Xiang ("Mr. Wang"), aged 39, was appointed as an executive Director on 1 June 2016 and a deputy chief executive officer of the Company on 8 June 2016. Mr. Wang is primarily responsible for assisting the chief executive officer with the overall administration of business operations of the Group, and participating in the day-to-day management of the Group's businesses and operations. Mr. Wang has over 10 years of experience in the financial services industry.

Prior to joining the Group, Mr. Wang joined the Industrial Securities Group as a research analyst of its securities investment department in March 2008. From August 2010 to December 2011, Mr. Wang served as a manager of the securities investment department of Industrial Securities Group, and from January 2012 to May 2015, Mr. Wang served as the assistant chief executive officer of Industrial Securities (Hong Kong) Financial Holdings Limited.

From May 2015 to September 2016, Mr. Wang was the deputy chief executive officer of Industrial Securities (Hong Kong) Financial Holdings Limited. Currently, Mr. Wang is also a director of various subsidiaries of the Company.

Mr. Wang obtained a master's degree in accounting and financial management from the University of Hertfordshire, the United Kingdom, in March 2006.

Ms. Zeng Yanxia ("Ms. Zeng"), aged 42, was appointed as an executive Director on 1 June 2016, and was further appointed as a deputy chief executive officer and the chief financial officer of the Company on 8 June 2016. Ms. Zeng is primarily responsible for assisting the chief executive officer with the overall management and supervision of the financial aspects of the Group's operations, and participating in the day-to-day management of the Group's businesses and operations. Ms. Zeng has approximately 12 years of experience in the financial services industry.

Prior to joining the Group, Ms. Zeng joined the accounting and finance department of the Industrial Securities Group in October 2006, following which she served successively as a manager of its internal division, assistant to the general manager, deputy director and deputy general manager. From August 2013 to March 2016, Ms. Zeng served as deputy general manager of the strategy development department of the Industrial Securities Group, and from March 2016 to September 2016, Ms. Zeng was the deputy chief executive officer and chief financial officer of Industrial Securities (Hong Kong) Financial Holdings Limited. Ms. Zeng is also a director of various subsidiaries of the Company.

Ms. Zeng graduated from the Zhongnan University of Finance and Economics (as it was then known as), the PRC, with a bachelor's degree in certified public accountancy in June 1998. She further obtained a master's degree in finance from Wuhan University, the PRC, in June 2003, and a doctor in accounting from Xiamen University, the PRC, in July 2006. She is also a senior accountant and certified public accountant of the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Hong Ying ("Ms. Hong"), aged 68, was appointed as an independent non-executive Director on 27 July 2016. She was appointed as the chairman of audit committee under the Board on 30 September 2016. Ms. Hong has over 40 years of experience in the accounting industry. Ms. Hong is also qualified as a fellow certified public accountant and senior accountant in the PRC and a fellow certified public accountant of CPA Australia, and international associate member of Hong Kong CPA. Currently, Ms. Hong is the chairlady and legal representative of Beijing Fortune C.P.A Limited, a firm engaged in enterprise audit and accounting and consulting services, which is based in the PRC. Ms. Hong is also the chairlady and legal representative of Beijing Fortune International Enterprise Management Consulting Limited, and the chairlady of Fortune International (Asia) Limited and a director and council member of The Hong Kong Independent Non-Executive Director Association. Ms. Hong was appointed as an independent director of Hangzhou Wanshili Silk Culture Co., Ltd. (杭州萬事利絲綢文化股份有限公司) on 19 December 2018.

Ms. Hong completed the Finance CEO programme jointly offered by the Cheung Kong Graduate School of Business, Columbia Business School and London Business School in January 2009, and obtained a certificate in Executive Management from the Golden Gate University, the United States in August 1993.

Ms. Hong was a director of the companies named below. As confirmed by Ms. Hong, as far as she is aware, the dissolution of these companies has not resulted in any liability or obligation being imposed against her.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
Fortune International (Hong Kong) Certified Public Accountants Limited 富勤國際(香港)會計師行有限公司	Hong Kong	None; inactive since incorporation	11 February 2011	Deregistration	Cessation of business
Fortune International Certified Public Accountants (Hong Kong) Limited	Hong Kong	None; inactive since incorporation	11 February 2011	Deregistration	Cessation of business

Mr. Tian Li ("Mr. Tian"), aged 50, was appointed as an independent non-executive Director on 27 July 2016. He was appointed as the chairman of remuneration committee and a member of audit committee and nomination committee under the Board on 30 September 2016. Mr. Tian has over 18 years of experience in the financial services industry. Mr. Tian is a director of Shanghai Tuhong Investment Management Company Limited (上海圖鴻投資管理有限公司), a company primarily engaged in strategic investment, asset management, and the provision of corporate advisory services, and he also currently serves as the independent board director of the Bank of Chang Cheng Hua Xi (formerly known as Bank of De Yang) and of China Industrial International Trust Limited, respectively. For the avoidance of doubt, China Industrial International Trust Limited is a subsidiary of Industrial Bank Co. Ltd (興業銀行股份有限公司), which like Industrial Securities, is partially owned by Fujian Provincial Department of Finance (福建省財政廳). He is also a director of New York Institute of Finance Inc., and a managing director of Shanghai Li Ding Information Technology Development (上海力鼎信息科技發展有限公司) and Shanghai Hui Sheng Equity Investment Management Limited (上海惠盛股權投資管理有限公司) respectively. Mr. Tian's previous experiences include employment with Bank of China International Limited as group executive director and head of financial institutions from January 2002 to October 2004.

Mr. Tian graduated with a bachelor's degree in engineering from the People's Liberation Army University of Science and Technology (previously known as the People's Liberation Army Institute of Engineering Corps), the PRC, in July 1990. He then obtained a master's degree in civil engineering from Cleveland State University, the United States, in August 1996, and a further master's degree in business administration from Duke University, the United States, in May 1999.

Mr. Tian was a director of the company named below. As confirmed by Mr. Tian, as far as he is aware, the dissolution of this company has not resulted in any liability or obligation being imposed against him.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
Harvest International (HK) Group Limited 禾成國際有限公司	Hong Kong	None; inactive since incorporation	14 March 2014	Striking Off	Inactive

Mr. Qin Shuo ("Mr. Qin"), aged 50, was appointed as an independent non-executive Director on 27 July 2016. He was appointed as a member of remuneration committee and nomination committee under the Board. Mr. Qin was the chief editor of China Business News (第一財經日報), from June 2004 to October 2015. Currently, Mr. Qin is a director of Guangzhou Microdream Media Co., Ltd. (廣州市匯志文化傳播股份有限公司) and an independent director of Shenzhen Bosun Institute of Management Science Co. Ltd (深圳市博商管理科學研究院股份有限公司) , a consulting company trading on the National Equities Exchange and Quotations system in the PRC. Mr. Qin was appointed as an independent director of Oppein Home Group Inc. (歐派家居集團股份有限公司) (stock code: 603833.SS) on 16 May 2018.

Mr. Qin graduated with a bachelor's degree in journalism from Fudan University, the PRC in July 1990, a master's degree in public administration from California State University (Northridge), the United States, in June 2001 and further obtained his doctor in business administration from Sun Yat-sen University, the PRC, in June 2009.

REPORT OF THE BOARD OF DIRECTORS

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the provision of brokerage services, loans and financing services, corporate finance services, asset management services and financial products and investments.

BUSINESS REVIEW

The business review of the Group for the Year is set out in the sections of Management Discussion and Analysis on pages 9 to 16 of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year and the state of affairs of the Group as at that date are set out in the consolidated statement of profit or loss and other comprehensive income on page 61 of this report.

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

SHARE CAPITAL

Details of the authorised and issued share capital of the Company are set out in note 34 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 64 and the note 49 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the distributable reserves of the Company amounted to approximately HK$3,935,336,356 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the 5 largest customers of the Group accounted for less than 14% of the Group's revenue from external customers for the Year.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for each of the last five financial years is set out on page 180 of this report.

DIRECTORS

The directors of the Company during the Year and up to the date of this report are as follows:

NON-EXECUTIVE DIRECTORS:

Mr. Yang Huahui *(Chairman)* (appointed on 30 January 2018)
Mr. Lan Rong (resigned on 30 January 2018)
Mr. Huang Yilin

EXECUTIVE DIRECTORS:

Mr. Huang Jinguang *(Chief Executive Officer)*
Mr. Wang Xiang
Ms. Zeng Yanxia

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Ms. Hong Ying
Mr. Tian Li
Mr. Qin Shuo

Pursuant to articles 108(a) and (b) of articles of association of the Company (the "Articles"), Mr. Huang Jinguang, Ms. Hong Ying and Mr. Tian Li shall retire from office, and being eligible, will offer themselves for re-election as the Directors at the forthcoming annual general meeting ("AGM") of the Company.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to the requirement of Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2018 interim report of the Company is set out below:

Director	Detail of Change
Hong Ying	Appointed as independent director of Hangzhou Wanshili Silk Culture Co., Ltd. (杭州萬事利絲綢文化股份有限公司) on 19 December 2018
Huang Jinguang	The monthly remuneration has been revised to HK$250,000 with effect from 1 January 2019
	Appointed as director and vice president of Chinese Securities Association of Hong Kong Company Limited on 25 February 2019
Wang Xiang	The monthly remuneration has been revised to HK$200,000 with effect from 1 January 2019
Zeng Yanxia	The monthly remuneration has been revised to HK$180,000 with effect from 1 January 2019

DIRECTORS' SERVICE CONTRACTS

Executive Directors have entered into service contracts with the Company for a term of three years and be thereafter continuous unless and until the termination by either party thereto giving no less than three months' prior written notice.

The non-executive Directors and Independent Non-executive Directors are appointed for a term of three years and either party may terminate such appointment at any time by giving at least three months' notice in writing to the other.

DIRECTORS' EMOLUMENTS

The Directors' fees are subject to Shareholders' approval at general meeting. Other emoluments are determined by the Board with reference to their experience, responsibilities, workload and time devoted to the Group and performance of the Group. Details of the emoluments of Directors are set out in note 11 to the consolidated financial statements of this report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Long position in ordinary shares of HK$0.1 each of the Company

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage
Huang Yilin	Beneficial owner	2,264,384	0.06%
Huang Jinguang	Beneficial owner	9,263,389	0.23%
Wang Xiang	Beneficial owner	8,131,197	0.20%
Zeng Yanxia	Beneficial owner	7,204,858	0.18%

Save as disclosed above, as at the 31 December 2018, none of the Directors or Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

So far as the Directors and the Chief Executives are aware, as at 31 December 2018, the following persons/corporations (other than a Director or the chief executive of the Company) had interests or short positions in the Shares and the underlying Shares, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name	Nature of Interest	No. of Shares held	Approximate percentage of Shareholding
China Industrial Securities International Holdings Limited	Beneficial owner	2,073,653,644	51.84%
Industrial Securities (Hong Kong) Financial Holdings Limited *(Note 1)*	Interest of controlled corporation	2,073,653,644	51.84%
Industrial Securities Co., Ltd.* *(Note 2)*	Interest of controlled corporation	2,073,653,644	51.84%
Harvest Capital Management Co., Ltd *(Note 3)*	Investment manager	293,232,000	7.33%
Harvest Fund Management Co., Ltd. *(Note 3)*	Interest of controlled corporation	293,232,000	7.33%
China Credit Trust Co., Ltd. *(Note 3)*	Interest of controlled corporation	293,232,000	7.33%
Hao Kang Financial Holdings (Group) Limited	Beneficial owner	205,853,089	5.15%
Apex Trade Holdings Limited	Interest of controlled corporation	205,853,089	5.15%
Chen Jiaquan *(Note 4)*	Interest of controlled corporation	205,853,089	5.15%
Yang Zhiying *(Note 5)*	Interest of spouse	205,853,089	5.15%

Notes:

1. Industrial Securities (Hong Kong) Financial Holdings Limited holds the entire issued share capital of China Industrial Securities International Holdings Limited. Therefore, Industrial Securities (Hong Kong) Financial Holdings Limited is deemed or taken to be interested in all the Shares held by China Industrial Securities International Holdings Limited for the purposes of the SFO.

2. Industrial Securities Co., Ltd.* holds the entire issued share capital of Industrial Securities (Hong Kong) Financial Holdings Limited. Therefore, Industrial Securities Co., Ltd.* is deemed or taken to be interested in all the Shares held by Industrial Securities (Hong Kong) Financial Holdings Limited for the purposes of the SFO.

3. China Credit Trust Co., Ltd holds 40% of the entire issued share capital of Harvest Fund Management Co., Ltd., and Harvest Fund Management Co., Ltd. holds 75% of the entire issued share capital of Harvest Capital Management Co., Ltd, Therefore, China Credit Trust Co., Ltd and Harvest Fund Management Co., Ltd. are deemed or taken to be interested in all the Shares held by Harvest Capital Management Co., Ltd for the purposes of the SFO.

4. Chen Jiaquan holds 70% of the total issued share capital of Apex Trade Holdings Limited and is the sole director of Hao Kang Financial Holdings (Group) Limited and therefore is deemed or taken to be interested in all the Shares held by Apex Trade Holdings Limited and Hao Kang Financial Holdings (Group) Limited for the purpose of the SFO.

5. Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the Shares in which Chen Jiaquan is interested.

Save as disclosed above, as at 31 December 2018, the Company has not been notified by any persons, other than the Directors and the Chief Executives who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

To the best knowledge of the Board, at no time during the Year was the Company, its subsidiaries or its other associated corporations a party to any arrangement to enable the Directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the Year.

COMPETING INTERESTS

Save for the continuing connected transactions as disclosed in the section headed "Relationship with the controlling shareholders" and "Connected transactions" in the prospectus of the Company dated 30 September 2016 (the "Prospectus"), none of the Directors or the controlling shareholders of the Company nor their respective close associates as defined in the Listing Rules had any interest in business that competed or might compete with business of the Group during the Year.

COMPLIANCE ADVISER'S INTERESTS

As at 31 December 2018, save and except for the compliance adviser's agreement entered into between the Company and Haitong International Capital Limited (the "Compliance Adviser") dated 8 June 2016, neither the Compliance Adviser, nor any of its directors, employees or close associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities).

MANAGEMENT CONTRACTS

The Board is not aware of any contract entered into with the management and administration of the whole or any substantial part of the business of the Company during the Year.

EMOLUMENT POLICY

The Directors of the Company receive compensation in the form of fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of the Directors, as well as the performance of the Group.

The Group regularly reviews and determines the remuneration and compensation packages of the Directors by reference to, among other things, market level of remuneration and compensation paid by comparable companies, respective responsibilities of the Directors and performance of the Group.

the Remuneration Committee will review and determine the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload and time devoted to the Group and performance of the Group.

CONTINUING DISCLOSURE OBLIGATION UNDER RULE 13.21 OF THE LISTING RULES

On 26 September 2018, the Company as borrower (the "Borrower") entered into a facility agreement (the "Facility Agreement") with certain financial institutions as lenders (the "Lenders") relating to a 36 months term loan facility of HK$3,380,000,000 (the "Loan"). Under the terms of the Facility Agreement, if, among others, any of the following events of default occurs, the Lenders may, by notice to the Borrower: (i) cancel all or part of the Loan; and/or (ii) declare all or part of the Loan, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement be immediately due and payable; and/or (iii) declare that all or part of the Loan become payable on demand:

(a) Industrial Securities Co., Ltd.*, the controlling shareholder of the Company, does not, or ceases to directly or indirectly own, legally and beneficially, at least 51% of the issued share capital of the Company; or

(b) Industrial Securities Co., Ltd.* does not or ceases to have Management Control of the Company. "Management Control" means, as between Industrial Securities Co., Ltd.* and the Company, that (i) a majority of the incumbent directors of the Company are nominees of Industrial Securities Co., Ltd.* and (ii) Industrial Securities Co., Ltd.* has control over the management strategies and policies of the Company.

As at the date of this report, the above specific performance obligations imposed on Industrial Securities Co., Ltd.* under the Facility Agreement continued to exist.

CONTINUING CONNECTED TRANSACTIONS

On 27 September 2016, the Company and Industrial Securities Consultancy Service (Shenzhen) Company Limited entered into a service agreement (the "Service Agreement") pursuant to which Industrial Securities Consultancy Service (Shenzhen) Company Limited agreed to provide consultancy services (the "Consultancy Services") to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC. The major reason for such arrangement is to lower the staff and other operating costs for the Group. The term of the Service Agreement is for three years from 1 January 2016 to 31 December 2018. The proposed cap amounts for the provision of abovementioned services by Industrial Securities Consultancy Service (Shenzhen) Company Limited to the Company was approximately HK$8.2 million, HK$10.2 million and HK$12.1 million for each of the three years ended 31 December 2018, respectively.

On 3 April 2018, pursuant to the Service Agreement, the Company and Industrial Securities Consultancy Service (Shenzhen) Company Limited entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which, (a) in addition to the Consultancy Services, Industrial Securities Consultancy Service (Shenzhen) Company Limited would provide to the Group: (i) provision of services and support to the Group's clients in core regions in the PRC (non-regulated activities), for example, visiting clients regularly, providing non-regulated consultancy services to clients and maintaining clients' relationships; (ii) brand establishment and promotion; and (iii) provision of cross-border information technology support (the "New Services"); and (b) the annual cap for the Consultancy Services or the New Services payable by the Company to Industrial Securities Consultancy Service (Shenzhen) Company Limited for the year ended 31 December 2018 was revised from HK$12.1 million to HK$36 million.

On 3 April 2018, the Company and Industrial Securities Consultancy Service (Shenzhen) Company Limited to renew the Service Agreement (as amended by the Supplemental Service Agreement) (the "Renewal Service Agreement") for a further term of three years from 1 January 2019 to 31 December 2021. The proposed cap amounts for the provision of abovementioned services by Industrial Securities Consultancy Service (Shenzhen) Company Limited to the Company is HK$68 million, HK$105 million and HK$153 million for each of the three years ending 31 December 2021, respectively.

For the year ended 31 December 2018, the Group paid a consultancy service fee of HK$21,615,877 to Industrial Securities Consultancy Service (Shenzhen) Company Limited.

In deterring the transactions price and terms, the relevant pricing policy and guideline stated in the Prospectus have been complied. China Industrial Securities International Holdings Limited, as the controlling shareholder of the Company, holds a 51.84% interest of the Company. Industrial Securities (Hong Kong) Financial Holdings Limited holds a 100% interest of China Industrial Securities International Holdings Limited. Industrial Securities (Hong Kong) Financial Holdings Limited holds a 100% interest of Industrial Securities Consultancy Service (Shenzhen) Company Limited. Therefore, Industrial Securities (Hong Kong) Financial Holdings Limited is a connected person to the Company and transactions between the Company and the subsidiaries and/or associates of Industrial Securities (Hong Kong) Financial Holdings Limited constitute connected transactions of the Company under the Listing Rules.

The independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2018 and confirmed that they have been entered into in the ordinary and usual course of business of the Group on normal commercial terms and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company has engaged the Company's auditor to perform certain procedures in order to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

The Company confirms that the signing and execution of the specific agreements under the Continuing Connected Transactions for the Year have been subject to the pricing principles of such continuing connected transactions.

The Company confirms that the related party transactions are not classified as defined in Chapter 14A of the Listing Rules in relation to the Connected Transactions or the Continuing Connected Transactions, as the case may be, and is in accordance with Chapter 14A of the Listing Rules Disclosure requirements.

Details of the related party transactions during the Year are set out in note 43 to the consolidated financial statements.

DEED OF NON-COMPETITION

On 28 September 2016, Industrial Securities Co. Ltd., Industrial Securities (Hong Kong) Financial Holdings Limited and China Industrial Securities International Holdings Limited (the "Controlling Shareholders") entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Company (for itself and for the benefit of each member of the Group). Pursuant to the Deed of Non-Competition, during the period that the Deed of Non-Competition remains effective, each of the Controlling Shareholders irrevocably and unconditionally undertakes with the Company (for itself and for the benefit of each member of the Group) that it shall not, and shall procure its associates or companies controlled by it (other than members of the Group) not to, directly or indirectly engage, participate in or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group in Hong Kong or any other area in which the Group carries on business, save for the holding of not more than 5% shareholding interests (individually or with its associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with its associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with its associates).

During the Year, the Controlling Shareholders have confirmed in writing to the Company of their compliance with the Deed of Non-Competition, and the independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders.

DONATIONS

During the Year, the Group made charitable donations of approximately HK$1,015,500.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, 30 April 2019 to Monday, 6 May 2019, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 29 April 2019.

For determining the entitlement to the proposed final dividend for the year ended 31 December 2018, the transfer books and register of members of the Company will be closed from Friday, 10 May 2019 to Wednesday, 15 May 2019, both days inclusive, during which period no share transfers can be registered. In order to qualify for the entitlement to the proposed final dividend, subject to passing of the ordinary resolution number 2 at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 9 May 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association and subject to the provisions of the Companies Law of the Cayman Islands, each Director, or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all actions, costs, charges, losses, damages and expenses incurred or sustained by him/her as a Director, or other officer of the Company. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the Year in respect of any legal liabilities which may be assumed by the Directors and officers in the execution and discharge of their duties or in relation thereto.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

ENVIRONMENTAL POLICY

The Group emphasises the importance of energy conservation and environmental protection as part of its corporate culture and encourages its employees to minimise the use of paper by promoting digitalisation of documents and better use of waste paper. The Group has also participated in a carbon reduction program by replacing all traditional fluorescent lamps with energy-saving lamps within the working area. Details of the relevant policies are set out in the Environment, Social and Governance Report on pages 44 to 55 of this report.

REPORT OF THE BOARD OF DIRECTORS

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors, there has been a sufficient public float of the issued Shares as required under the Listing Rules (i.e. at 25% of the issued Shares in public hands) throughout the year ended 31 December 2018 and up to the date of this report.

REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the audit committee of the Company.

AUDITOR

Deloitte Touche Tohmatsu will retire at the conclusion of the forthcoming annual general meeting of the Company. A resolution for the appointment of KPMG as the new auditor of the Company is to proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Yang Huahui
Chairman

Hong Kong, 21 March 2019

* *For identification purposes only*

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance in the best interest of the shareholders of the Company (the "Shareholders"). The Company has been making an effort to enhance the corporate governance standard of the Company by reference to the code provisions and recommended best practices set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. During the Year, the Company has applied and complied with all the code provisions set out in the CG Code.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Composition

As at the date of this report, the Board comprises of eight Directors including two non-executive Directors, three executive Directors, and three independent non-executive Directors.

Non-executive Directors

Mr. Yang Huahui *(Chairman)*
Mr. Huang Yilin

Executive Directors

Mr. Huang Jinguang *(Chief Executive Officer)*
Mr. Wang Xiang
Ms. Zeng Yanxia

Independent non-executive Directors

Ms. Hong Ying
Mr. Tian Li
Mr. Qin Shuo

There was no financial, business, family or other material relationship among the Directors. The biographical details of each of the Directors are set out in the section headed "biographical details of directors" of this report.

BOARD MEETINGS

The Board meets regularly at least four times each year, and more frequently as the needs of the business demand, to formulate overall strategy, monitor business development as well as the financial performance of the Group. The Board has delegated certain duties and authorities to the management for the day-to-day management of the Group's operation.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For all other Board meetings, reasonable notices are given. The agenda together with all relevant meeting materials are sent to all Directors at least 3 days before each regular board meetings and at agreed periods for other meetings to enable them to make informed decisions with adequate information. The Board and each Director also have direct and independent access to the management whenever necessary.

All minutes of Board meetings and general meetings are kept by the company secretary and are open for inspection at reasonable time on reasonable notice by any Director. Every Director is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. In addition, the Company enables the Directors, in discharge of their duties, to seek independent professional advice in appropriate circumstances.

During the Year, the Directors' attendance at the Board meetings and general meetings is set out as follows:

	Number of meetings attended/held		
Name	**Board Meetings***	**Annual General Meeting***	**Extraordinary General Meeting***
Non-executive Directors:			
Mr. Yang Huahui *(Chairman)* (appointed on 30 January 2018)	7/7	1/1	1/1
Mr. Lan Rong *(Chairman)* (resigned on 30 January 2018)	1/1	N/A	N/A
Mr. Huang Yilin	8/8	1/1	1/1
Executive Directors:			
Mr. Huang Jinguang *(Chief Executive Officer)*	8/8	1/1	1/1
Mr. Wang Xiang	8/8	1/1	1/1
Ms. Zeng Yanxia	8/8	1/1	1/1
Independent Non-executive Directors:			
Ms. Hong Ying	8/8	1/1	1/1
Mr. Tian Li	8/8	1/1	1/1
Mr. Qin Shuo	8/8	1/1	1/1

* The denominator represents the number of Board meetings and general meetings held during the tenure of each Director in the financial year ended 31 December 2018.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision D.3.1 of the CG Code including:

- develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the "Policy") which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Board will review such objectives from time to time to ensure their appropriateness and the progress made towards achieving those objectives. The Company will also take into consideration its own specific needs from time to time in determining the optimum composition of the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Yang Huahui is the chairman and Mr. Huang Jinguang is the chief executive officer. There is a clear division of responsibilities between the chairman and the chief executive officer in that the chairman bears primary responsibility for the effective functioning of the Board, ensuring the establishment of business strategies and sound corporate governance practices of the Group, while the chief executive officer bears executive responsibility for implementing the Board's approved strategies and policies and supervising the Group's day- to-day business operations.

DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills.

During the Year, a record of the training attended/received by each of the Directors, is set out as follows:

Name	Type of training
Non-executive Directors:	
Mr. Yang Huahui	A & B
Mr. Huang Yilin	A & B
Executive Directors:	
Mr. Huang Jinguang	A & B
Mr. Wang Xiang	A & B
Ms. Zeng Yanxia	A & B
Independent Non-executive Directors:	
Ms. Hong Ying	A & B
Mr. Tian Li	A & B
Mr. Qin Shuo	A & B

Notes:

A: attending courses/seminars/conferences

B: reading journals/written training materials/updates

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Articles provide that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election. In addition, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and that each Director shall be subject to retirement at least once every three years. The non-executive Directors and each of the independent non-executive Directors were appointed for a term of three years and subject to retirement by rotation (at least once every three years) and re- election in accordance with the Articles.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the Year.

REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emolument of the Directors, chief executive and five individuals with highest emoluments are set out in note 11 to the consolidated financial statements.

AUDITOR'S REMUNERATION

During the Year, the Group has engaged its external auditor, Deloitte Touche Tohmatsu. The remuneration paid/payable to the external auditor is set out as follows:

Services rendered	**Fee paid/payable HK$**
Audit services	1,948,400
Non-audit services	1,138,694

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Listing Rules and the code provisions under the CG Code. The Audit Committee currently comprises a non-executive Director, namely Mr. Huang Yilin, and two independent non-executive Directors, namely Ms. Hong Ying and Mr. Tian Li. The chairlady of the Audit Committee is Ms. Hong Ying.

The primary duties of the Audit Committee include the following:

- to review and supervise financial reporting process;
- to nominate and monitor external auditor; and
- to oversee the risk management and internal control procedures of the Company.

During the Year, the major work performed by the Audit Committee included:

(i) reviewed the Group's annual results and report of 2017, first quarterly results and report of 2018, interim results and report of 2018 and third quarterly results and report of 2018 and made recommendations to the Board for approval;

(ii) reviewed and discussed with the auditor to ensure that the Group's financial statements had been prepared in accordance with the accounting principles;

(iii) made recommendation on the re-appointment of the auditor; and

(iv) reviewed the financial reporting system, risk management and the internal control system of the Group.

During the Year, the members' attendance of the meetings of the Audit Committee is set out as follows:

Name	**Number of meetings of the Audit Committee attended/held**
Ms. Hong Ying *(Chairlady)*	4/4
Mr. Huang Yilin	4/4
Mr. Tian Li	4/4

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Listing Rules and the code provisions under the CG Code. The Remuneration Committee currently comprises one non-executive Director, namely Mr. Yang Huahui, and two independent non-executive Directors, namely Mr. Tian Li and Mr. Qin Shuo. Mr. Tian Li is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include the following:

- to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company; and

- to ensure that none of the Directors determine their own remuneration.

During the Year, the major work performed by the Remuneration Committee included:

(i) reviewed the remuneration packages of the Directors;

(ii) made recommendation to the Board on the service contract of new non-executive Director; and

(iii) made recommendation to the Board on the proposed remuneration of new non-executive Director.

During the Year, the member's attendance of the meetings of the Remuneration Committee is set out as follows:

Name	**Number of meetings of the Remuneration Committee attended/held***
Mr. Tian Li *(Chairman)*	2/2
Mr. Yang Huahui (appointed on 30 January 2018)	1/1
Mr. Lan Rong (resigned on 30 January 2018)	1/1
Mr. Qin Shuo	2/2

* The denominator represents the number of the Remuneration Committee meetings held during the tenure of each Director in the financial year ended 31 December 2018.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference in compliance with the Listing Rules and the code provisions under the CG Code. The Nomination Committee currently comprises one non-executive Director, namely Mr. Yang Huahui, and two independent non-executive Directors, namely Mr. Tian Li and Mr. Qin Shuo. Mr. Yang Huahui is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include the following:

- to review the structure, size and composition of the Board annually;
- to formulate nomination policy and implement nomination policy;
- to identify individuals suitably qualified to become members of the Board;
- to assess the independence of the independent non-executive Directors; and
- to make recommendations to the Board on relevant matters relating to appointments of Directors.

During the Year, the major work performed by the Nomination Committee included:

(i) reviewed the structure, size and composition of the Board;

(ii) formulated nomination policy for the Board's consideration;

(iii) assess the independence of the independent non-executive Directors;

(iv) made recommendation to the Board on appointment of new non-executive Director; and

(v) made recommendation to the Board to adopt a revised terms of reference of the Nomination Committee.

During the Year, the member's attendance of the meetings of the Nomination Committee is set out as follows:

Name	**Number of meetings of the Nomination Committee attended/held***
Mr. Yang Huahui *(Chairman)* (appointed on 30 January 2018)	1/1
Mr. Lan Rong *(Chairman)* (resigned on 30 January 2018)	1/1
Mr. Tian Li	2/2
Mr. Qin Shuo	2/2

* The denominator represents the number of the Nomination Committee meetings held during the tenure of each Director in the financial year ended 31 December 2018.

NOMINATION POLICY

Objective

The Nomination Committee is responsible for identifying and nominating qualified candidates for the Board's consideration and appointment when the board of the Company needs additional directors or to fill casual vacancies; and making recommendation to shareholders on re-electing retiring directors on general meetings.

Selection criteria

The Nomination Committee shall recommend candidates with reference to the following factors:

- Candidate shall not breach any applicable laws or regulations; nor have any conflicts of interests affecting proper execution of duties of a director;
- Whether skills, experience, independence and knowledge of the candidate is balanced;
- Candidate must be willing and able to devote sufficient time to the affairs of the Company and be diligent in accomplishing duties as a director and/or member of Board committee (if applicable); and
- Board diversity in various aspects, including but not limited to gender, age(18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc..

The above factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Nomination procedures

Appointment of Directors

(i) The Nomination Committee shall identify candidates as Directors with reference to advice from the existing directors and senior management and/or recommendation from shareholders.

(ii) The Nomination Committee shall review qualifications of candidates and determine candidates most relevant to requirement and expected criteria of the Board.

(iii) The Nomination Committee shall report to the Board on assessment and selection process of candidates.

(iv) The Nomination Committee shall recommend candidates to the Board.

(v) The Board shall set out formal candidate list for election on general meetings or make the appointment itself to fill casual vacancies.

Re-election of Directors

(i) The Nomination Committee shall consider each retiring Director after due consideration of the nomination policy, board diversity policy and the CG Code and assess the independence of each retiring independent non-executive Director.

(ii) The Nomination Committee shall make recommendation to the Board.

(iii) The Board shall consider each retiring Director recommended by the Nomination Committee after due consideration of the nomination policy, board diversity policy and the CG Code.

(iv) The Board shall recommend retiring directors to be re-elected on general meetings in accordance with the Articles of Association of the Company.

(v) The shareholders shall approve re-election of directors on general meetings.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements, appropriate accounting policies and standards are selected and applied consistently. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for reviewing the effectiveness of risk management and internal control systems of the Group. The Board is committed to implementing an effective and sound risk management and internal control systems to safeguard the interest of the Shareholders and the Group's assets. The Board has delegated to the management the implementation of the systems of risk management and internal control and review of all relevant financial, operational, compliance controls and risk management functions within the established framework.

The internal auditor is assigned with the task to perform regular reviews on internal control system of the Group in respect of operational, financial and compliance aspects and will alert the management on the audit review findings or irregularities, if any, and advise them on the implementation of necessary steps and actions to enhance the internal controls of the Group.

During the Year, the Board considered the Group's internal control system as adequate and effective and that the Company has complied with the code provisions of the CG Code.

COMPANY SECRETARY

During the Year, the company secretary of the Company (the "Company Secretary") is an employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its Shareholders and investment public.

The Company updates its Shareholders on its latest business developments and financial performance through its annual, interim reports. The Company's website (www.xyzq.com.hk) provides an effective communication platform to the public and the Shareholders.

COMMUNICATION WITH SHAREHOLDERS

The AGM provides a useful forum for the Shareholders to exchange views with the Board. The chairman as well as chairlady/chairman of the Audit Committee, Remuneration Committee and Nomination Committee are pleased to answer the enquires raised by the Shareholders' questions. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors. All the announcements and circulars are published on the Company's website (www.xyzq.com.hk) and on the Stock Exchange's website (www.hkexnews.hk).

DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") on 27 December 2018. The Board endeavors to strike a balance between the interests of the Shareholders and prudent capital management with a sustainable Dividend Policy. Under the Dividend Policy, the total amount of dividend of the Company will be no less than 40% of the net profit attributable to owners of the Company during the year, subject to the following factors:

- the Group's current and future operations, liquidity position and capital requirements;
- restrictions under applicable laws and regulations;
- restrictions on payment of dividends that may be imposed by the Group's lenders;
- general economic conditions, business cycle of the Group's control business and other internal or external factors that may have an impact on the business, financial performance and position of the Company; and
- any other factors that the Board may consider relevant.

The Board will review the Dividend Policy as appropriate from time to time.

CONSTITUTIONAL DOCUMENTS

During the Year, there was no significant change in constitutional documents of the Company.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue raised at a general meeting, including the election of individual Directors. All resolutions put forward at a general meeting will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Procedures for the Shareholders to Convene Extraordinary General Meeting

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM is held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting (the "EGM").

Pursuant to the Articles, the Shareholders, holding at the date of deposit of the written requisition to the Board or the Company Secretary not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, may require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so.

The requisition must state the purposes of the EGM and must be signed by the requisitionists and deposited to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

Procedures for Putting Forward Proposals at General Meetings by Shareholders

If a Shareholder wishes to put forward proposals at the AGM/EGM which is to be held, such Shareholder should submit a written notice of the proposal with his/her detailed contact information to the Company Secretary at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

Procedures for the Shareholders to Put their Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or by email to ir@xyzq.com.hk.

Procedures for the Shareholders to Propose a Person for Election as a Director

Pursuant to the Articles, a written notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting of the Company for which such notice is given of his intention to propose such person for election and also a written notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that the period for lodgment of such notices shall commence on the day after the despatch of the notice of the general meeting of the Company appointed for such election and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for Shareholders to propose a person for election as a Director are posted on the Company's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To comply with the requirements set in the Appendix 27 Environmental, Social and Governance ("ESG") Reporting Guide of the Listing Rules (the "ESG Guide"), the Group hereby presents this Environmental, Social and Governance report ("this report") for the year ended 31 December 2018. Mainly focusing on creating customer value, advancing employee value, emphasizing shareholder and investor value, exploring social responsibility's value, and practicing ecological and environmental value under the theme of "developing sustainable value".

The Group is principally engaged in the provision of brokerage services, loans and financing services, corporate finance services, asset management services and finance products and investments. The Group strives to create positive values for shareholders, stakeholders and customers and committed to fulfill the objectives as follows:

Enhancing the sustainable value of stakeholders. The Group attaches great importance to the multi-channel interaction with the stakeholders. Adhering to the core values of "advancing employee value and creating customer value", the Group can meet the various demands of customers through the creation of specialised and diversified products. The Group respects for employee diversity, and develops competitive compensation system and benefit scheme and prospective career path and training for employees. The Group is committed to dedicating itself in achieving best interests for shareholders and investors and satisfying our vision of sustainable development. Meanwhile, in order to achieve the harmonious and sustainable development between the Group and the society, the Group is concerned with and actively involved in the construction of community livelihood, and considers it as one of the important ways to pay back the society.

Integrating sustainability into business practices. The Group is very concerned about the impact of its operations on the environment, and therefore green office and low carbon policies are actively promoted among the employees to reduce energy consumption, greenhouse gas emissions and air pollutants emissions. In order to achieve a more prominent environmental performance, the Group plans to promote the use of renewable energy and preserves environmental resources through various measures to achieve its sustainable development.

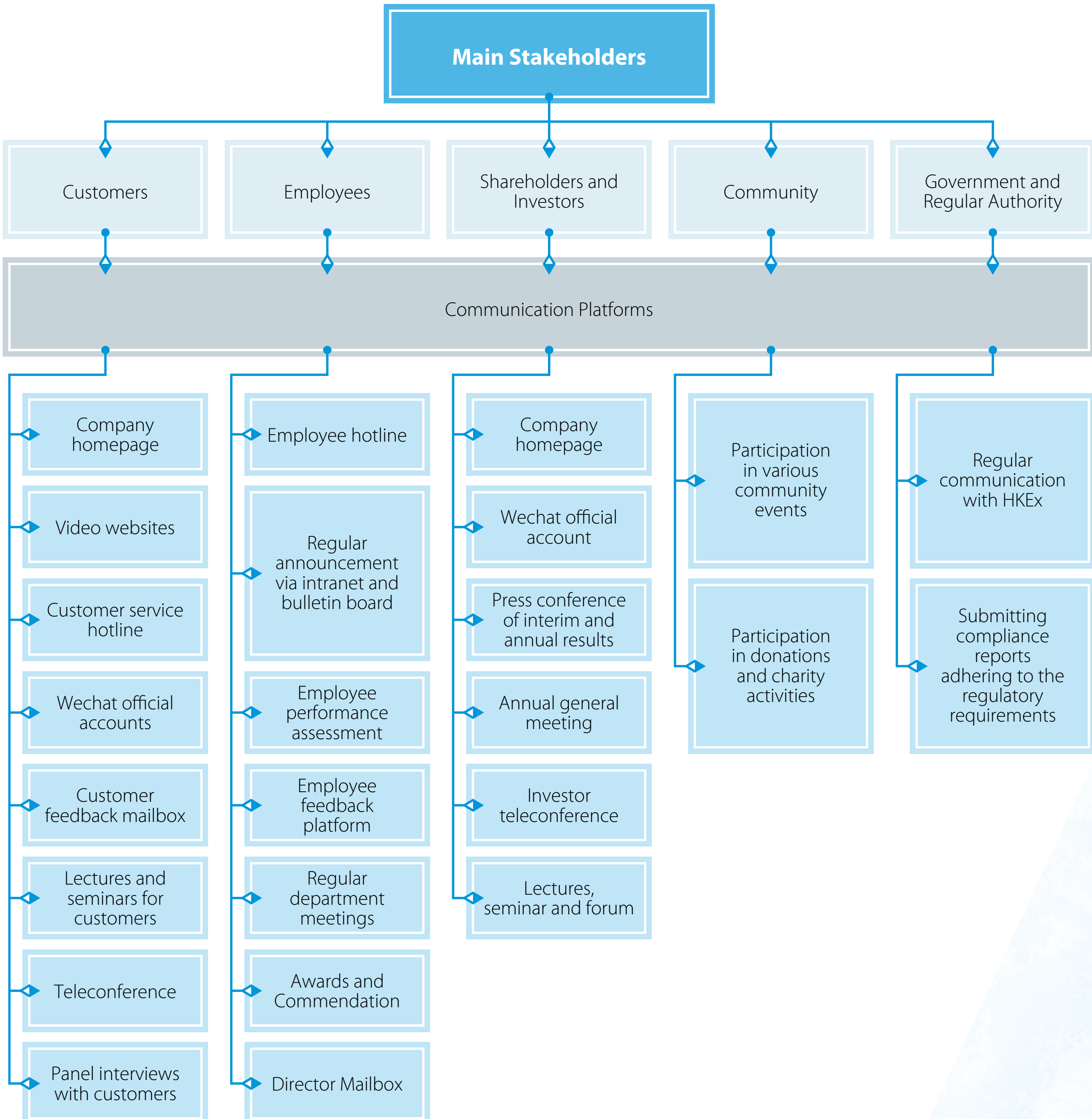
Committing to the development of sustainable finance. As a financial services provider, the Group is eager to provide green financial services for upstream and downstream companies, thus to protect and improve the ecological environment. The Group has been attempting to assess environmental and social factors in various businesses. The Group plans to increase investment and financing projects in environmental and social fields step by step, thereby gradually achieving the coordinated development of the Group, the environment and the society.

Fulfilling social and environmental responsibilities is the mission of the Group. The Group will keep creating greater value for stakeholders, and supporting charities and environmental protection. By participating in the improvement of people's livelihood, the Group can contribute to the sustainable development of society and the environment.

The following sections provide more information about the Group's practices in areas of enhancing the sustainable value of stakeholders, integrating sustainability into business practices and committing to the development of sustainable finance.

INTERACTION WITH STAKEHOLDERS

The Group attaches great importance to the views of stakeholders and applies diversified channels and platforms to interact effectively with different stakeholders. Further to management's discussion and analysis, this report takes the stakeholders' critical focus into consideration in response to their expectations of the Group.



CREATE CUSTOMER VALUE

Insisting on the strategic ideology of being "professional, standardised, and market-oriented" and "customer-centric" quality service awareness, the Group can provide value-added products and professional service to meet the diverse needs of customers by providing a wide range of products, including the securities business, global futures, corporate finance, asset management, insurance brokerage, fixed income and other investment and financing business. The Group is determined to build a sustainable relationship with customers.

Know your customers from multi dimensions

In order to provide the best service to customers and to minimise risks from both customers and the Group's own operations, the Group will take all reasonable steps to confirm the real and entire identification, financial situation, investment experience and investment objective of each client before establishing a business relationship. In the context of developing sustainable value, the Group is active to integrate environmental and social factors into the consideration in Know Your Customers and to extend environmental and social factors to all customer-related businesses such as due diligence, customer evaluation, etc. Hence, the Group could gradually achieve the coordinated development among the Group, the environment, and the society.

One-stop Services Meet Diverse Demands of Customers

With the rise of the integration of mainland and Hong Kong's financial markets and the internationalism of Chinese capital in recent years, the Group has built mutual trust with a huge base of Chinese customers and actively opened up global investment market opportunities and approached global customers. As the Group has committed to the diversification of customer sources, in particular, localization, the Group strives to provide comprehensive high-quality services for institutional clients and individual investors.

The Group provides a full range of brokerage services to customers who intend to obtain profits from market volatility. On behalf of clients, the Group can trade listed securities, futures, options, other securities, eligible A-shares of the Shanghai Stock Exchange, and securities and futures in overseas market (including the United States, Taiwan, Singapore, Australia, the United Kingdom and Germany) through the broker with the relevant trading licenses. The Group provides loans and financing services to customers who wish to either obtain maximum benefit through leverage or meet their business needs through external financing. The Group provides corporate finance services, including sponsorship for companies seeking initial public offering or listing on the HKEx, underwriting the initial public offering stocks and bonds, selling stocks and bonds in secondary market, and provision of financial advisory services to the client who seeks for external financing strategies. The Group provides asset management products for customers who wish to seek the best balance between risk and opportunities to obtain profits. The Group also provides clients with a private wealth management pension program developed by a third party. A broad portfolio of service offerings enables the Group to accumulate expertise in diverse service areas, and to customise products or services to meet customer needs.

Interact with Customers through Multiple Channels

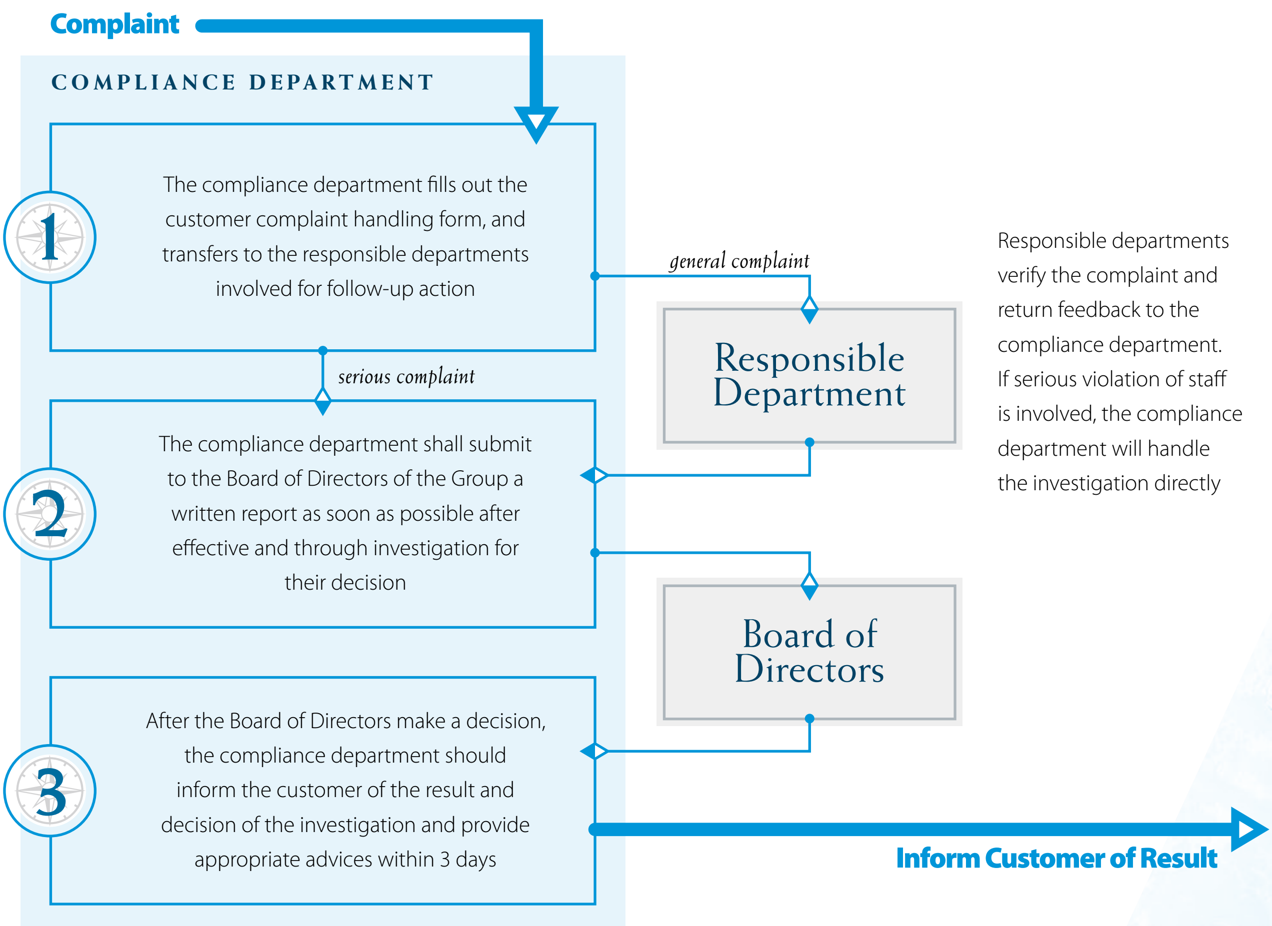
Not only does the Group's professional teams have solid business knowledge and rich industry experience to grasp the latest developments in capital market and financial industry, but the Group can also understand customer needs and opinions and expectations towards the Group in different aspects through the latest information technology. The Group can therefore provide customers with full-business chain and high-quality integrated financial services.

The Group provides customers with the latest market research reports, real-time market information, individual stock performance, and appointment booking service to open an account through the WeChat official account. Through the video website, the weekly capital market news is broadcast every week by CHOW Ka Yee, the co-director of the market development department of China Industrial Securities International Brokerage Limited, sharing the topics and insights on macro market and industry. Market information can be shared with customers timely by teleconference, and panel discussions. Customers can have access to information of market fluctuations and industry cycle, combined with the macro environment, during which the Group can discuss or promote important research results with related institutional clients.

Customer Complaints Handling and Improving Mechanism

To improve service standard and to better win the trust of customers, the Group has built a complete complaint management system in compliance with the requirements of the Securities and Futures Commission's regulatory for licensed companies and subsidiaries so as to conduct and strengthen the handling of customer complaints. Establishing a "customer-oriented" quality service awareness, the Group carefully handle any complaints, and follow the complaints handling procedures to ensure all complaints to be handled fairly, timely and promptly. The compliance department head is appointed as the complaints officer by the Group to facilitate the customer complaints handling. Through the induction and analysis of the situations involved in the customer complaints, the compliance department and the responsible department should bring suggestions forward for business compliance and improvement, as well as strengthening and improving the weaknesses reflected in the customer complaints. Upon completion of the handling of the complaints, the Group regularly follow-up with the clients who made the complain.

Customers Complaint Handling Procedure



Customer Privacy Protection and Customer Information management

In order to induce the Company and encourage all employees to strive to comply with the highest standards of business ethics when serving customers, and to help the Group enhance self-restraint for lawful operation and compliance of the Company, the Group has developed a code of ethics — "Compliance Manual". Protecting customer privacy is the foundation and professionalism of being responsible for clients. The Group has always been pursuing the following strict confidentiality principles: adopting appropriate measures to protect the Company's confidential information, disallowing to disclose confidential information to others in any way, and forbidding the inappropriate use of information technology. The Group does not disclose any confidential information except to disclose and provide confidential information in accordance with legal and regulatory requirements. To this end, the Group has taken a number of specific measures to warn all employees to pay attention to customer privacy issues when serving clients. Employees, for example, who are employed or were employed by the Group should be responsible for information confidentiality. Moreover, employees should be careful when discussing the confidential information outside the office especially with those who are not authorised to access to. In addition, the documents containing confidential information should be kept in good condition and discarded properly after use.

Additionally, on the basis of the relevant provisions of the "Personal Data (Privacy) Ordinance" and the "New Guidance on Direct Marketing" issued by the Office of Privacy Commissioner for Personal Data in Hong Kong, the Group has formulated the "Regulations on Direct Marketing Act" to ensure adequate monitoring of customer information used in direct marketing so as to manage the Group's customer information effectively. The Group requires that customer consent should be granted before the personal data is used for any direct promotion purpose. However, the customer can change the preference on the use of personal information for direct promotion purpose at any time, and the Group shall update customers' latest orders timely. During this reporting period, the Group did not receive any substantiated complaints on the loss of customer information.

ENHANCE EMPLOYEES VALUE

The Group regards employees as an important asset, adhering to the principle of being "start-up with hardship, diligent and dedicated, honest and self-disciplined, professional and self-governed". The Group values people and insists on advancing employees value. By improving human resources management mechanism and caring about the lives and career needs of employees, the Group strives to provide employees with an optimistic and positive, harmonious and diverse, and sustainable working atmosphere.

Respect for Employees Diversity

In order to standardise the Group's recruitment management to ensure a scientific, timely and effective selection process, thus attracting all kinds of excellent and suitable calibre to meet the needs for talents of the Group. The Group follows the principle of "professionalism orientation, scientific selection, standardised management and relative avoidance" in the recruitment management. The Group emphasises the specialisation, marketisation, equality and fairness. On the basis of the Code of Practice in Employment on the Ground of Sexual Orientation issued by the Society for Community Organization, the Disability Discrimination Ordinance issued by the Equal Opportunities Commission, the Family Status Discrimination Ordinance, the Race Discrimination Ordinance, and Code of Practice against Discrimination in Employment on the Ground of Sexual Orientation issued by the Hong Kong Government Constitution and Mainland Affairs Bureau and other relevant laws and regulations, the Group has drawn up an "employee handbook" that all employees must follow to ensure that employees, regardless of sex, age, nationality, physical defects, etc., are respected in the Group and have equal opportunities for employment and career development. The Group prohibits employment discrimination and forced labor, and resolutely put an end to the employment of child labor.

Summary of Employee Data	
Gender	
Male	119
Female	83
Age distribution of present employees	
Under 30	58
31 to 40	82
41 to 50	49
Above 50	13
Regions	
Hong Kong	148
Mainland	51
Canada	1
Taiwan	1
US	1
Turnover Rate by Gender	
Male	7.08%
Female	4.90%
Turnover Rate by Age	
Under 30	4.36%
31 to 40	4.90%
41 to 50	2.18%
Above 50	0.54%

The Group had a total of 202 employees (including directors) for the year ended 31 December 2018, of whom 119 were male and 83 were female, representing 59% and 41% of the total number of employees respectively. Employees between 31 to 40 years old are the main force of the Group, accounting for 41% of the total number of employees. The Group tends to provide more develop opportunities to the younger generation as there are 58 employees under 30 years old, and only 13 employees are above 50 years old. The Group has pushed on localization process, with 148 local employees, 51 employees in the Mainland, 1 employee in the Canada, 1 employee in Taiwan and 1 employee in US. During the reporting period, the Group did not receive any complaints about discrimination cases.

CAREER DEVELOPMENT AND TRAINING

The Group has committed to providing employees with an ideal career development and training platform, and to constantly improving the performance appraisal system for employees to create a fair development environment. Meanwhile, the Group provides a smooth career on path and upstream development for employees. To foster an open and interactive culture and encourage employees to communicate with supervisors about career aspiration and ideas, the Group had conducted a review of employee performance on a regular basis, giving the supervisor a better understanding of the strengths and merits of each employee and then co-exploring the career development opportunities. The appointment and promotion of an employee are determined by the performance, ability and appraisal result. Employees with outstanding performance could be promoted exceptionally.

The Group has always been concerned about the growth of employees, devoting sufficient resources in training and development to maintain competitiveness of our employees. The Group attaches great importance to and encourages its employee to receive training. Each licensed employee intended to take the continuous training course offered by the Hong Kong Securities and Futures Commission can receive a subsidy of HK$500 per supervised category. The annual maximum subsidy amount per person is HK$1,000. Additionally, with the intention to help employees to achieve better work performance within the Group and in their future career, the Group provides a variety of training resources and channels, and dedicated to build a sound training system, including new employee orientation, on-the-job training, continuing education and manager-enhance training.

SALARY, COMPENSATION, AND BENEFITS

The Group strictly abides by the laws and regulations on labor and human rights in the place of operation. Through the establishment of a sound labor contract system, comprehensive compensation and welfare system, occupational health management and other related measures, the Group can protect the legitimate rights and interests of employees. According to the salary assessment system, the Group takes employee's development, personal performance, and organizational performance into considerations when assessing employee compensation. In order to attract talented people, the Group provides employees with market-competitive remuneration package. At the same time, the Group also provides comprehensive welfare protection, including discretionary performance bonus, compulsory provident fund schemes, medical insurance, major diseases and accident insurance, and work injury compensation in accordance with the Employees' Compensation Ordinance.

BALANCING WORK AND LIFE

The Group is committed to providing employees with a safe, healthy, and humanised working environment. The Group has three offices with a total area of approximately 30,786 square feet in Infinitus Plaza on Des Voeux Road Central and Three Exchange Square on Connaught Place, Hong Kong. The office area has installed emergency power systems and continuous lighting systems. The exit aisles are equipped with lighting panels "Exit" in both Chinese and English to guide the way out of the workplace when an emergency (especially fire) occurs. Rest area, coffee break area, maternal room and informal meeting area are also provided, so that employees can take a short break during working to ensure more efficient work.

The Group believes that employees will have a better performance when achieving a work-life balance, thus encouraging employees to pursue personal interests and achieve physical and mental health. The Group attaches importance to the family- harmony attitude, and strives to create a working environment that concerns the needs of the family. Provided with paternity leave, maternity leave, marriage leave, and bereavement leave, employees can manage their work and life effectively. On the other hand, in order to help employee alleviate the work pressure and achieve self-improvement, the Group organises regular sports and recreational activities for employees and their family members, including employee dinner, quarterly birthday party, badminton, table tennis, golf and other ball games and different interest classes, etc.

EMPHASIS ON SHAREHOLDERS AND INVESTORS VALUE

To achieve the best interests of shareholders and investors and to meet the Group's vision of sustainable development, the Group spares no effort to build a wide range of products and professional services. The Group is determined to help shareholders and investors to understand the market deeply and to become an international integrated financial services company.

Through multi-channel communication, including the latest market research reports on Wechat official account, real-time market information, regular seminars, lectures and forums, the Group can increase the awareness of shareholder and investors in regard of investment. Meanwhile, the Group can strengthen the communication between the management and the shareholders through the annual general meeting and press conferences on the interim and annual performance to demonstrate our efficiency and performance to our shareholders and investors.

The Group achieved outstanding performance in operating results, public image, overseas expansion and overseas brands establishment.

- "2018 Jun Ding Award for Excellent Hong Kong Wealth Management Institution" conferred by Securities Times
- "2018 Fastest Growing Mainland Future Broker Award " conferred by HKEX
- "Company with the Highest Growth" in "2018 Golden Lion Award for the Listed Companies in the Hong Kong Stock Market" organized by finance.sina.com.cn（新浪財經）
- "Jin Wu Award"-"Listed Company with the Highest Investment Value" in the 2018 List of Value for the Financial Institutes in the Hong Kong Stock Market organized by IFENG.COM（鳳凰網）
- "Most Valuable Listed Financial Company" in "2018 Golden Hong Kong Stocks Award" organized by Zhitong Finance

EXPLORING SOCIAL RESPONSIBILITY VALUE

The Group has been committed to becoming the main force to promote social development and to actively serve the community. The Group regards building a better society and return to society as an important way to realise the enterprise's value, and thus attaches great importance to and takes the initiative to participate in community events and takes social responsibility. The Group will continue to carry out public welfare activities, and strives to achieve the harmonious and sustainable development between the Group and society.

To Build a Strict and Effective Chinese Wall for Anti-corruption and Anti-money Laundering

The financial service industry plays a very important role in supporting social anti-corruption and the Group has also insisted on promoting the construction of honest and uncorrupted environment. The Group requires all employees to maintain proper integrity and moral standards in dealing with matters. All employees of the Group are regulated by the Prevention of Bribery Ordinance, and employees outside Hong Kong must comply with local legislation to prevent bribery. Money laundering not only affects the security and stability of market order and the fairness and justice of the society, but also directly threatens national interests. Therefore, to fulfill the responsibility to combat money laundering and terrorist fund raising and to raise awareness of employees of such activities, the Group implements "Requirements on Anti-Money Laundering/Terrorist Fund Raising". The Group has established a comprehensive "Chinese Wall" policy and procedure to ensure the prevention of leakage of confidential information or transactions, as well as the prevention of conflict of interest and inside transactions. During the reporting period, the Group did not receive any complaints on corruption and money laundering.

Actively Serve the Community and Support public welfare undertakings

In addition to providing high-quality products and services to customers, the Group also engages local community activities and actively participates in various social developments and public welfare projects which focus on groups in need. In July 2018, the Group was awarded the "Sunny Corporation Ambassador — the Child Sponsorship Programme Certificate of Appreciation of House Sponsorship (「陽光企業大使」— 兒童助養「家舍贊助」計劃感謝狀)" by the Po Leung Kuk in Hong Kong. In January 2019, the Group received commendation from Caring Company (商界展關懷). On 18 March 2018, our staffs actively participated in the "2018 Greenerthon" organized by Industrial Bank Hong Kong Branch. On 20 July 2018, volunteers of the Company visited the elderly singletons and elderly doubletons living in Hon Pak House, Wan Hon Estate, Kwun Tong, Kowloon, HK under the organization of Po Leung Kuk. On 11 November 2018, volunteers of the Company visited foster children. On 18 December 2018, volunteers of the Company strolled with the elderly in the Hong Kong Brands and Products Expo under the organization of Po Leung Kuk. The Group will continue to encourage employees to participate in volunteer work to serve the community and actively establish strategic relationships with non-governmental organizations for further connection with the community.

ECOLOGICAL AND ENVIRONMENTAL VALUE

The Group is highly concerned about the impact of its own operations on the environment. Energy saving policy and improvement of resource utilization efficiency, green office policy, plus green financial services are all encouraged. The Group is committed to fulfilling its mission of environmental protection and realizing the harmonious and sustainable co-development between the Group and the environment. On 24 March 2018, the Group actively participated in the "Earth Hour" event organized by the World Wide Fund for Nature. It also undertook to cherish natural resources and contribute to the earth's future, adopt sustainable consumption, reduce wastage, maximize the use of renewable resources and promote green concept.

Environmental Performance and Low Carbon Policy

Scope of GHG Emission	Emissions (in tonnes of CO_2e)
Scope 1	14.71
Scope 2	336.37
Scope 3	80.82
Total	431.90

The Group has adopted a series of measures to reduce GHG emissions. For example, encourage employees to select direct flights for unavoidable business trips and take an advantage of video conferencing seminars to replace non-essential overseas business trips. The Group plans to purchase carbon emissions quota and participate in carbon offset program to promote renewable energy and protect environmental resources. During the reporting period, total Green House Gas ("GHG") emissions included emissions of carbon dioxide, methane and nitrous oxide, where methane and nitrous oxide emissions were converted to carbon dioxide emissions based on global warming potential (GWP). Therefore, the total amount of GHG emissions is the total amount of carbon dioxide emissions equivalent, including Scope 1,2 and 3. Scope 1 calculated GHG emissions of the Group's vehicle, generating a total of 14.71 tCO2e; Scope 2 calculated GHG emissions of electricity use, generating 336.37 tCO2e; Scope 3 calculated the GHG emissions of waste paper recycled to landfill generating 80.82 tCO2e. The total amount of GHG emissions produced by the Group as a whole was 431.90 tCO2e.

Direct Energy Use

Total consumption of unleaded petrol	5,433 L
Consumption intensity of unleaded petrol	5.41 km/L

Indirect Energy Use

Total amount of electricity used	425,783 kWh
Intensity of electricity used	148.87 kWh/m^2

The Group actively promotes green operations and takes a number of measures to conserve electricity: turning off unnecessary lighting during lunch, overtime and non-office hours; posting tips/slogans next to lighting switches and office equipment (e.g. copiers, printers, etc.) to remind employees to turn off lighting fixtures and printers after use. The Group has three offices with a total area of 30,786 square feet (approximately 2,860.11 square meters) in Infinite Plaza and Exchange Square, and electricity from which is purchased from the Hong Kong Electric Co., Ltd. Hence, there is no potential risk for power supply shortage. Payment for water usage has been included in the management fee to the landlord, thus related consumption data cannot be obtained. Meanwhile, the Group did not have problems on shortage of water supply. During the reporting period, the total electricity consumption was 425,783 kWh, and the energy consumption intensity was 148.87 kWh/m^2 based on the office area, generating 336.37 tCO2e GHG emissions.

The Group promotes green and low-carbon travel, and encourages employees to take public transport and make efficient use of transport. The company vehicle is a passenger car that is fueled by unleaded petrol in line with Euro 5 emission standards. The Group has been regularly maintained the vehicle for the purpose of avoiding unnecessary fuel consumption and thus air pollutants due to low fuel efficiency accordingly. Tires are inspected and inflated to ensure proper tire pressure. Engine is required to be idle when the vehicle is not in motion. During the reporting period, the driving distance of the vehicle was 29,400 km, and consumed 5,433 L unleaded petrol with intensity of 5.41 km/L based on driving distance, and generated GHG emission of 14.71 tCO2e.

Non-Hazardous Waste

Total Paper Consumption	16,838 kg

The Group actively promotes paperless office policies to reduce the consumption of paper. For example, the Group has established electronic billing services for customers; internal approval procedures are processed by the electronic systems; employees are encouraged to communicate electronically (e.g. via e-mail), to use electronic devices to reduce photocopying. For example, using electronic scanning and electronic faxing etc. to reduce the amount of printing and reduce printing documents and reports by electronic devices such as projector. Secondly, double-sided printing and ink-saving mode are set as default for computers and printers. During the reporting period, a total of 16,838 kg of paper has been used for daily office operations, contributing to 80.82 tCO2e.

PROMOTE GREEN FINANCE SERVICE

As a financial service institution, the Group not only focuses on the impact of its operations on the environment but also attempts to provide green finance service to upstream and downstream companies for protecting and improving the ecological environment. The Group has been actively exploring the green finance sector. In addition to integrating environmental and social factors into the due diligence consideration in Know Your Customers, the Group will gradually increase the environmental and social assessment when evaluating investment and financing projects.

In recent years, Mainland China and Hong Kong have placed increasing emphasis on green finance development. The strategic framework for contributing to the development of green finance in Hong Kong, announced by the Securities and Futures Commission of Hong Kong in 2018, pointed out that Hong Kong has a unique advantage to promote green transformation in the mainland. In the process of development, it complements the advantages of the mainland and connects the green financial capital flow between the mainland and the rest of the world. In 2018, the Group achieved breakthroughs in our green finance business. We provided assistance to Industrial Bank in the issue and underwriting of overseas green financial bonds as joint bookrunners and joint lead managers, and acted as sole placing agent for the successful share placing, amounting to approximately HK$200 million, of the shares of Yunnan Energy International Co. Limited, a subsidiary of Yunnan Provincial Energy Investment Group, which engaged in the development of green energy, such as clean electricity and natural gas.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the shareholders of China Industrial Securities International Financial Group Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Industrial Securities International Financial Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 61 to 179, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment under expected credit loss ("ECL") of HKFRS 9 for secured margin loans	
We identified the impairment assessment under ECL of HKFRS 9 for secured margin loans as a key audit matter due to its significance to the consolidated financial statements and the significant management estimates and judgement required in the measurement. As set out in note 4 to the consolidated financial statements, the ECL measurement involves significant management judgement in the following key areas: • Determination of the criteria for significant increase in credit risk ("SICR"); • Selection of models and assumptions used in the ECL models, including Probability of default ("PD") and Loss given default ("LGD"); • Establishing the relative probability weightings of forward-looking scenarios. In addition, the ECL measurement for credit-impaired financial assets involves management estimates and judgement in the consideration of various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Group and subsequent settlement and additional collaterals received. The total gross amount of secured margin loans is HK$6,226.0 million with impairment provision of HK$323.9 million as at 31 December 2018 as disclosed in notes 23 to the consolidated financial statements.	Our procedures performed for the impairment assessment under ECL of HKFRS 9 for secured margin loans include: • understanding the established policies and procedures on impairment assessment of the Group in relation to the application of ECL model under HKFRS 9, including model set up and approval, and selection and application of assumptions and inputs into the model; • assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if a SICR has occurred or the financial asset is credit-impaired and the basis for classification of exposures into the 3 stages as required by HKFRS 9; • examining supporting documents for a selection of secured margin loans for the classification of loan exposures with a SICR (stages 1 or 2) or which have been credit-impaired (stage 3) as at the end of the reporting period; • evaluating, together with our internal valuation specialists, the reasonableness and appropriateness of the key models and the critical assumptions, inputs and parameters used in the model; • on a sample basis, examining significant data inputs into the ECL model, including PD and LGD after taking into consideration forward looking information; and • for a sample of secured margin loans classified as stage 3, assessing the reasonableness of the estimated future cash flows and the fair value of collateral received from clients or their guarantors, and examining underlying documentation supporting the fair value of the collateral received from clients or their guarantors and any settlement of secured margin loans subsequent to the end of the reporting period.

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the significance of the judgement and estimates made by the management and the subjectivity in determination of Level 3 fair value given the lack of availability of market-based data and the significant unobservable inputs. The total fair value of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss classified as Level 3 amounting to HK$399,350,992 and HK$680,767 respectively as at 31 December 2018 and the key source of estimation uncertainty are disclosed in notes 40 and 4 to the consolidated financial statements respectively.	Our audit procedures for the valuation of Level 3 financial instruments include: • evaluating the appropriateness of the valuation methodologies and assumptions based on the industry knowledge; • evaluating the appropriateness and consistency of the valuation techniques used by the management; • evaluating the rationale of management's judgement on the significant unobservable inputs; • performing sensitivity analysis to evaluate the reasonableness of the valuation, where appropriate; or • performing, together with our internal valuation specialist, on a sample basis, independent valuation of Level 3 financial instruments and comparing these valuations with the Group's valuations, where necessary.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is MAN KAI SZE.

Deloitte Touche Tohmatsu

Certified Public Accountants
Hong Kong
21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Commission and fee income from customers	*5*	**443,052,558**	318,439,402
Interest revenue	*5*	**433,136,939**	310,521,831
Net investment income and gains or losses	*5*	**134,856,105**	298,762,993
Total revenue	*5*	**1,011,045,602**	927,724,226
Other income	*5*	**53,584,083**	23,630,339
Share of result of a joint venture	*16*	**(498,698)**	–
Finance costs	*7*	**(386,951,178)**	(166,817,874)
Commission and fee expenses	*8*	**(111,605,723)**	(101,172,102)
Staff costs	*9*	**(187,040,901)**	(163,560,791)
Other operating expenses		**(182,361,532)**	(130,199,762)
Impairment losses on financial assets	*9*	**(6,105,250)**	(290,394,561)
Other gains or losses	*9*	**10,483,808**	78,875,531
Profit before taxation	*9*	**200,550,211**	178,085,006
Taxation	*10*	**(56,749,540)**	(25,253,165)
Profit for the year		**143,800,671**	152,831,841
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		**–**	16,043,397
Disposal of available-for-sale financial assets		**–**	14,065,775
Other comprehensive income for the year		**–**	30,109,172
Total comprehensive income for the year attributable to owners of the Company		**143,800,671**	182,941,013
Earnings per share			
Basic (expressed in HKD)	*13*	**0.0360**	0.0382

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$	2017 HK$
Non-current assets			
Property and equipment	14	**26,668,610**	20,583,936
Intangible assets	15	**2,822,898**	1,616,541
Interest in a joint venture	16	**39,534,262**	–
Available-for-sale financial assets	18	**–**	11,423,329
Financial assets at fair value through profit or loss	17	**46,987,812**	–
Loans receivable	19	**–**	3,000,000
Statutory deposits	21	**11,132,259**	13,361,721
Deferred tax assets	29	**3,896,066**	–
Deposits, other receivables and prepayments	22	**13,546,949**	11,666,181
		144,588,856	61,651,708
Current assets			
Accounts receivable	23	**6,907,207,392**	5,007,801,784
Loans receivable	19	**71,444,048**	109,900,000
Reverse repurchase agreements	20	**334,317,392**	–
Available-for-sale financial assets	18	**–**	1,872,333,774
Financial assets at fair value through profit or loss	17	**8,734,109,327**	5,106,108,484
Statutory deposits	21	**11,859,727**	15,977,608
Deposits, other receivables and prepayments	22	**394,214,270**	302,695,425
Tax receivable		**43,178**	5,943,628
Bank balances – trust accounts	24	**5,228,829,297**	3,389,991,675
Bank balances – general accounts and cash	24	**1,517,226,830**	1,181,370,930
		23,199,251,461	16,992,123,308
Current liabilities			
Accounts payable	27	**5,991,194,627**	4,203,671,739
Accruals and other payables	28	**181,422,911**	175,425,279
Amount due to a related party	25	**3,174,615**	2,957,147
Contract liabilities		**126,000**	–
Other liabilities	47	**399,729,979**	278,866,324
Tax payable		**86,791,183**	40,347,249
Financial liabilities at fair value through profit or loss	26	**288,701,100**	161,958,014
Repurchase agreements	30	**1,542,080,825**	1,094,855,904
Bank borrowings	31	**5,586,797,616**	5,404,592,664
Other borrowings	32	**1,485,297,574**	1,203,876,281
Notes	33	**62,850,751**	62,549,900
		15,628,167,181	12,629,100,501
Net current assets		**7,571,084,280**	4,363,022,807

At 31 December 2018

	Notes	2018 HK$	2017 HK$
Non-current liabilities			
Accruals and other payables	28	**785,704**	3,234,406
Financial liabilities at fair value through profit or loss	26	**–**	23,282,776
Bank borrowings	31	**3,322,863,676**	–
Deferred tax liabilities	29	**950,184**	891,519
		3,324,599,564	27,408,701
Net assets		**4,391,073,572**	4,397,265,814
Capital and reserves			
Share capital	34	**400,000,000**	400,000,000
Share premium		**3,379,895,424**	3,379,895,424
Retained earnings		**157,158,483**	171,346,158
Investments revaluation reserve	35	**–**	(7,995,433)
Other reserve		**11,577,844**	11,577,844
Capital reserve	35	**442,441,821**	442,441,821
Equity attributable to owners of the Company		**4,391,073,572**	4,397,265,814

The consolidated financial statements on page 61 to 179 were approved and authorised for issue by the Board of Directors on 21 March 2019 and are signed on its behalf by:

Huang Jinguang
DIRECTOR

Zeng Yanxia
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to owners of the Company						
	Share capital HK$	Share premium HK$	Capital reserve HK$ (Note 35)	Investments revaluation reserve HK$ (Note 35)	Other reserve HK$	Retained earnings HK$	Total equity HK$
At 1 January 2017	400,000,000	3,379,895,424	442,441,821	(38,104,605)	11,577,844	98,514,317	4,294,324,801
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	(80,000,000)	(80,000,000)
Profit for the year	–	–	–	–	–	152,831,841	152,831,841
Other comprehensive income for the year	–	–	–	30,109,172	–	–	30,109,172
Total comprehensive income for the year	–	–	–	30,109,172	–	152,831,841	182,941,013
At 31 December 2017	400,000,000	3,379,895,424	442,441,821	(7,995,433)	11,577,844	171,346,158	4,397,265,814
HKFRS 9 adjustment on retained earnings *(note 2)*	–	–	–	7,995,433	–	(37,988,346)	(29,992,913)
At 1 January 2018 (after adjustment)	400,000,000	3,379,895,424	442,441,821	–	11,577,844	133,357,812	4,367,272,901
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	(120,000,000)	(120,000,000)
Profit and total comprehensive income for the year	–	–	–	–	–	143,800,671	143,800,671
At 31 December 2018	400,000,000	3,379,895,424	442,441,821	–	11,577,844	157,158,483	4,391,073,572

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
OPERATING ACTIVITIES			
Profit before taxation		**200,550,211**	178,085,006
Adjustments for:			
Finance costs		**386,951,178**	166,817,874
Depreciation of property and equipment		**9,799,999**	8,354,881
Losses on written off/disposal of property and equipment, net		**30,795**	22,300
Amortisation of intangible assets		**551,226**	1,052,293
Net realised loss from available-for-sale financial assets		**–**	14,065,775
Impairment losses on financial assets		**6,105,250**	290,394,561
Fair value changes of interest held by third-party unitholders/ shareholders of consolidated investment funds		**(15,936,005)**	(102,018)
Share of result of a joint venture		**498,698**	–
Operating cash flows before movements in working capital		**588,551,352**	658,690,672
Decrease (increase) in statutory deposits		**6,347,343**	(16,849,516)
Increase in deposits, other receivables and prepayments		**(93,434,945)**	(233,499,176)
Increase in financial assets at fair value through profit or loss		**(1,816,931,223)**	(3,245,173,730)
Increase in accounts receivable		**(1,950,209,820)**	(1,207,604,885)
Decrease (increase) in loans receivable		**41,285,952**	(37,500,000)
Increase in reverse repurchase agreements		**(335,307,392)**	–
Increase in bank balances — trust accounts		**(1,839,087,622)**	(218,885,288)
Increase (decrease) in accounts payable		**1,787,522,888**	(486,188,400)
Increase in accruals and other payables		**18,559,278**	68,778,736
Increase in financial liabilities at fair value through profit or loss		**101,978,262**	185,240,790
Increase in repurchase agreements		**440,546,639**	1,094,855,904
Increase in contract liabilities		**126,000**	–
Increase (decrease) in amount due to a related party		**217,468**	(971,367)
Cash used in operations		**(3,049,835,820)**	(3,439,106,260)
Tax paid		**(8,242,557)**	(23,974,185)
NET CASH USED IN OPERATING ACTIVITIES		**(3,058,078,377)**	(3,463,080,445)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(16,728,101)**	(22,019,032)
Proceeds from disposal of property and equipment		**812,633**	–
Purchase of intangible assets		**(1,757,583)**	(56,794)
Acquisition of a consolidated structured entity	*45*	**–**	50,481,196
Proceeds from disposal of available-for-sale financial assets		**–**	7,821,693,773
Purchase of available-for-sale financial assets		**–**	(6,508,056,708)
Acquisition of interest in a joint venture	*16*	**(40,032,960)**	–
Disposal of a consolidated structured entity	*44*	**12,903,367**	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		**(44,802,644)**	1,342,042,435

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
FINANCING ACTIVITIES			
Interest paid	*42*	**(370,264,865)**	(156,531,894)
Bank borrowings raised	*42*	**40,582,001,825**	41,754,216,261
Repayments of bank borrowings	*42*	**(37,083,730,813)**	(40,492,142,426)
Other borrowings raised	*42*	**790,022,977**	1,203,876,281
Repayments of other borrowings	*42*	**(524,992,892)**	(177,577,860)
Proceeds from issue of notes	*42*	**62,650,400**	93,813,600
Redemption of notes	*42*	**(62,549,900)**	(31,263,700)
Dividends paid		**(120,000,000)**	(80,000,000)
Contributions from third-party unitholders/shareholders of consolidated investment funds	*42*	**177,054,702**	223,780,377
Withdrawals from third-party unitholders/shareholders of consolidated investment funds	*42*	**(11,454,513)**	(8,651,451)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**3,438,736,921**	2,329,519,188
NET INCREASE IN CASH AND CASH EQUIVALENTS		**335,855,900**	208,481,178
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,181,370,930**	972,889,752
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**1,517,226,830**	1,181,370,930
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances — general accounts and cash	*24*	**1,517,226,830**	1,181,370,930
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE			
Interest received		**825,769,200**	560,346,113
Dividend received		**17,019,408**	3,164,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. Its immediate holding company is China Industrial Securities International Holdings Limited ("CISI Holdings") and CISI Holdings is 100% owned by Industrial Securities (Hong Kong) Financial Holdings Limited ("Industrial Securities (Hong Kong)"), the intermediate holding company of the Company. Industrial Securities Company Limited ("Industrial Securities"), a company incorporated in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC.

The shares of the Company have been listed in GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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

2.1.1 HKFRS 15 Revenue from Contracts with Customers

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

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

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

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

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

Information about the Group's accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in notes 3 and 5 respectively.

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

2.1.2 HKFRS 9 Financial Instruments

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

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.2 HKFRS 9 Financial Instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9

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

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

Notes:

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

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

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

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1.2 HKFRS 9 Financial Instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes: (Continued)

(d) Impairment under ECL model

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

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

Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

(e) For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

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

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

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

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

2.2.1 HKFRS 16 Leases

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

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

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

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

2.2 New and amendments to HKFRSs in issue but not yet effective *(Continued)*

2.2.1 HKFRS 16 Leases *(Continued)*

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$47,067,005 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for measurements that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 *Impairment of assets* .

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When the Group, which is acting as a fund manager, manages and has an investment in a fund, it may determine that its decision-making powers over the relevant activities of the fund are exercised in the capacity of an agent of the investors as a group and, therefore, that it does not control the fund.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether it is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Different weightings shall be applied by the Group to each of the factors on the basis of particular facts and circumstances unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group serves as the investment manager of investment funds. These investment funds invest mainly in equities, debt securities and cash and cash equivalents. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such investment funds, with control determined based on an analysis of the guidance in HKFRS 10 *Consolidated financial statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units/shares in such investment funds for cash. These are presented as "Third-party interests in consolidated investment funds" within other liabilities in the consolidated statement of financial position, if any.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment funds managed by the Group are considered as "structured entities".

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of the joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in a joint venture *(Continued)*

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Details of the Group's performance obligations for revenue for contracts with customers resulting from application of HKFRS 15 are set out in note 5.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(Continued)*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of the ordinary activities.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(i) Commission income arising from broking business of securities, and futures and option contracts dealings is recorded as income on a trade-date basis;

(ii) Commission income arising from insurance brokerage business is recognised as income in accordance with the terms of underlying agreements when the relevant significant acts have been completed, generally at the effective date of the applicable insurance policies;

(iii) Corporate advisory fee and sponsor fee, asset management fee, investment advisory fee, custodian and handling fee income and arrangement fee income are recognised when services are rendered;

(iv) Commission income arising from placing, underwriting and sub-underwriting is recognised as income in accordance with the terms of the agreements when the relevant significant acts have been completed;

(v) Realised profits or losses from AFS financial assets, financial assets/financial liabilities at FVTPL and derivatives are recognised on the transaction dates when the relevant contract notes are executed whilst the unrealised profits or losses of financial assets/financial liabilities at FVTPL and derivatives are recognised from valuation at the end of the reporting period in accordance with the accounting policies for financial instruments (see the accounting policies below);

(vi) Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably from a financial asset. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition; and

(vii) Dividend income from investments is recognised when the Group's right to receive payment has been established.

Property and equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment *(Continued)*

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash- generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which the arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that including a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net investment income and gains or losses" line item.

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts receivable, loans receivable, reverse repurchase agreements, deposits and other receivables, bank balances and loan commitment). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable that result from transactions within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk *(Continued)*

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due (except for secured margin loans where a shorter period of 30 days past due has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable, loans receivable, deposits and other receivables and bank balances are each assessed as a separate group);
- Past-due status; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL *(Continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

(a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and

(b) the cash flows that the Group expects to receive if the loan is drawn down.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and loans receivable where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified as financial assets at FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(i) Financial assets at FVTPL *(Continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the net unrealised gain(loss) on financial assets at fair value through profit or loss line item. Fair value is determined in the manner described in note 40.

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equities and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable, loans receivable, other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest could be immaterial.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and loans receivable, where the carrying amounts are reduced through the use of allowance accounts. Changes in the carrying amounts of the allowance accounts are recognised in profit or loss. When an account receivable or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the year.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

Financial liabilities not classified as at FVTPL (including amount due to a related party, accounts payable, bank borrowings, other borrowings, notes, repurchase agreements, contract liabilities, other liabilities and other payables) are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at FVTPL (Continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liability.

Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds

A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment fund after deducting the consolidated investment fund's other liabilities.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds (Continued)

As at year end, such financial liability of net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds is presented as an "other liabilities" in the consolidated statement of financial position.

In the case of acquisition or disposals of such non-controlling interests in consolidated investment funds, any difference between the acquisition cost or sale price of these non-controlling interests and the carrying value of these non-controlling interests is recognised as an increase or decrease in a liability which would be reflected in the consolidated statement of profit or loss.

Derecognition/substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as "financial assets at FVTPL" and "AFS financial assets". Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented as "Repurchase agreements" in the consolidated statement of financial position. Repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Reverse repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the consolidated statement of financial position. The cost of purchasing such assets is presented under "Reverse repurchase agreements" in the consolidated statement of financial position. Reverse repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability is offset and the net amount presented in the consolidated statement of financial position when, and only when the Group currently has legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Taxation

Income tax expense represents the sum of the income tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient tangible profits will be available to allow all or part of the asset to be recovered.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") as defined contribution benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Measurement of ECL

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

— Determining criteria for significant increase in credit risk;

— Selecting appropriate models and assumptions for the measurement of ECL;

— Establishing the relative probability weightings of forward-looking scenarios.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

Measurement of ECL *(Continued)*

Significant increase in credit risk

ECL of different financial assets is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined in note 40. A financial asset moves to Stage 2 when its credit risk has increased significantly since initial recognition, and it comes to Stage 3 when it is credit-impaired (but it is not purchased original credit impaired). In assessing whether the credit risk of a financial asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information with significant judgements involved.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the appropriate model for each type of financial assets, as well as the assumptions used in these models. Please refer to note 40 for more details on ECL.

Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Fair value measurement of financial instruments

Financial assets at FVTPL and financial liabilities at FVTPL amounting to HK$399,350,992 and HK$680,767 respectively as at 31 December 2018 (2017: Nil) are measured at fair values with fair values being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 40 for further disclosures.

Measurement of ECL

Impairment assessment under ECL for accounts receivable (except for secured margin loans)

The Group uses a provision matrix to calculate ECL for the accounts receivable (except for secured margin loans) that result from transactions within the scope of HKFRS 15. The provision rates are based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable and available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information is considered. In addition, accounts receivable with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 40.

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Measurement of ECL *(Continued)*

Impairment assessment under ECL for financial assets at amortised cost other than accounts receivable (including secured margin loans, loans receivable, reverse repurchase agreements, deposits, other receivables and bank balances)

The impairment assessment under ECL for financial assets at amortised cost (including secured margin loans, loans receivable, reverse repurchase agreements, deposits, other receivables and bank balances) is an area that requires the use of models and assumptions about future economic conditions and the credit risk of the respective financial instrument.

(i) Inputs, assumptions and estimation techniques

ECL is the discounted product of expected future cash flows by using the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), of which PD and LGD are estimates based on significant management judgement. For credit-impaired financial assets, the management perform individual assessment for each client by considering various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Group and subsequent settlement and additional collaterals received.

(ii) Forward-looking information

In measuring ECL in accordance with HKFRS 9, it should consider forward-looking information. The calculation of ECL incorporates forward-looking information through the use of publicly available economic data and forecasts based on assumptions and management judgement to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

Details of the impairment assessment of financial assets at amortised cost is disclosed in note 40.

Income taxes

Due to the unpredictability of future profit streams, no deferred tax asset has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK$122,143,000 as at 31 December 2018 (2017: HK$88,364,000). In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. Details of the tax losses are disclosed in note 29.

For the year ended 31 December 2018

5. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

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

For the year ended 31 December 2018

5. REVENUE AND OTHER INCOME *(Continued)*

Revenue *(Continued)*

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

Timing of revenue recognition for commission and fee income from customers

	2018 HK$
A point in time	**411,702,093**
Over time	**31,350,465**
Total	**443,052,558**

Performance obligations for commission and fee income from customers

(1) Brokerage

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

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

For the year ended 31 December 2018

5. REVENUE AND OTHER INCOME *(Continued)*

Performance obligations for commission and fee income from customers *(Continued)*

(1) Brokerage *(Continued)*

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

(2) Corporate finance

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

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

(3) Asset management

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

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

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

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

	Corporate finance service HK$
Within one year	10,550,000

For the year ended 31 December 2018

5. REVENUE AND OTHER INCOME *(Continued)*

Performance obligations for commission and fee income from customers *(Continued)*

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

Based on the contracts for corporate advisory services, the Group bills a fixed amount monthly for services provided. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Other Income

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

6. SEGMENT REPORTING

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

The Group's reportable and operating segments under HKFRS 8 are as follows:

Brokerage — provision of securities, futures and options and insurance brokerage services;

Loans and financing — provision of margin financing and secured or unsecured loans to customers;

Corporate finance (previously named investment banking) — provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

Asset management — provision of fund management, discretionary account management and investment advisory services;

Financial products and investments – proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

The accounting policies of the operating segments are the same as the Group's accounting policies. Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

For the year ended 31 December 2018

6. SEGMENT REPORTING *(Continued)*

For the year ended 31 December 2018

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

For the year ended 31 December 2018

6. SEGMENT REPORTING *(Continued)*

For the year ended 31 December 2017

	Brokerage HK$	Loans and financing HK$	Corporate finance HK$	Asset management HK$	Financial products and investments HK$	Eliminations HK$	Consolidated HK$
Segment revenue and result							
Revenue from external customers	182,234,697	310,521,831	123,288,298	12,916,407	–	–	628,961,233
Net gains on financial products and investments	–	–	–	–	298,762,993	–	298,762,993
Inter-segment revenue	2,584,158	–	–	6,490,004	–	(9,074,162)	–
Segment revenue and net gains on financial products and investments	184,818,855	310,521,831	123,288,298	19,406,411	298,762,993	(9,074,162)	927,724,226
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							927,724,226
Segment results	79,528,261	(100,233,859)	55,445,133	6,789,197	161,109,344	–	202,638,076
Unallocated expenses							(24,553,070)
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							178,085,006
Other segmental information included in the measure of segment results							
Impairment losses on financial assets	–	290,394,561	–	–	–	–	290,394,561
Depreciation	788,953	–	1,539	11,440	–	–	801,932
Unallocated:							7,552,949
							8,354,881
Amortisation	356,963	–	500	–	–	–	357,463
Unallocated:							694,830
							1,052,293
Interest income	18,084,045	310,522,762	180,569	1,505	264,564,819	–	593,353,700
Unallocated:							3,623,637
							596,977,337
Interest expenses	792,926	59,963,363	–	–	158,841,027	(52,779,442)	166,817,874
Dividend income	–	–	–	–	7,994,084	–	7,994,084

For the year ended 31 December 2018

6. SEGMENT REPORTING *(Continued)*

Geographical information

For the years ended 31 December 2018 and 2017, the Group's revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group's non-current assets excluding financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented for both years.

Information about major customers

No single customer contributes 10% or more to the Group's revenue from external customers for both years.

7. FINANCE COSTS

	2018 **HK$**	2017 HK$
Interest on bank borrowings	**285,292,485**	123,374,688
Interest on other borrowings	**48,821,087**	23,345,467
Interest on repurchase agreements	**39,331,735**	3,209,774
Interest on secured margin loans from brokers	**2,517,605**	13,524,026
Interest on notes	**4,457,547**	1,624,678
Interest on clients' account	**4,517,724**	693,048
Interest on financial liabilities at fair value through profit or loss	**1,482,048**	552,847
Others	**530,947**	493,346
	386,951,178	166,817,874

8. COMMISSION AND FEE EXPENSES

	2018 **HK$**	2017 HK$
Sales commission paid to account executives	**51,977,493**	51,155,241
Commission and fee paid to brokers	**44,393,284**	39,023,570
Others *(note)*	**15,234,946**	10,993,291
	111,605,723	101,172,102

Note: Amount includes the custodian fees, scrip fee, clearing fee and other handling fee.

For the year ended 31 December 2018

9. PROFIT BEFORE TAXATION

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

Notes:

(a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance. Details of the MPF Scheme is disclosed in note 37.

(b) Included in other gains is the net gain of consolidated investment funds attributable to third-party unit holders/shareholders of HK$15,936,005 (2017: net gain of HK$102,018). Details of the Group's interest in consolidated investment funds are disclosed in note 47.

For the year ended 31 December 2018

10. TAXATION

	2018 HK$	2017 HK$
Hong Kong Profit Tax:		
Current year	**61,784,010**	24,259,698
(Over) under provision in prior year	**(1,197,069)**	850,243
	60,586,941	25,109,941
Deferred Tax:		
Current year *(note 29)*	**(3,837,401)**	143,224
	56,749,540	25,253,165

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

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

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

The tax charge for the years ended 31 December 2018 and 2017 can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK$	2017 HK$
Profit before taxation	**200,550,211**	178,085,006
Tax at domestic income tax rate (16.5%)	**33,090,785**	29,384,026
Tax effect of expenses not deductible for tax purpose	**40,337,438**	5,080,388
Tax effect of income not taxable for tax purpose	**(17,004,969)**	(18,029,465)
Tax at concessionary tax rate of 8.25%	**(165,000)**	–
Tax effect of deductible temporary difference not previously provided for	**(4,120,000)**	–
Tax effect of tax losses not recognised	**9,429,259**	8,773,273
Utilisation of tax losses previously not recognised	**(3,707,438)**	(1,175,829)
(Over) under provision in prior year	**(1,197,069)**	850,243
Others	**86,534**	370,529
Tax charge for the year	**56,749,540**	25,253,165

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11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

During the years ended 31 December 2018 and 2017, the emoluments paid or payable by the Group are as follows:

	Fees HK$	Salaries, allowances HK$	Benefits in kind # HK$	Discretionary bonus HK$ (note b)	Retirement benefit schemes contributions HK$	Total HK$
For the year ended 31 December 2018						
Huang Jinguang *(note a and c)*	**–**	**1,787,968**	**576,000**	**2,780,000**	**–**	**5,143,968**
Wang Xiang *(note a and c)*	**–**	**1,520,028**	**324,000**	**2,230,000**	**–**	**4,074,028**
Zeng Yanxia *(note a and c)*	**–**	**1,331,097**	**311,700**	**1,990,000**	**–**	**3,632,797**
Hong Ying *(note d)*	**200,000**	**–**	**–**	**–**	**–**	**200,000**
Tian Li *(note d)*	**200,000**	**–**	**–**	**–**	**–**	**200,000**
Qin Shuo *(note d)*	**200,000**	**–**	**–**	**–**	**–**	**200,000**
	600,000	**4,639,093**	**1,211,700**	**7,000,000**	**–**	**13,450,793**

	Fees HK$	Salaries, allowances HK$	Benefits in kind # HK$	Discretionary bonus HK$ (note b)	Retirement benefit schemes contributions HK$	Total HK$
For the year ended 31 December 2017						
Huang Jinguang *(note a and c)*	–	1,737,133	516,000	2,576,000	–	4,829,133
Wang Xiang *(note a and c)*	–	1,477,646	324,000	2,134,400	–	3,936,046
Zeng Yanxia *(note a and c)*	–	1,294,674	300,000	1,893,600	–	3,488,274
Hong Ying *(note d)*	200,000	–	–	–	–	200,000
Tian Li *(note d)*	200,000	–	–	–	–	200,000
Qin Shuo *(note d)*	200,000	–	–	–	–	200,000
	600,000	4,509,453	1,140,000	6,604,000	–	12,853,453

Amounts represent benefits in kind of accommodation provided by the Group.

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11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Notes:

(a) No retirement benefit schemes contributions was paid or payable by the Group to Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia during the years ended 31 December 2018 and 2017 as Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia are also employees of the ultimate holding company and the cost of retirement benefit scheme contribution is borne by the ultimate holding company.

(b) The discretionary bonus of directors or chief executive of the Company was determined by the management of the ultimate and intermediate holding companies and by reference to the Group's financial performance and the directors' and the chief executive's duties, responsibilities and individual performance within the Group.

(c) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(d) The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

Mr. Lan Rong and Ms. Zhuang Yuanfang were appointed as the directors of the Company on 1 June 2016 and resigned on 30 January 2018 and 12 July 2017 respectively.

Mr. Huang Yilin and Mr. Yang Huahui were appointed as the directors of the Company on 12 July 2017 and 30 January 2018 respectively.

The remuneration of Mr. Lan Rong, Ms. Zhuang Yuanfang, Mr. Huang Yilin and Mr. Yang Huahui for the years was borne by the ultimate holding company and there is no basis of allocation of their remuneration between the ultimate holding company and the Group.

(b) Highest paid individuals

The five individuals with the highest emoluments in the Group included one director of the Company for the year ended 31 December 2018 (2017: Two) and details of whose emoluments are included in the disclosure above. The emoluments of the remaining four individuals for the year ended 31 December 2018 (2017: Three) are as below:

	2018 **HK$**	2017 HK$
Employees		
– salaries and allowances	**7,653,000**	5,829,000
– discretionary bonus	**12,505,000**	13,804,630
– retirement benefit schemes contributions	**72,000**	54,000
	20,230,000	19,687,630

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11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Highest paid individuals *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2018	2017
HK$4,000,001 to HK$4,500,000	**1**	1
HK$4,500,001 to HK$5,000,000	**2**	–
HK$6,500,001 to HK$7,000,000	**1**	1
HK$8,500,001 to HK$9,000,000	**–**	1

During the year ended 31 December 2018, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil). None of the directors waived any emoluments during both years.

12. DIVIDENDS

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

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

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK$0.023 (2017: final dividend in respect of the year ended 31 December 2017 of HK$0.03) per ordinary share, in an aggregate amount of HK$92,000,000 (2017: HK$120,000,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

13. EARNINGS PER SHARE

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

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

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

14. PROPERTY AND EQUIPMENT

	Leasehold improvement HK$	Motor vehicles HK$	Furniture and fixtures HK$	Computer equipment HK$	Total HK$
COST					
At 1 January 2017	11,626,777	769,307	375,540	18,381,664	31,153,288
Additions	18,279,010	–	718,349	3,021,673	22,019,032
Written off	(5,555,709)	–	(28,100)	(21,680)	(5,605,489)
At 31 December 2017	24,350,078	769,307	1,065,789	21,381,657	47,566,831
Additions	6,557,034	854,934	730,451	8,585,682	16,728,101
Disposals	–	(854,934)	–	–	(854,934)
Written off	–	–	–	(615,891)	(615,891)
At 31 December 2018	30,907,112	769,307	1,796,240	29,351,448	62,824,107
DEPRECIATION					
At 1 January 2017	(8,817,753)	(418,774)	(55,240)	(14,919,436)	(24,211,203)
Written off	5,555,709	–	6,885	20,595	5,583,189
Charge for the year	(5,813,867)	(91,337)	(110,801)	(2,338,876)	(8,354,881)
At 31 December 2017	(9,075,911)	(510,111)	(159,156)	(17,237,717)	(26,982,895)
Disposals	–	42,301	–	–	42,301
Written off	–	–	–	585,096	585,096
Charge for the year	(5,897,824)	(133,638)	(198,787)	(3,569,750)	(9,799,999)
At 31 December 2018	(14,973,735)	(601,448)	(357,943)	(20,222,371)	(36,155,497)
CARRYING VALUES					
At 31 December 2018	15,933,377	167,859	1,438,297	9,129,077	26,668,610
At 31 December 2017	15,274,167	259,196	906,633	4,143,940	20,583,936

The above items of property and equipment are depreciated on a straight-line basis at the following rate per annum:

Leasehold improvement	Over the lease term
Motor vehicles	12.5%
Furniture and fixtures	20%
Computer equipment	50%

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15. INTANGIBLE ASSETS

	Software	Trading rights	Total
	HK$	HK$	HK$
COST			
At 1 January 2017	4,234,865	1,000,000	5,234,865
Additions	56,794	–	56,794
At 31 December 2017	4,291,659	1,000,000	5,291,659
Additions	1,757,583	–	1,757,583
At 31 December 2018	6,049,242	1,000,000	7,049,242
AMORTISATION			
At 1 January 2017	(2,622,825)	–	(2,622,825)
Charge for the year	(1,052,293)	–	(1,052,293)
At 31 December 2017	(3,675,118)	–	(3,675,118)
Charge for the year	(551,226)	–	(551,226)
At 31 December 2018	(4,226,344)	–	(4,226,344)
CARRYING VALUES			
At 31 December 2018	1,822,898	1,000,000	2,822,898
At 31 December 2017	616,541	1,000,000	1,616,541

Intangible assets include trading rights in the Stock Exchange and the Hong Kong Futures Exchange Limited with indefinite useful life and the using rights of software with finite life.

Software are initially recognised at cost. The cost less estimated residual values (if any) of the software is amortised on a straight-line basis over their expected useful lives of 3 years, and charged to the profit or loss.

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired.

No impairment loss on intangible assets is recognised during the years ended 31 December 2018 and 2017.

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16. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

	2018 HK$	2017 HK$
Cost of investment in a joint venture	**40,032,960**	–
Share of post-acquisition loss and other comprehensive expense	**(498,698)**	–
	39,534,262	–

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2018	2017	2018	2017	
IS Investment Fund Segregated Portfolio Company — CIS New China Ever-Growing Fund Segregated Portfolio ("CISNCEF") *(note)*	Cayman Islands	Hong Kong	**28.62%**	N/A	**50%**	N/A	Investment trading

On 17 August 2018, the Group subscribed approximately 28.62% of issued unit of CISNCEF for a consideration of HK$40,032,960.

Note: As at 31 December 2018, the Group held the interest of participating shares of CISNCEF as disclosed above such that the participating shares provide the Group with the share of returns from CISNCEF but not any decision-making power nor any voting right in daily operation of CISNCEF. As at 31 December 2018, the Group and an independent third party act as co-manager of CISNCEF. Both parties jointly established an investment committee which comprises four members, with two from the Group and two from the independent third party. The investment committee is empowered to make all the key financing and operating decisions in CISNCEF and requires unanimous consent of all investment committee members. The arrangement of co-management is contractually agreed by both parties. As such, the interest of the Group in CISNCEF is classified as a joint venture.

The joint venture is an unlisted entity without quoted market price available.

There is no unfulfilled capital commitment to CISNCEF. As at 31 December 2018, the current carrying amount of HK$39.5 million for CISNCEF in the consolidated statement of financial position represents the Group's maximum exposure.

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16. INTEREST IN A JOINT VENTURE *(Continued)*

Summarised financial information of a joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	2018 HK$
Current assets	**139,693,438**
Current liabilities	**(1,571,408)**

	For the period from 17 August 2018 (date of incorporation) to 31 December 2018 HK$
Other loss	**(304,489)**
Loss and total comprehensive expense for the period	**(1,742,314)**

The above loss for the period includes the following:

	For the period from 17 August 2018 (date of incorporation) to 31 December 2018 HK$
Interest income	**3,020**

Reconciliation of the above summarised financial information to the carrying amount of the interest in CISNCEF recognised in the consolidated financial statements:

	2018 HK$
Net assets of CISNCEF	**138,122,030**
Proportion of the Group's ownership interest in CISNCEF	**28.62%**
	39,534,262

For the year ended 31 December 2018

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

For the year ended 31 December 2018

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes:

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

(b) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK$1,743,086,603 (2017: HK$970,278,494) at 31 December 2018, to non bank financial institutions and entered into total return swap contract, whereby the Group received cash flow arising from transferred debt securities and receives the debt securities upon maturity of the contracts, during the year. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2018 as the Group retains significant risks and rewards of the transferred debt securities. Details of the arrangement are set out in note 38.

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

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

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

(f) For the year ended 31 December 2017, the Group invested in unlisted credit-linked notes issued by a non-bank financial institution. The return of the credit-linked notes is linked to the fair value of the underlying assets which are listed preference shares.

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

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

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

Details of disclosure for fair value measurement are set out in note 40.

For the year ended 31 December 2018

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Note: Included in the portfolio of debt securities, the Group transferred debt securities, with a fair value of HK$1,034,914,911 at 31 December 2017, to non-bank financial institutions and entered into total return swap contract, whereby the Group receives cash flow arising from the transferred debt securities and receives the debt securities upon maturity of the contracts, during the year. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2017 as the Group retains significant risks and rewards of the transferred debt securities. Details of the arrangement are set out in note 38.

Details of disclosure for fair value measurement are set out in note 40.

19. LOANS RECEIVABLE

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

For the year ended 31 December 2018

19. LOANS RECEIVABLE *(Continued)*

The credit quality of loans receivable are summarised as follows:

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

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

Fixed-rate loans receivable denominated in HKD

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

As at 31 December 2018, included in the Group's loans receivable balance are debtors with aggregate gross amount and carrying amount of HK$71,614,048 and HK$71,444,048 respectively which are not past due as at the reporting date. The directors of the Company are of the view that there have been no significant increase in credit risk nor default because no loans receivable has been overdue. Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

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

For the year ended 31 December 2018

20. REVERSE REPURCHASE AGREEMENTS

	2018 HK$
Analysed by collateral type:	
Debt securities	**335,307,392**
Less: impairment allowance	**(990,000)**
	334,317,392
Analysed by market:	
Hong Kong stock exchange	**258,297,619**
Singapore stock exchange	**77,009,773**
Less: impairment allowance	**(990,000)**
	334,317,392
Analysed as:	
Current	**334,317,392**

The reverse repurchase agreements are those repurchase agreements which the external investors entered into with the Group under which assets were sold to the Group with a concurrent commitment to purchase the specified debt securities from the Group at a future date of an agreed price. The resale prices are fixed and the Group is not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities. Accordingly, the Group recognises as collateralised lending asset for the price paid to purchase the assets. The maturities of these resale agreements are all within one year.

As at 31 December 2018, the fair value of the collateral was HK$598,573,042 (2017: Nil).

Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

For the year ended 31 December 2018

21. STATUTORY DEPOSITS

Statutory deposits represent deposits with clearing houses. They are non-interest bearing.

Non-current portion

In accordance with the rules of Central Clearing and Settlement System ("CCASS"), admission fee, basic contribution and dynamic contribution to the guarantee fund of a defaulting clearing participant will be used to offset its indebtedness arising in the course of dealing in securities as disclosed in note 41 in accordance with the rules of CCASS.

Under the arrangement with HKFE Clearing Corporation Limited ("HKCC"), the statutory deposit could be used to set off against accounts payable to HKCC.

The directors of the Company do not expect to realise the amounts within twelve months after the reporting period.

Current portion

In accordance with the rules of CCASS, the Group is required to provide to Hong Kong Securities Clearing Company Limited (the "HKSCC") deposits from time to time as determined by HKSCC, as the Group has become a China Connect Clearing Participant under the rules of CCASS since year 2014. Amounts will be used to offset the Group's indebtedness arising in the course of dealing in securities as disclosed in note 41 in accordance with the rules of CCASS.

22. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	2018 **HK$**	2017 HK$
Deposits *(note a)*	**366,354,772**	64,358,153
Other receivables *(note b)*	**35,823,665**	163,920,660
Interest and dividend receivables *(note c)*	**–**	77,546,585
Prepayments	**5,582,782**	8,536,208
	407,761,219	314,361,606
Analysed as:		
Current	**394,214,270**	302,695,425
Non-current	**13,546,949**	11,666,181
	407,761,219	314,361,606

Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

Notes:

(a) As at 31 December 2018 and 2017, the amount mainly comprises of cash deposits in banks and other financial institutions for total return swaps, sales and repurchase agreements and credit derivatives transaction.

(b) As at 31 December 2017, the amount mainly comprises of monies paid for subscription of an investment fund. The subscription has been completed in 2018.

(c) As at 31 December 2018, the interests accrued on financial assets at FVTPL, loans receivable, bank balances — trust accounts and reverse repurchase agreements of the Group are included in the carrying amounts of the corresponding financial assets. As at 31 December 2017, the amount mainly represents the interest and dividend receivables arising from financial assets at FVTPL and AFS financial assets.

For the year ended 31 December 2018

23. ACCOUNTS RECEIVABLE

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

23. ACCOUNTS RECEIVABLE *(Continued)*

Secured margin loans

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

For secured margin loans, as at 31 December 2018 and 2017, the loans are repayable on demand subsequent to settlement date and carry interest at Hong Kong prime rate plus 3% per annum during the years ended 31 December 2018 and 2017. As at 31 December 2018, the gross amount and the carrying amount of credit-impaired secured margin loans were amounting to HK$1,886,659,474 and HK$1,584,569,858 respectively (31 December 2017: HK$310,394,561 and HK$20,000,000). The total market value of securities pledged as collateral in respect of the margin loans which were not credit-impaired were approximately HK$17,905,274,000 (2017: HK$11,829,208,000) at 31 December 2018. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the value of securities deposited. As at 31 December 2018, 98% (2017: 95%) of the outstanding balances were secured by sufficient collateral on an individual basis.

The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan. Details of the Group's pledged assets are disclosed in note 31.

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23. ACCOUNTS RECEIVABLE *(Continued)*

Accounts receivable (except for secured margin loans)

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts receivable with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business corporate finance and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided.

Normal settlement terms of accounts receivable arising from brokers arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date. Included in accounts receivable due from brokers arising from the business of financial products and investments, there is cash collateral of HK$43,170,824 paid under total return swap which is repayable upon expiry of relevant total return swap. Details are set out in note 38.

The aging analysis of the accounts receivable based on past due dates are as follows:

	2017 HK$
Past due (accounts receivable from cash clients):	
0–30 days	1,435,627
Over 30 days	3,368,386
Accounts receivable which were past due but not impaired	4,804,013
Accounts receivable which were neither past due nor impaired (including secured margin loans)	4,982,997,771
Impaired accounts receivable	310,394,561
	5,298,196,345
Less: impairment allowance	(290,394,561)
	5,007,801,784

For the year ended 31 December 2018

23. ACCOUNTS RECEIVABLE *(Continued)*

Accounts receivable (except for secured margin loans) *(Continued)*

In respect of accounts receivable arising from the business of dealing in securities, included in the accounts receivable from cash clients are debtors with a carrying amount of HK$4,804,013 as at 31 December 2017, which were past due at the end of the reporting period but which the directors of the Company consider not to be impaired as there has not been a significant change in credit quality and a substantial portion of the carrying amount is subsequently settled. The directors of the Company considered full amounts to be recoverable.

The accounts receivable from cash clients with a carrying amount of HK$56,313,946 were neither past due nor impaired as at 31 December 2017 and the directors of the Company were of the opinion that the amounts are recoverable.

As at 31 December 2017, the accounts receivable arising from the business of insurance brokerage, investment banking, asset management and financial products and investments were included in "neither past due nor impaired" category. The management of the Group believed that no impairment allowance was necessary in respect of these balances as there has not been a significant change in credit quality.

In view of the nature of business of dealing in securities, futures and options contracts and financial products and investments, no aging analysis on those accounts receivable is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

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

Corporate finance clients

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

23. ACCOUNTS RECEIVABLE *(Continued)*

Accounts receivable (except for secured margin loans) *(Continued)*

Asset management clients

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

During the years ended 31 December 2018 and 2017, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously. Details are set out in note 41.

Details of the Group's policy on credit risk are set out in note 40.

24. BANK BALANCES – TRUST ACCOUNTS/GENERAL ACCOUNTS AND CASH

The Group receives and holds money deposited by customers and other institutions in the course of conducting regulated activities. These customers' monies are maintained in trust bank accounts and bear interest at commercial rate. The Group has recognised the corresponding accounts payable to respective customers and other institutions. However, the Group currently does not have an enforceable right to offset those payables with the deposits placed.

As at 31 December 2018, the Group's bank balances and cash denominated in United States dollar and Renminbi are equivalent to HK$3,111,806,781 and HK$442,746,102 (2017: HK$1,728,190,419 and HK$224,138,231) respectively.

The general accounts held by the Group comprises current and saving deposits held by the Group at prevailing market interest rate and bank deposits bearing interest at commercial rate with original maturity of three months or less.

25. AMOUNT DUE TO A RELATED PARTY

The Group had the following balance with a related party at the end of each reporting period:

	2018 **HK$**	2017 HK$
Amount due to Industrial Securities (Shenzhen) *(note)*	**3,174,615**	2,957,147

Note: Amount due to Industrial Securities Consultancy Service (Shenzhen) Company Limited ("Industrial Securities (Shenzhen)"), a fellow subsidiary, was mainly arising from the consultancy services provided by Industrial Securities (Shenzhen), which is unsecured, non-interest bearing and repayable on demand.

For the year ended 31 December 2018

26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$	2017 HK$
Held for trading		
Short position in listed equity securities	**104,522,000**	2,718,000
Credit derivatives *(note a)*	**11,879,526**	596,858
Foreign currency forward contracts *(note b)*	**–**	5,254,235
	116,401,526	8,569,093
Designated at fair value through profit or loss		
Unlisted issued structured products *(note c)*	**172,299,574**	176,671,697
	288,701,100	185,240,790
Analysed as:		
Current	**288,701,100**	161,958,014
Non-current	**–**	23,282,776
	288,701,100	185,240,790

Notes:

(a) For the year ended 31 December 2017, the Group entered into a credit derivative contract with a notional amount of US$25,000,000, of which reference entity was within the Korea Sovereign sector, with a non bank financial institution. For the year ended 31 December 2018, the Group entered into two credit derivative contracts with a notional amount of HK$100,000,000 and USD130,000,000, of which reference entities were within the real estate sector in Hong Kong and the banking sector in Hong Kong respectively, with a non bank financial institution.

(b) For the year ended 31 December 2017, the Group entered into foreign currency forward contracts with total notional amount of US$220,000,000 with non-bank financial institutions.

One foreign currency forward contract with notional amount of US$200,000,000 sell HKD and buy USD at forward exchange rate USD:HKD at 1:7.79. Another foreign currency forward contract with notional amount of US$20,000,000 sell RMB and buy USD at forward exchange rate USD:RMB at 1:6.76. The foreign currency forward contracts had matured during the year ended 31 December 2018.

(c) As at 31 December 2018 and 2017, included in financial liabilities designated at FVTPL are the issued structured notes which arise from selling structured products generally in the form of notes with the underlying investments related to listed debt security traded in the Stock Exchange and unlisted debt investment traded in over-the-counter markets.

The risk of economic exposure on these structured products is primarily hedged using financial instruments classified as financial assets at FVTPL. These structured products are designated at FVTPL as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

The amount of change in fair values of the financial liabilities designated at FVTPL, during the year and cumulatively, attributable to changes in own credit risk was insignificant.

Details of disclosure for fair value measurement are set out in note 40.

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27. ACCOUNTS PAYABLE

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

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers as disclosed in note 21 and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

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27. ACCOUNTS PAYABLE *(Continued)*

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of financial products and investments, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

For secured margin loans from brokers, the loans are repayable on demand (except certain balances arising from trades pending settlement or margin deposits) and are interest-bearing at the prevailing market interest rate. Only the amounts in excess of the required margin deposits are repayable on demand. The total market value of debt securities pledged as collateral in respect of the loans was approximately HK$315,015,000 as at 31 December 2017. The Group has no secured margin loans for brokers as at 31 December 2018.

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

28. ACCRUALS AND OTHER PAYABLES

	2018 **HK$**	2017 HK$
Accrued charges *(note a)*	**156,249,234**	156,087,977
Interest payable *(note b)*	**–**	14,863,192
Other payables	**25,959,381**	7,708,516
	182,208,615	178,659,685
Analysed as:		
Current	**181,422,911**	175,425,279
Non-current	**785,704**	3,234,406
	182,208,615	178,659,685

Notes:

(a) The amount mainly comprises of the accrued operating expenses including staff salary and bonus and also commission to accounts executives.

(b) As at 31 December 2018, the interests accrued on bank and other borrowings, notes and repurchase agreements of the Group are included in the carrying amounts of the corresponding financial liabilities. As at 31 December 2017, the amount represents the interest payable arising from bank and other borrowings, notes and repurchase agreements.

29. DEFERRED TAX ASSETS AND LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 HK$	2017 HK$
Deferred tax assets	**3,896,066**	–
Deferred tax liabilities	**(950,184)**	(891,519)
	2,945,882	(891,519)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2018 and 2017:

	ECL provision HK$	**Accelerated tax depreciation** HK$	**Total** HK$
At 1 January 2017	–	(748,295)	(748,295)
Charge to profit or loss *(note 10)*	–	(143,224)	(143,224)
At 31 December 2017	–	(891,519)	(891,519)
Credit/(charge) to profit or loss *(note 10)*	4,092,000	(254,599)	3,837,401
At 31 December 2018	4,092,000	(1,146,118)	2,945,882

Due to the unpredictability of future profit streams, no deferred tax asset has been recognised in the consolidated statements of financial position in relation to the deductible temporary differences of approximately HK$175 million arising from the unrealised losses of debt securities under financial asset at FVTPL (2017: HK$19 million and HK$9 million arising from the unrealised losses of debt securities under financial asset at FVTPL and AFS financial assets respectively) and the estimated unused tax losses of approximately of HK$122 million (2017: HK$88 million) as at 31 December 2018. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary difference will be available in the future. In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. The tax losses may be carried forward indefinitely.

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30. REPURCHASE AGREEMENTS

	2018 HK$	2017 HK$
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale financial assets	–	302,216,997
Financial assets at fair value through profit or loss	**1,542,080,825**	792,638,907
	1,542,080,825	1,094,855,904

As at 31 December 2018, debt securities which are classified as financial assets at FVTPL with carrying amount of HK$2,042,711,942 (2017: AFS financial assets and financial assets at FVTPL with carrying amount of HK$347,702,954 and HK$1,044,241,136 respectively) were sold under repurchase agreements with other financial institutions which the Group simultaneously agreed to repurchase these debt securities at the agreed date and price. All repurchase agreements are due within 12 months from the end of the reporting period. Details of the arrangement are set out in note 38.

31. BANK BORROWINGS

	2018 HK$	2017 HK$
Variable rate borrowings	**8,909,661,292**	5,404,592,664
Repayable within one year and contain a repayable on demand clause	**5,586,797,616**	5,104,592,664
Repayable within one year without a repayable on demand clause	–	300,000,000
Repayable within a period of more than two years but not exceeding five years	**3,322,863,676**	–
	8,909,661,292	5,404,592,664

The bank borrowings consist of loans borrowed by the Group from banks to facilitate investment and general working capital.

The interest rate of the Group's bank borrowings as at 31 December 2018 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.4% to HIBOR+2.3% (2017: HIBOR+1.6% to HIBOR+2.3%).

At 31 December 2018, HK$8,902,863,676 (after bank charge being netted off) (2017: HK$5,404,592,664) had been drawn by the Group under the aggregated banking facilities of HK$15,017,200,000 (2017: HK$9,428,200,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK$9,180,000,000 as at 31 December 2018 (2017: HK$1,600,000,000).

No bank borrowings were secured by charges over clients' pledged securities as at 31 December 2018. The Group's bank borrowings amounting to HK$414,592,664 as at 31 December 2017 were secured by charges over clients' pledged securities with fair value of approximately HK$1,504,808,500 upon receiving client's authorisation. Industrial Securities provided letters of comfort to support the bank borrowings of the Group amounting to HK$6,980,000,000 as at 31 December 2018 (2017: HK$1,480,000,000).

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32. OTHER BORROWINGS

	2018 HK$	2017 HK$
Borrowings associated with transferred assets *(as disclosed in note 38)*	**1,485,297,574**	1,203,876,281

The interest rate of the Group's other borrowings as at 31 December 2018 is at fixed interest rate of 3.58% to 4.85% (2017: 2.70% to 3.68% per annum).

33. NOTES

	2018 HK$	2017 HK$
Notes *(note)*	**62,850,751**	62,549,900

Note: During the year ended 31 December 2017, the Group's wholly owned subsidiary issued guaranteed note with fixed interest rate of 3% per annum which is guaranteed by the Company. After the note matured in June 2018, the Group's wholly owned subsidiary issued a one year note with the same terms.

34. SHARE CAPITAL

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

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

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35. RESERVES

Capital reserve

As at 31 December 2018 and 2017, capital reserve represents the difference between 489,990,000 consideration shares at par value of HK$0.1 each issued by the Company and the consideration for the acquisition of the combined businesses pursuant to the group reorganisation (as more fully explained in the section headed "History, Reorganisation and Group Structure — Reorganisation" in the prospectus of the Company dated 30 September 2016 (the "Prospectus")).

Investments revaluation reserve

The investments revaluation reserve was set up to deal with the fair value changes arising from AFS financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those AFS financial assets are disposed of or are determined to be impaired.

36. COMMITMENTS

Commitments under operating lease

At the end of each reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

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

Operating lease payments represent rentals payable by the Group for its office premises and director/staff apartments. Leases and rentals are negotiated and fixed for periods of two to three years.

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37. EMPLOYEE BENEFITS

(a) Retirement Benefits Schemes

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates (up to HK$1,500 per employee per month) specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The contributions paid to the schemes by the Group are disclosed in note 9.

(b) Employee Share Participation Scheme ("ESPS")

On 25 April 2016, Industrial Securities (Hong Kong) adopted an ESPS to incentivise eligible participants for their contributions to the Group and to attract suitable personnel for further development of the Group.

No expenses is recognised in the consolidated financial statements for the years ended 31 December 2018 and 2017 as the fair value of ES shares at grant date was approximate to the Award Price.

38. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

The Group transfers financial assets that are not derecognised in their entirety primarily through the sale of debt securities with concurrent total return swaps and sales and repurchase agreements.

The Group sells debt securities as well as places cash collateral together with the debt securities that are subject to concurrent total return swap. The Group retains substantially all the risks and rewards of ownership of the debt securities. Therefore, the Group continues to recognise the transferred securities in its consolidated statement of financial position. The transferred debt securities and the cash collateral serve as "collateral" to secure these liabilities. The proceeds received are recognised as liabilities under "Other borrowings".

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38. TRANSFERRED FINANCIAL ASSETS *(Continued)*

Sales and repurchase agreements are transactions in which the Group sells a debt security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those debt securities sold. These debt securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these debt securities. The proceeds received on the transfer are recognised as liabilities under "Repurchase agreements".

The following table sets out the carrying amounts of all financial assets transferred that are not derecognised in their entirety and associated liabilities.

	As at 31 December 2018				
Analysed by liabilities type	**Carrying amount of transferred assets**			**Carrying amount of associated liabilities**	**Net position**
	Accounts receivable — collateral paid under total return swap	**Financial assets at fair value through profit or loss**	**Total**		
	HK$	**HK$**	**HK$**	**HK$**	**HK$**
Other borrowings *(note 32)*	**43,170,824**	**1,743,086,603**	**1,786,257,427**	**1,485,297,574**	**300,959,853**
Repurchase agreements *(note 30)*	**–**	**2,042,711,942**	**2,042,711,942**	**1,542,080,825**	**500,631,117**

	As at 31 December 2017				
Analysed by liabilities type	Carrying amount of transferred assets			Carrying amount of associated liabilities	Net position
	Available for-sale debt securities	Financial assets at fair value through profit or loss	Total		
	HK$	HK$	HK$	HK$	HK$
Other borrowings *(note 32)*	1,034,914,911	970,278,494	2,005,193,405	1,203,876,281	801,317,124
Repurchase agreements *(note 30)*	347,702,954	1,044,241,136	1,391,944,090	1,094,855,904	297,088,186

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39. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, other borrowings and notes as disclosed in notes 31, 32 and 33, and equity attributable to owners of the Company (comprising issued share capital, reserves and retained earnings).

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with capital. In view of this, the Group will balance its overall capital structure through new share issues or bank borrowings. The Group's overall strategy remains unchanged throughout the years.

Several subsidiaries of the Group (the "Regulated Subsidiaries") are granted licenses by the Hong Kong Securities and Futures Commission (the "SFC") for the business they operate in. The Regulated Subsidiaries are subject to liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). Management of the Group closely monitors, on a daily basis, the Regulated Subsidiaries' liquid capital level to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Regulated Subsidiaries has no non-compliance of capital requirements imposed by the SF(FR)R throughout both years.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 **HK$**	2017 HK$
Financial assets		
Amortised cost	**14,461,203,396**	—
Financial assets at fair value through profit or loss	**8,781,097,139**	5,106,108,484
Available-for-sale financial assets	**–**	1,883,757,103
Loans and receivables (including cash and cash equivalents)	**–**	9,986,544,529
Financial liabilities		
Financial liabilities at fair value through profit or loss	**288,701,100**	185,240,790
Amortised cost	**18,420,075,044**	12,273,941,667

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, AFS financial assets, reverse repurchase agreements, accounts receivable, loans receivable, deposits and other receivables, bank balances and cash, accounts payable, repurchase agreements, bank borrowings, other borrowings, notes, other liabilities, other payables and amount due to a related party. Details of these financial instruments are disclosed in respective notes. The risks associated with those financial instruments and the policies on how to mitigate these risks are set out below.

The Group's risk management objectives are to achieve a proper balance between risks and yield and minimise the adverse impact of risks on the Group's operating performance. Based on these risk management objectives, the Group's risk management strategy is to identify and analyse the various risks the Group is exposed to, and to establish an appropriate tolerance for risk management practice, so as to monitor, notify and respond to the risks regularly and effectively and to control risks at an acceptable level.

The risks that the Group is exposed to in its daily operating activities mainly include market risk (including currency exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group has established policies and procedures accordingly to identify and analyse the risks. The Group has set up appropriate risk indicators, risk limits, risk policies and internal control process.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

The Group's activities expose it primarily to the market risk of changes in interest rates, foreign currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk in relation to fixed-rate debt securities classified as AFS financial assets and financial assets at FVTPL. The Group currently does not have fair value hedging policy. The Group is also exposed to cash flow interest rate risk mainly from balances with banks, secured margin loans and bank borrowings carrying interest at prevailing market rates.

Management of the Group monitors the related interest rate exposure closely to ensure the interest rate risks are maintained at an acceptable level. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's respective HKD and USD denominated financial instruments.

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing assets and liabilities. The analysis is prepared assuming interest-bearing assets and liabilities outstanding at the end of respective reporting period were outstanding for the whole year. When reporting to management of the Group on the interest rate risk, a 50 basis points ("bps") increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, assuming all other variables were held constant, which represents a reasonably possible change in interest rates. Interest bearing bank deposit is not included in the sensitivity analysis for the decrease of interest rate as the bank deposit rate is at a low level and management of the Group considers such downward adjustment is unlikely. A positive number below indicates an increase in profit after taxation of the Group or vice versa.

	2018 **HK$**	2017 HK$
Profit after taxation for the year		
Increase by 50 bps	**(27,584,475)**	(60,370,418)
Decrease by 50 bps	**51,552,447**	73,666,784
Other comprehensive income for the year		
Increase by 50 bps	**–**	(26,824,383)
Decrease by 50 bps	**–**	26,824,383

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as at the year end and exposure does not reflect the exposure during the year.

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk

The Group undertake certain transactions denominated in currencies other than its functional currencies, hence they are exposed to exchange rate fluctuation.

The major foreign currency exposure of the Group in HKD equivalent is presented below:

	Liabilities		Assets	
	2018 HK$	2017 HK$	**2018 HK$**	2017 HK$
United States dollars ("USD")	**6,255,315,112**	4,286,319,606	**12,881,314,812**	8,790,361,423
Renminbi ("RMB")	**372,500,236**	31,606,753	**674,609,443**	354,717,220

Foreign currency sensitivity

The directors of the Company do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the HKD pegged system to the USD. The following table details the Group's sensitivity to a 5% strengthening in RMB against HKD, translated at year-end date. 5% sensitivity rate represents management's assessment of a reasonably possible change in foreign exchange rates. For a 5% weakening in RMB against HKD, there would be an equal and opposite impact on the profit after taxation for the year.

	RMB impact	
	2018 HK$	2017 HK$
Increase in profit after taxation for the year	**12,613,000**	13,490,000

Other price risk

The Group is exposed to price changes arising from investments classified as financial assets at FVTPL and AFS financial assets.

The Group has established a multi-level management system for its proprietary trading business. The Board has set up the Investment Decision Committee for the purposes of formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment managers in investment activities. The risk control team is responsible for monitoring the daily operations of its proprietary trading activities and to ensure compliance with its trading policies.

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk (Continued)

In addition, the Group's exposures are closely monitored by other relevant internal control units, including Risk Management Department, the Finance Department, the Compliance Department and the Internal Audit Department. The Group's exposures are closely monitored by the Finance Department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

For sensitivity analysis purpose of listed equity securities, debt securities, convertible bonds and funds, if the prices of equity and debt securities had been 2% higher/lower, the profit after tax for the year ended 31 December 2018 would increase/decrease by approximately HK$80,163,523 (2017: HK$55,883,000) and investments revaluation reserve would not have any estimated increase/decrease (2017: increase/decrease by HK$29,470,000).

For unlisted debt securities, convertible bonds, collateralised loan obligation, investment funds, fund-linked note, credit-linked notes, equity-linked note and preference share linked note that depend on the valuation of the respective investments or underlying investments, it is assumed that the unit price of debt securities, convertible bonds, collateralised loan obligation and investment funds and underlying assets of fund-linked note, credit-linked notes and preference share linked note increased/decreased by 5%, profit after tax for the year ended 31 December 2018 would have an estimated HK$143,988,939 (2017: HK$64,917,000) increase/decrease and investments revaluation reserve would not have any estimated increase/decrease (2017: increase/decrease by HK$20,513,000).

The fair value of derivative financial instruments depends on the underlying investment linked index and credit spread of reference entities. If the linked index or credit spread increased/decreased by 1 bps, profit after tax for the year ended 31 December 2018 would have an estimated HK$5,224,422 decrease/increase (2017: HK$6,801,000 decrease/increase and HK$9,039,918 increase/decrease respectively).

In management's opinion, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

Credit risk and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Other than the debt securities in the PRC and overseas, the Group's concentration of credit risk by geographical location is mainly in Hong Kong.

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of respective recognised financial assets as stated in the consolidated statement of financial position except for certain credit default swaps which the Group entered into during the year ended 31 December 2018 with a maximum exposure of approximately HK$356,626,000 (2017: HK$83,944,000).

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment*(Continued)*

Among the respective recognised financial assets as stated in the consolidated statement of financial position, the directors consider that financial assets at FVTPL, reverse repurchase agreements, AFS financial assets, accounts receivable, loans receivable, other receivables and bank balances represent the Group's major exposure to the credit risk arising from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has monitoring procedures in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model). In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are with high credit ratings assigned by international credit-rating agencies. Majority of bank balances are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's.

The management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

As described in more detail in note 23, the credit risk on accounts receivable is managed through daily monitoring of the outstanding exposures from individual clients, margin values and realisable values of individual client's securities. The Group has concentration of credit risk to ten largest securities margin clients' exposure representing 24% (2017: 25%) of the total loans to margin clients as at 31 December 2018. The balances due from the ten largest securities margin clients were approximately HK$1,439,986,000 (2017: HK$1,121,170,000) as at 31 December 2018, of which the amount is secured by clients' securities with an aggregate fair value of HK$5,141,808,000 (2017: HK$2,913,263,000) as at 31 December 2018. Apart from the exposures to ten largest margin clients' exposure mentioned above, the directors of the Company consider that the concentration of credit risk is limited due to the customer base being large and unrelated.

The credit risk for accounts receivable from clearing houses and brokers is considered as not material taking into account the good market reputations and high credit ratings of the counterparties.

The credit risk on loans receivable is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral. Apart from the exposures to the concentration of credit risk from two (2017: three) independent counterparties amounting to HK$52,729,158 in aggregate as at 31 December 2018 (2017: HK$89,900,000), the Group does not have any other significant concentration of credit risk on loans receivable.

The Group also invested in debt securities and other financial products which exposed to credit risk. The management of the Group reviews on a regular basis the portfolio of the debt securities and other financial products to ensure that the concentration risk is at an acceptable level. Certain debt securities and derivative financial instruments are entered with reputable financial institutions with credit rating of Baa1 or above issued by Moody's or BBB+ or above issued by Standards & Poor's and other debt securities and financial products are issued by credit worthy issuers in the market. In this regard, the directors of the Company consider that the credit risk relating to the debt securities and other financial products is closely monitored.

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Impairment assessment policies

The Group's policy requires the review of individual outstanding amounts at least monthly or more regularly depending on individual circumstances or market condition.

Upon adoption of HKFRS 9, the risk management department is responsible in developing and maintaining the processes for measuring ECL, the impairment requirements under HKFRS 9. The ECL are assessed by the Group on semi-annual basis. The Group applies simplified approach to measure ECL on accounts receivable (except for secured margin loans); and general approach to measure ECL on secured margin loans and other financial assets accounted for at amortised cost. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition: Stage 1: 12-month ECL, Stage 2: Lifetime ECL — not credit-impaired and Stage 3: Lifetime ECL — credit-impaired.

Definition of Stage 1, Stage 2 and Stage 3 are as below:

Stage 1: Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

For such financial assets classified as Stages 1 and 2, the management assesses loss allowances using the risk parameter modelling approach that incorporates key parameters, including PD, LGD and EAD. For credit-impaired financial assets classified as Stage 3, the management assesses the credit loss allowances by estimating the future cash flows expected to arise from the financial assets.

The measurement of ECL adopted by the management involves judgements, assumptions and estimations as follows:

- Determination of the criteria for significant increase in credit risk;
- Selection of the appropriate models and assumptions;
- Establishment of relative probability weightings for forward-looking scenarios.

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Measurement of ECL

The ECL are measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

PD represents an estimate of the likelihood of default of a borrower on its financial obligation over a given horizon, i.e. over the next 12 months or over the remaining lifetime. For secured margin loans, the Group determines PD by the internal credit ratings and with reference to the appropriate external credit ratings assigned by international credit-rating agencies. For other financial assets at amortised cost, the external credit ratings and related PD are taken into consideration.

LGD represents an estimate of the loss on default. For secured margin loans, LGD is determined based on factors including the realisation value of collateral and the estimated volatility. For other financial assets at amortised cost, LGD is determined based on assessed publicly available information from credit-rating agencies.

EAD represents the amounts expected to be owed at the time of default over the next 12 months or over the remaining lifetime.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and credit risk assessment, including forward-looking information. Secured margin loans use the number of days past due and loan-to-collateral value ("LTV") to determine significant increase in credit risk. Other financial assets use number of days past due as determinant of credit risk. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition.

Forward looking information

The estimation of credit loss under all stages is taking into consideration of forward looking information. The Group identifies the key economic driver impacting credit risk and ECL to be the growth rate of domestic GDP. The Group applied the probability weighted scenarios for incorporating the forward looking information. The growth rate of domestic GDP has been used in determining the probability-weighting of each of the optimistic scenario, base case scenario and pessimistic scenario. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivable (except for secured margin loans)	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payment has been overdue for more than 30 days (secured margin loans: LTV over 85% and margin call over 15 days)	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (secured margin loans: LTV over 100% and overdue for more than 30 days)	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
					HK$	HK$
Financial assets at amortised costs						
Loans receivable	19	N/A	Low risk	12-month ECL	71,614,048	71,614,048
Reverse repurchase agreements	20	N/A	Low risk	12-month ECL	335,307,392	335,307,392
Secured margin loans	23	N/A	Low risk	12-month ECL	3,626,017,967	
			Doubtful	Lifetime ECL (not credit impaired)	713,357,721	
			Loss	Credit impaired	1,886,659,474	6,226,035,162
Accounts receivable (except for secured margin loans)	23	N/A	(Note 2)	Lifetime ECL (not credit impaired)	1,004,575,097	
				Lifetime ECL (credit-impaired)	1,679,857	1,006,254,954
Bank balances — trust accounts	24	BBB or above	N/A	12-month ECL	5,229,079,297	5,229,079,297
Bank balances — general accounts and cash	24	BBB or above	N/A	12-month ECL	1,517,226,830	1,517,226,830
Deposits and other receivables	22	N/A	(Note 1)	12-month ECL	402,178,437	402,178,437

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due HK$	Not past due/ Repayable on demand HK$	Total HK$
Deposits and other receivables	–	402,178,437	402,178,437

2. For accounts receivable, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by aging status.

The Group's credit risk exposure of financial assets for which an impairment allowance is recognised as follows according to the stage of ECL:

As at 31 December 2018

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Loans receivable				
Gross carrying amount	71,614,048	–	–	71,614,048
Loss allowance	(170,000)	–	–	(170,000)
Net carrying amount	71,444,048	–	–	71,444,048
Reverse repurchase agreements				
Gross carrying amount	335,307,392	–	–	335,307,392
Loss allowance	(990,000)	–	–	(990,000)
Net carrying amount	334,317,392	–	–	334,317,392
Secured margin loans				
Gross carrying amount	3,626,017,967	713,357,721	1,886,659,474	6,226,035,162
Loss allowance	(15,516,854)	(6,315,387)	(302,089,616)	(323,921,857)
Net carrying amount	3,610,501,113	707,042,334	1,584,569,858	5,902,113,305
Bank balances — trust accounts				
Gross carrying amount	5,229,079,297	–	–	5,229,079,297
Loss allowance	(250,000)	–	–	(250,000)
Net carrying amount	5,228,829,297	–	–	5,228,829,297

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Movement in the allowances for impairment for loans receivable is as follows:

	Stage 1 12-month ECL HK$	Stage 2 Lifetime ECL HK$	Stage 3 Lifetime ECL HK$	Total HK$
As at 1 January 2018 *(Note 2.1.2)*	–	–	–	–
Changes due to financial instruments recognised as at 1 January 2018:				
— Transfer to stage 3	–	–	–	–
— Transfer to stage 2	–	–	–	–
— Transfer to stage 1	–	–	–	–
— Impairment losses recognised	–	–	–	–
— Impairment losses reversed	–	–	–	–
— Written-off	–	–	–	–
New financial assets originated or purchased	170,000	–	–	170,000
As at 31 December 2018	170,000	–	–	170,000

As at 31 December 2018, the Group measured the loss allowance for loans receivable of Stage 1 amounting to HK$170,000, which was contributed by the new loans receivable originated during the year with a gross carrying amount of HK$71.6 million.

No impairment was made for loans receivable as at 31 December 2017.

Movement in the allowances for impairment for reverse repurchase agreements is as follows:

	Stage 1 12-month ECL HK$	Stage 2 Lifetime ECL HK$	Stage 3 Lifetime ECL HK$	Total HK$
As at 1 January 2018 *(Note 2.1.2)*	–	–	–	–
Changes due to financial instruments recognised as at 1 January 2018:				
— Transfer to stage 3	–	–	–	–
— Transfer to stage 2	–	–	–	–
— Transfer to stage 1	–	–	–	–
— Impairment losses recognised	–	–	–	–
— Impairment losses reversed	–	–	–	–
— Written-off	–	–	–	–
New financial assets originated or purchased	990,000	–	–	990,000
As at 31 December 2018	990,000	–	–	990,000

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

As at 31 December 2018, the Group measured the loss allowance for reverse repurchase agreements of Stage 1 amounting to HK$990,000, which was contributed by the new reverse repurchase agreements originated during the year with a gross carrying amount of HK$335.3 million.

Movement in the allowances for impairment for bank balances — trust accounts is as follows:

	Stage 1 12-month ECL HK$	Stage 2 Lifetime ECL HK$	Stage 3 Lifetime ECL HK$	Total HK$
As at 1 January 2018 *(Note 2.1.2)*	–	–	–	–
Changes due to financial instruments recognised as at 1 January 2018:				
— Transfer to stage 3	–	–	–	–
— Transfer to stage 2	–	–	–	–
— Transfer to stage 1	–	–	–	–
— Impairment losses recognised	–	–	–	–
— Impairment losses reversed	–	–	–	–
— Written-off	–	–	–	–
New financial assets originated or purchased	250,000	–	–	250,000
As at 31 December 2018	250,000	–	–	250,000

As at 31 December 2018, the Group measured the loss allowance for bank balances — trust accounts of Stage 1 amounting to HK$250,000, which was contributed by the fixed deposits in the trust accounts with a gross carrying amount of HK$5,052.7 million.

No impairment was made for bank balances — trust accounts as at 31 December 2017.

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Movement in the allowances for impairment for secured margin loans is as follows:

	Stage 1 12-month ECL HK$	Stage 2 Lifetime ECL HK$	Stage 3 Lifetime ECL HK$	Total HK$
As at 31 December 2017 under HKAS 39	–	–	290,394,561	290,394,561
Adjustment upon application of HKFRS 9 *(Note 2.1.2)*	10,185,030	19,807,883	–	29,992,913
As at 1 January 2018 — as restated	10,185,030	19,807,883	290,394,561	320,387,474
Changes due to financial instruments recognised as at 1 January 2018:				
— Transfer to stage 3	(575,239)	(996,718)	1,571,957	–
— Transfer to stage 2	(813,667)	892,770	(79,103)	–
— Transfer to stage 1	2,246,315	(2,232,507)	(13,808)	–
— Impairment losses recognised	2,800,817	2,781,883	11,844,502	17,427,202
— Impairment losses reversed	(3,898,686)	(13,937,924)	(1,628,493)	(19,465,103)
— Written-off	–	–	–	–
New financial assets originated or purchased	5,572,284	–	–	5,572,284
As at 31 December 2018	15,516,854	6,315,387	302,089,616	323,921,857

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The overall increase of the ECL allowance was HK$3.5 million for the year ended 31 December 2018.

As at 31 December 2018, the Group measured the loss allowance for secured margin loans of Stage 1 amounting to HK$5.6 million, which was contributed by the new secured margin loans originated during the year with a gross carrying amount of HK$1,204.3 million.

Loss allowance of Stage 2 amounting to HK$14.0 million was reversed as at 31 December 2018 due to the repayment of secured margin loans with a gross carrying amount of HK$660.9 million.

Loss allowance of Stage 1 and Stage 2 amounting to HK$2.8 million and HK$2.8 million respectively was made for additional loan amount to the existing secured margin loans with a gross carrying amount of HK$695.2 million.

Due to the fluctuation of the stock market, the collateral valuations fell short of the related margin accounts. Additional loss allowance of HK$11.8 million was made for secured margin loans with a gross carrying amount of HK$784.7 million at Stage 3.

In determining the impairment allowance on secured margin loans which were credit-impaired, the management of the Group reviews and assesses each margin client individually based on the evaluation of collectability, aging analysis of accounts and on management's judgement, including the current creditworthiness and the past collection statistics of each client, the realisation value of securities or collaterals from clients and their guarantors which are held by the Group, subsequent settlement or additional collaterals received.

	Total HK$
As at 1 January 2017	–
Impairment charged to profit or loss during the year	290,394,561
As at 31 December 2017	290,394,561

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's credit risk exposure of accounts receivable (except for secured margin loans) for which an impairment allowance is recognised as follows based on simplified approach:

As at 31 December 2018

	Lifetime ECL (not credit-impaired) HK$	Lifetime ECL (Credit-impaired) HK$	Total HK$
Accounts receivable arising from the business of dealing in securities (except for secured margin loans)			
Gross carrying amount	461,311,823	1,324,990	462,636,813
Loss allowance	(75,512)	(484,488)	(560,000)
Net carrying amount	461,236,311	840,502	462,076,813
Accounts receivable arising from the business of dealing in futures and options contracts			
Gross carrying amount	223,910,678	–	223,910,678
Loss allowance	(88,000)	–	(88,000)
Net carrying amount	223,822,678	–	223,822,678
Accounts receivable arising from the business of corporate finance			
Gross carrying amount	20,526,889	–	20,526,889
Loss allowance	–	–	–
Net carrying amount	20,526,889	–	20,526,889
Accounts receivable arising from the business of asset management			
Gross carrying amount	12,283,025	354,867	12,637,892
Loss allowance	(158,000)	(354,867)	(512,867)
Net carrying amount	12,125,025	–	12,125,025
Accounts receivable arising from the business of financial products and investments			
Gross carrying amount	286,542,682	–	286,542,682
Loss allowance	–	–	–
Net carrying amount	286,542,682	–	286,542,682
Total			
Gross carrying amount	1,004,575,097	1,679,857	1,006,254,954
Loss allowance	(321,512)	(839,355)	(1,160,867)
Net carrying amount	1,004,253,585	840,502	1,005,094,087

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Movement in the allowances for impairment for accounts receivable (except for secured margin loans) is as follows:

	Lifetime ECL (not credit-impaired) HK$	Lifetime ECL (Credit-impaired) HK$	Total HK$
As at 1 January 2018 *(Note 2.1.2)*	–	–	–
Changes due to financial instruments recognised as at 1 January 2018:			
— Transfer to stage 3	–	–	–
— Transfer to stage 2	–	–	–
— Transfer to stage 1	–	–	–
— Impairment losses recognised	–	839,355	839,355
— Impairment losses reversed	–	–	–
— Written-off	–	–	–
New financial assets originated or purchased	321,512	–	321,512
As at 31 December 2018	321,512	839,355	1,160,867

During the year ended 31 December 2018, the Group provided HK$321,512 impairment allowance for accounts receivable (except for secured margin loans) based on simplified approach, which was contributed by the accounts receivable with a gross carrying amount of HK$698.3 million. Impairment allowance of HK$839,355 were made on debtors with credit impaired accounts receivable, with a gross carrying amount of HK$1.7 million.

Accounts receivable arising from the business of dealing in securities which are credit-impaired represent accounts receivable from cash clients when clients fail to settle according to settlement terms after taking into consideration the recoverability of collateral.

Accounts receivable arising from the business of asset management which are credit-impaired represent accounts receivable from asset management clients which have not yet been settled by clients over 1 year and the client encountered financial difficulty on the repayment.

No impairment was made for accounts receivable (except for secured margin loans) as 31 December 2017.

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table details the aggregate investment grade of debt securities and other financial products investment portfolio, which includes convertible bonds, unlisted collateralised loan obligation, unlisted debt-linked note, unlisted credit-linked notes, unlisted preference share listed note and unlisted equity-linked note, held by the Group, as rated by well-known rating agencies.

	As at 31 December 2018	As at 31 December 2017
Portfolio by issuer rating		
Available-for-sale financial assets		
AAA to A-	–	0.8%
BBB+ to BBB-	–	17.9%
BB+ and below	–	64.6%
Non-rated *(note)*	–	16.7%
	–	100.0%
Financial assets at fair value through profit or loss		
AAA to A-	**8.0%**	5.3%
BBB+ to BBB-	**13.8%**	16.2%
BB+ and below	**18.2%**	23.6%
Non-rated *(note)*	**60.0%**	54.9%
	100.0%	100.0%

Note: Non-rated financial assets mainly represent debts instruments and other financial products issued by special purpose entities, banks and other financial institutions and large corporations in the industries of industrial and construction, real estate, chemicals, metals and mining, transportation, and trade and retail, which are creditworthy issuers in the market.

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from investment securities, which includes debt securities, convertible bonds, unlisted collateralised loan obligation, unlisted debt-linked notes, unlisted credit-linked notes, unlisted perference share linked note, and unlisted equity-linked note held by the Group, is shown below.

	Notes	2018 Financial assets at fair value through profit or loss HK$	2017 Available-for-sale financial assets HK$	2017 Financial assets at fair value through profit or loss HK$
Carrying amount	*17, 18*	**7,921,229,951**	1,872,333,774	4,467,580,345
Concentration by sector				
Banks		**934,687,895**	86,960,918	1,442,081,473
Other financial institutions		**3,581,140,508**	660,970,310	1,325,570,585
Insurance		**154,178,213**	140,687,565	118,353,674
Corporate:		**3,221,580,973**	968,055,928	1,581,574,613
Real estate		**1,700,722,264**	524,094,367	1,172,510,828
Chemicals		**224,844,654**	62,023,298	–
Customer services		**29,187,000**	–	–
Food		**16,248,964**	–	–
Entertainment		**21,568,379**	–	–
Industrial and construction		**483,173,530**	–	127,845,091
Transportation		**51,397,840**	268,185,939	28,614,631
Telecommunications		**44,415,653**	30,958,488	46,437,732
Utilities		**208,958,249**	–	74,190,922
Metals and mining		**441,064,440**	82,793,836	131,975,409
Retail		**29,642,362**	15,659,053	–
		7,921,229,951	1,872,333,774	4,467,580,345
Concentration by location				
China		**1,381,235,492**	1,628,910,154	2,144,040,689
Europe		**406,080,153**	55,428,202	118,353,674
Hong Kong		**2,174,333,262**	–	1,950,400,753
Asia		**110,897,673**	187,995,418	98,751,322
Australia		**104,349,258**	–	115,967,682
America		**3,744,334,113**	–	40,066,225
		7,921,229,951	1,872,333,774	4,467,580,345

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

Other than concentration of credit risk on bank balances, amounts due from clearing houses and brokers, top ten margin clients' exposure described above, loans receivable from three independent counterparties and debt securities investment, the Group had no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The directors of Company consider that the liquidity risk of the Group is remote because the Group has sufficient assets to repay the liabilities when demanded.

A number of the Group's activities in Hong Kong are subject to various statutory liquidity requirements as prescribed by the Hong Kong Securities and Futures Commission in accordance with the Hong Kong Securities and Futures Ordinance (the "HKSFO").

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements under the HKSFO.

The table below analyses the financial liabilities of the Group into relevant maturity groupings based on the earliest date on which the Group can be required to pay. Bank borrowings with a repayment on demand clause are included in the "on demand and less than one month" time band. The directors of the company do not believe that it is probable the banks will exercise their discretionary rights to demand immediate repayment. As the scheduled repayment dates of these borrowings are all less than one month from the end of each reporting period, the maturity analysis without taking into account the repayment on demand clause would be similar to the table below and no further analysis is presented. As at 31 December 2018, the aggregate undiscounted principal amounts of these bank borrowings of the Group amounted to HK$5,580,000,000 (2017: HK$5,104,592,664). The maturity dates for other financial liabilities are based on the agreed repayment dates.

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Repayable on demand and less than one month HK$	More than 1 month to 1 year HK$	Over 1 year to 5 years HK$	Total contractual undiscounted cash flows HK$	Carrying amount HK$
At 31 December 2018						
Accounts payable (excluding secured margin loans payable to broker)	0.01%	5,991,194,627	–	–	5,991,194,627	5,991,194,627
Financial liabilities held for trading	N/A	104,522,000	11,879,526	–	116,401,526	116,401,526
Financial liabilities designated at fair value through profit or loss (including interest payable)	12.4%	–	172,299,574	–	172,299,574	172,299,574
Repurchase agreements (including interest payable)	3.41%	1,109,118,541	439,913,417	–	1,549,031,958	1,542,080,825
Bank borrowings (including interest payable)	4.55%	5,586,797,616	133,497,604	3,588,659,804	9,308,955,024	8,909,661,292
Other borrowings (including interest payable)	4.07%	–	1,508,456,866	–	1,508,456,866	1,485,297,574
Notes (including interest payable)	3%	–	62,850,751	–	62,850,751	62,850,751
Other payables	N/A	25,173,677	–	785,704	25,959,381	25,959,381
Amount due to a related party	N/A	3,174,615	–	–	3,174,615	3,174,615
Other liabilities	N/A	399,729,979	–	–	399,729,979	399,729,979

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40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Repayable on demand and less than one month HK$	More than 1 month to 1 year HK$	Over 1 year to 5 years HK$	Total contractual undiscounted cash flows HK$	Carrying amount HK$
At 31 December 2017						
Accounts payable (excluding secured margin loans payable to broker)	0.01%	4,012,456,690	–	–	4,012,456,690	4,012,423,261
Accounts payable arising from the business of financial products and investments — secured margin loans (including interest payable)	2.70%	191,677,567	–	–	191,677,567	191,677,567
Financial liabilities held for trading	N/A	2,718,000	5,851,093	–	8,569,093	8,569,093
Financial liabilities designated at fair value through profit or loss (including interest payable)	6.26%	166,822,080	–	24,223,502	191,045,582	176,964,865
Repurchase agreements (including interest payable)	2.38%	1,096,140,258	–	–	1,096,140,258	1,096,140,258
Bank borrowings (including interest payable)	3.30%	5,107,450,071	301,643,883	–	5,409,093,954	5,407,703,125
Other borrowings (including interest payable)	3.51%	27,149,534	1,229,435,067	–	1,256,584,601	1,213,654,737
Notes (including interest payable)	3.00%	–	63,814,747	–	63,814,747	62,946,653
Other payables	N/A	4,474,110	–	3,234,406	7,708,516	7,708,516
Amount due to a related party	N/A	2,957,147	–	–	2,957,147	2,957,147
Other liabilities	N/A	278,866,324	–	–	278,866,324	278,866,324

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40. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurement of financial instruments

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs are unobservable inputs for the asset or liability.

Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 31 December 2018 and 2017.

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40. FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets and financial liabilities are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

	Fair value as at			
	31 December 2018 HK$	31 December 2017 HK$	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
1) Financial assets at fair value through profit or loss				
Equity securities				
— Traded on stock exchanges	**250,488,074**	259,712,504	Level 1	Quoted price in active markets
— Unlisted	**374,529,995**	–	Level 3	Market approach based on the Guideline Companies Method with the Price to Earnings multiple of the comparable companies, with significant unobservable input of the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment *(note a)*
Debt securities				
— Traded on stock exchanges	**4,642,934,840**	3,367,070,652	Level 1	Quoted price in active markets
— Unlisted	**1,784,955,456**	718,618,170	Level 2	Quoted from market makers
Credit derivative	**2,747,716**	3,193,943	Level 2	Quoted from market makers
Foreign currency forward contracts	**2,322,556**	–	Level 2	Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate

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40. FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

	Fair value as at			
	31 December 2018 HK$	31 December 2017 HK$	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
1) Financial assets at fair value through profit or loss (Continued)				
Convertible bonds — Traded on stock exchanges	**213,248,835**	32,240,418	Level 1	Quoted price in active markets
Unlisted collateralised loan obligation	**–**	40,066,225	Level 2	Quoted from market makers
Funds — Traded on stock exchange	**69,441,600**	–	Level 1	Quoted price in active market
— Unlisted	**88,528,438**	375,621,692	Level 2	NAV of funds with reference to underlying investment portfolios which have observable quoted price in active markets
— Unlisted	**24,820,997**	–	Level 3	NAV of fund provided by external counterparty which is the deemed redemption price *(note b)*
— Unlisted	**46,987,812**	–	Level 2	Recent transaction price
Unlisted credit-linked notes	**–**	67,233,080	Level 2	Observable quoted price of underlying debt securities in active market
Unlisted equity-linked note	**398,055,808**	–	Level 2	Observable quoted price of underlying equity investment in active market
Unlisted preference share linked note	**–**	242,351,800	Level 2	Recent transaction price
Unlisted debt-linked note	**841,767,642**	–	Level 2	Observable quoted price of underlying investment portfolio in active market
Unlisted debt-linked note	**40,267,370**	–	Level 2	Quoted from market makers
	8,781,097,139	5,106,108,484		

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

	Fair value as at 31 December 2018 HK$	Fair value as at 31 December 2017 HK$	Fair value hierarchy	Valuation technique(s) and key input(s)
2) Available-for-sale financial assets				
Debt securities				
— Traded on stock exchanges	**–**	1,473,504,798	Level 1	Quoted price in active markets
— Unlisted	**–**	398,828,976	Level 2	Quoted from market makers
Unlisted investment funds	**–**	11,423,329	Level 2	NAV of funds with reference to underlying investment portfolios which have observable quoted price in active market
	–	1,883,757,103		
3) Financial liabilities held for trading				
Short position in listed equity securities	**104,522,000**	2,718,000	Level 1	Quoted price in active market
Credit derivative	**11,198,759**	596,858	Level 2	Quoted price from market makers
Credit derivative	**680,767**	–	Level 3	Quoted price from market makers *(note c)*
Foreign currency forward contracts	**–**	5,254,235	Level 2	Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate
	116,401,526	8,569,093		

For the year ended 31 December 2018

40. FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

	Fair value as at			
	31 December 2018 HK$	31 December 2017 HK$	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
4) Financial liabilities designated at fair value through profit or loss				
Unlisted structured products (with the underlying investment related to listed debt securities)	**148,930,662**	153,388,921	Level 2	Observable quoted price of underlying investments in active market
Unlisted structured product (with the underlying investment related to unlisted debt security)	**23,368,912**	23,282,776	Level 2	Observable quoted price of underlying investment from market makers
	172,299,574	176,671,697		

Notes:

(a) The unobservable input is the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted.

(b) The directors of the Company determined that the reported net asset value of the unlisted investment fund represents the fair value of the fund. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in positive relationship that the higher the reported net asset value adopted in the valuation assessment, the higher the fair value would be resulted.

(c) The unobservable input is the spread of the credit derivative with reference to the price of the underlying reference obligation and the spread is provided by the external counterparty, when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the spread adopted in the valuation assessment, the lower the fair value would be resulted.

There were no transfers between Level 1 and 2 during the years ended 31 December 2018 and 2017.

40. FINANCIAL INSTRUMENTS *(Continued)*

Reconciliation of Level 3 fair value measurements

31 December 2018

	Financial liabilities at fair value through profit or loss HK$	Financial assets at fair value through profit or loss HK$
Opening balance	–	–
Additions *(note a)*	–	313,177,638
Transfer into Level 3 *(note c)*	–	23,502,000
Total gains in profit or loss *(note b)*	(680,767)	62,671,354
Closing balance	(680,767)	399,350,992

As at 31 December 2017, no financial instruments were classified as Level 3.

Notes:

(a) During the year ended 31 December 2018, the Group entered into a credit derivative with a notional amount of HK$200,000,000 of which reference entity was within the real estate sector in Hong Kong with a non-bank financial institution, which was classified as financial liability at fair value through profit or loss.

During the year ended 31 December 2018, the Group acquired an unlisted equity investment with a consideration of US$39,990,504 which was classified as financial asset at fair value through profit or loss.

(b) For the year ended 31 December 2018, of the total gains or losses for the year included in profit or loss, gain of HK$62.7 million and loss of HK$680,767 relate to unrealised gains/losses for the year included in profit or loss for financial assets at FVTPL and financial liabilities at FVTPL held at year end respectively. Fair value gains or losses on financial assets/liabilities at FVTPL are included in "Net unrealised gain (loss) on financial assets/liabilities at FVTPL" as set out in note 5.

(c) The fair value of the unlisted fund was determined with reference to the recent transaction price and therefore classified as Level 2 investment for the year ended 31 December 2017. During the year ended 31 December 2018, the fair value of the unlisted fund was determined based on significant unobservable inputs and involved significant judgement made by the management. Thus, the instrument was transferred from Level 2 to Level 3 category.

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40. FINANCIAL INSTRUMENTS *(Continued)*

Derivative financial instruments settled daily

	As at 31 December 2018		
	Notional	Fair value	
	amount	Assets	Liabilities
	HK$	HK$	HK$
Hang Seng Index futures	**96,952,500**	**844,750**	**–**
Interest rate futures	**3,693,376,000**	**–**	**25,236,230**
Total	**3,790,328,500**	**844,750**	**25,236,230**
Less: Settlement		**(844,750)**	**(25,236,230)**
Net Position		**–**	**–**

	As at 31 December 2017		
	Notional	Fair value	
	amount	Assets	Liabilities
	HK$	HK$	HK$
Hang Seng Index futures	179,626,050	–	1,559,350
Interest rate futures	683,215,914	3,241,029	–
Total	862,841,964	3,241,029	1,559,350
Less: Settlement		(3,241,029)	(1,559,350)
Net Position		–	–

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures traded through CISI Futures, were settled daily with the broker. Accordingly, the net position of the above derivative contracts was nil as at 31 December 2018 and 2017.

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41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements

The disclosures set out in the table below include financial assets that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for total return swaps and sale and repurchase agreements.

The Group's total return swaps transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set-off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group pledged collateral in the form of cash in respect of its total return swaps transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral pledged must be returned on maturity of the transactions.

Under the agreement of continuous net settlement between the Group and HKSCC and respective agreements between the Group and brokers, the Group has a legally enforceable right to set off money obligations receivable and payable with HKSCC and respective brokers on the same settlement date on a net basis. The Group intends to settle these balances on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC and brokers do not meet the criteria for offsetting in the consolidated statements of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

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41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

As at 31 December 2018

	Gross amount of recognised financial assets HK$	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$	Net amounts of financial assets presented in the consolidated statement of financial position HK$	Related amounts not set off in the consolidated statement of financial position — Financial instruments HK$	Related amounts not set off in the consolidated statement of financial position — Collateral received HK$	Net amount HK$
Financial assets						
Accounts receivable arising from the business of dealing in securities	6,788,860,332	(424,670,214)	6,364,190,118	(134,716,976)	(5,741,862,803)	487,610,339
Debt securities pledged as collaterals for other borrowings (as disclosed in note 38)	1,786,257,427	–	1,786,257,427	(1,485,297,574)	–	300,959,853
Debt securities pledged as collaterals for repurchase agreements (as disclosed in note 38)	2,042,711,942	–	2,042,711,942	(1,542,080,825)	–	500,631,117
Reverse repurchase agreements	334,317,392	–	334,317,392	–	(334,317,392)	–
Financial assets at fair value through profit or loss (note a)	3,843,311,655	(3,843,311,655)	–	–	–	–

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41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

As at 31 December 2018 *(Continued)*

	Gross amount of recognised financial liabilities HK$	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$	Related amounts not set off in the consolidated statement of financial position: Collateral pledged HK$	Net amount HK$
Financial liabilities						
Accounts payable arising from the business of dealing in securities	**6,043,585,277**	**(424,670,214)**	**5,618,915,063**	**(134,716,976)**	**(7,395,227)**	**5,476,802,860**
Repurchase agreements	**1,542,080,825**	**–**	**1,542,080,825**	**(1,542,080,825)**	**–**	**–**
Other borrowings	**1,485,297,574**	**–**	**1,485,297,574**	**(1,485,297,574)**	**–**	**–**
Financial liabilities at fair value through profit or loss (note a)	**3,843,311,655**	**(3,843,311,655)**	**–**	**–**	**–**	**–**

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41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

As at 31 December 2017

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Collateral received	Net amount
	HK$	HK$	HK$	HK$	HK$	HK$
Financial assets						
Accounts receivable arising from the business of dealing in securities	5,250,275,695	(506,533,837)	4,743,741,858	(126,539,202)	(4,110,243,308)	506,959,348
Debt securities pledged as collaterals for other borrowings (as disclosed in note 38)	2,005,193,405	–	2,005,193,405	(1,203,876,281)	–	801,317,124
Debt securities pledged as collaterals for repurchase agreements (as disclosed in note 38)	1,391,944,090	–	1,391,944,090	(1,094,855,904)	–	297,088,186
Debt securities pledged as collaterals for margin loans from brokers (notes b and 27)	315,014,701	–	315,014,701	(191,248,478)	–	123,766,223
Financial assets at fair value through profit or loss (note a)	474,272,850	(474,272,850)	–	–	–	–

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41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

As at 31 December 2017 *(Continued)*

	Gross amount of recognised financial liabilities HK$	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$	Collateral pledged HK$	Net amount HK$
Financial liabilities						
Accounts payable arising from the business of dealing in securities	4,208,869,831	(506,533,837)	3,702,335,994	(126,539,202)	(5,857,460)	3,569,939,332
Accounts payable arising from the business of financial products and investments – secured margin loans from brokers	191,248,478	–	191,248,478	(191,248,478)	–	–
Repurchase agreements	1,094,855,904	–	1,094,855,904	(1,094,855,904)	–	–
Other borrowings	1,203,876,281	–	1,203,876,281	(1,203,876,281)	–	–
Financial liabilities at fair value through profit or loss *(note a)*	474,272,850	(474,272,850)	–	–	–	–

Notes:

(a) During the year ended 31 December 2018 and 2017, the Group entered into contracts for separate financial assets and financial liabilities which are subject to enforceable netting arrangement, and the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(b) As at 31 December 2017, for the debt securities pledged as collaterals by the Group which is eligible to set off the Group's secured margin loans from brokers, debt securities with carrying value amounting to HK$147,439,040 and HK$167,575,661 are classified as financial assets at FVTPL and AFS financial assets in the Group's consolidated statement of financial position respectively.

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42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non- cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings HK$ (Note 31)	Other borrowings HK$ (Note 32)	Notes HK$ (Note 33)	Financial liabilities at fair value through profit or loss HK$ (Note 26)	Repurchase agreements HK$ (Note 30)	Accounts payable HK$ (Note 27)	Accrued interest HK$ (Note 28)	Other liabilities HK$ (Note 47)	Total HK$
At 1 January 2018	5,404,592,664	1,203,876,281	62,549,900	185,240,790	1,094,855,904	4,203,671,739	14,863,192	278,866,324	12,448,516,794
Financing cash flow:									
— Borrowings raised	40,582,001,825	790,022,977	-	-	-	-	-	-	41,372,024,802
— Repayment of borrowings	(37,083,730,813)	(524,992,892)	-	-	-	-	-	-	(37,608,723,705)
— Issuance of notes	-	-	62,650,400	-	-	-	-	-	62,650,400
— Redemption of notes	-	-	(62,549,900)	-	-	-	-	-	(62,549,900)
— Interest paid	(278,494,869)	(32,429,879)	(4,257,196)	-	(32,653,453)	(7,566,276)	(14,863,192)	-	(370,264,865)
— Contribution from third-party unitholders/shareholders of consolidated investment funds	-	-	-	-	-	-	-	177,054,702	177,054,702
— Withdrawal from third-party unitholders/shareholders of consolidated investment funds	-	-	-	-	-	-	-	(11,454,513)	(11,454,513)
Operating cash flow:									
— Change in financial liabilities at fair value through profit or loss	-	-	-	101,978,262	-	-	-	-	101,978,262
— Change in repurchase agreements	-	-	-	-	440,546,639	-	-	-	440,546,639
— Change in accounts payable	-	-	-	-	-	1,787,522,888	-	-	1,787,522,888
Net assets disposed of at the date of disposal attributable to third-party unitholders/shareholders of consolidated investment funds	-	-	-	-	-	-	-	(28,800,529)	(28,800,529)
Fair value changes of interest held by third-party unitholders/shareholders of consolidated investment funds	-	-	-	-	-	-	-	(15,936,005)	(15,936,005)
Finance costs	285,292,485	48,821,087	4,457,547	1,482,048	39,331,735	7,566,276	-	-	386,951,178
At 31 December 2018	8,909,661,292	1,485,297,574	62,850,751	288,701,100	1,542,080,825	5,991,194,627	-	399,729,979	18,679,516,148

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42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

	Bank borrowings HK$ (Note 31)	Other borrowings HK$ (Note 32)	Notes HK$ (Note 33)	Interest payable HK$ (Note 28)	Other liabilities HK$ (Note 47)	Total HK$
At 1 January 2017	4,142,518,829	177,577,860	–	4,577,212	–	4,324,673,901
Financing cash flows:						
— Borrowings raised	41,754,216,261	1,203,876,281	–	–	–	42,958,092,542
— Repayments of borrowings	(40,492,142,426)	(177,577,860)	–	–	–	(40,669,720,286)
— Issuance of notes	–	–	93,813,600	–	–	93,813,600
— Redemption of notes	–	–	(31,263,700)	–	–	(31,263,700)
— Interest paid	–	–	–	(156,531,894)	–	(156,531,894)
— Contributions from third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	223,780,377	223,780,377
— Withdrawals from third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	(8,651,451)	(8,651,451)
Net assets acquired at the date of acquisition attributable to third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	63,839,416	63,839,416
Fair value changes of interest held by third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	(102,018)	(102,018)
Interest expense	–	–	–	166,817,874	–	166,817,874
At 31 December 2017	5,404,592,664	1,203,876,281	62,549,900	14,863,192	278,866,324	6,964,748,361

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43. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the notes to the consolidated financial statements, the Group had the following material transactions with related parties.

(a) Compensation of key management personnel

Other than the directors' emoluments disclosed in note 11(a), the remuneration of other members of key management during the years ended 31 December 2018 and 2017 was as follows:

	2018 HK$	2017 HK$
Short-term benefits	**30,659,000**	32,129,482
Post-employment benefits	**144,000**	135,000

(b) Right of trading of RMB denominated securities in the PRC

During the years ended 31 December 2018 and 2017, the Group invests in RMB denominated securities in the PRC using the approved quota under the PRC RMB Qualified Foreign Institutional Investor program of the intermediate holding company for consideration of HK$1 per annum.

(c) Consultancy services from a fellow subsidiary

Pursuant to service agreement entered into between the Company and Industrial Securities (Shenzhen), dated 27 September 2016 (the "Service Agreement"), Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%. On 3 April 2018, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which the Company required broader services from Industrial Securities (Shenzhen) including provision of services and support to the Group's clients in core regions in the PRC, brand establishment and promotion and provision of cross-border information technology support. During the year ended 31 December 2018, the Company paid a consultancy service fee of HK$21,615,877 (2017: HK$10,198,538) under the Service Agreement. Details of the Service Agreement and the Supplemental Service Agreement are set out in section headed "Connected Transactions" in the Prospectus and in the announcement dated 3 April 2018 respectively.

(d) Right of use of trademark

During the years ended 31 December 2018 and 2017, the Group was granted by the intermediate holding company a non-transferable and non-assignable license to use its registered trademarks for the Group's business and any related businesses for consideration of HK$1 per annum.

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44. DISPOSAL OF A CONSOLIDATED STRUCTURED ENTITY

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

Consideration received

	HK$
Cash	12,907,712

Analysis of assets and liabilities over which control was lost

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

Gain on disposal

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

Net cash inflow arising on disposal

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

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45. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

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

Consideration transferred

	HK$
Cash	39,880,000

Assets acquired and liabilities recognised at the date of acquisition

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

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

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

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

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

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

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46. SUBSIDIARIES

The particulars of the Group's subsidiaries and consolidated investment funds are as follows:

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid up share capital	Equity attributable to the Group at 31 December		Principal activities
				2018 %	2017 %	
Directly owned						
China Industrial Securities International Brokerage Limited	Hong Kong	Hong Kong	HK$2,500,000,000	**100**	100	Securities dealing and broking and securities margin financing
China Industrial Securities International Futures Limited	Hong Kong	Hong Kong	HK$50,000,000	**100**	100	Futures and options contracts broking
China Industrial Securities International Capital Limited	Hong Kong	Hong Kong	HK$20,000,000	**100**	100	Investment banking services
China Industrial Securities International Asset Management Limited	Hong Kong	Hong Kong	HK$20,000,000	**100**	100	Advising on securities and asset management services
China Industrial Securities International Finance Limited	Hong Kong	Hong Kong	HK$210,000	**100**	100	Money lending
China Industrial Securities International Investment Limited	Hong Kong	Hong Kong	HK$20,000,000	**100**	100	Investment holding
China Industrial Securities International Wealth Management Limited	Hong Kong	Hong Kong	HK$1,000,000	**100**	100	Wealth management services
Indirectly owned						
CISI Investment Limited	British Virgin Islands	Hong Kong	US$2,500,000	**100**	100	Investment trading
CISI Capital Management Limited	British Virgin Islands	Hong Kong	US$1	**100**	100	Investment holding

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46. SUBSIDIARIES *(Continued)*

Name of investment fund	Place of incorporation	Place of operation	Class of share	Effective interest holding at 31 December 2018 %	2017 %	Principal activities
Indirectly owned						
IS Investment Fund Segregated Portfolio Company — CIS Excellent Select Fund Segregated Portfolio ("CISEF") (notes a and b)	Cayman Islands	Hong Kong	Participating	**N/A**	42.08	Investment trading
IS Investment Fund Segregated Portfolio Company — CIS Resources Fund Segregated Portfolio ("CISRF") (note a)	Cayman Islands	Hong Kong	Participating	**100**	100	Investment trading
IS Investment Fund Segregated Portfolio Company — CIS USD Fixed Income Fund Segregated Portfolio ("CISFF") (note a)	Cayman Islands	Hong Kong	Participating	**98.75**	97.46	Investment trading
IS Investment Fund Segregated Portfolio Company — WVCIS Value Growth Fund Segregated Portfolio ("CISWF") (note a)	Cayman Islands	Hong Kong	Participating	**48.49**	49.58	Investment trading
IS Investment Fund Segregated Portfolio Company — CIS The Belt and Road PE Fund I ("CISBF") (notes a and c)	Cayman Islands	Hong Kong	Participating	**50**	N/A	Investment trading
IS Investment Funds Segregated Portfolio Company — CIS Multi-Tranche Money Market Fund SP ("CISMM") (notes a and c)	Cayman Islands	Hong Kong	Participating	**56.97**	N/A	Investment trading

Notes:

(a) CISI Asset Management, a wholly owned subsidiary of the Group, holds all management shares of IS Investment Fund Segregated Portfolio Company ("IS IFSPC"). CISI Asset Management has been appointed as an investment manager of CISEF, CISRF, CISFF, CISWF, CISBF and CISMM under IS IFSPC. The Group holds significant participating shares in the above mentioned funds. The directors of the Company are of the opinion that the funds are regarded as consolidated structured entities of the Group as the Group is able to exercise control over its operation and has significant variable financial interests as at 31 December 2018 and 2017.

(b) During the year, the Group disposed of CISEF. Details of the disposal is disclosed in note 44.

(c) Incorporated during the year.

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47. INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including investment funds. For the investment funds where the Group involves as manager and also as investor, the Group assesses whether the combination of funds it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that it indicates that the Group is a principal. During the year ended 31 December 2018, loss contributed by the consolidated investment funds (excluding third party interests as stated below), were HK$48,651,406 (2017: profit of HK$49,029,295). As at 31 December 2018, the total assets and total liabilities (excluding third party interests as stated below) of the consolidated investment funds, were HK$2,522,969,056 and HK$691,633,483 respectively (2017: HK$1,732,636,912 and HK$32,979,274 respectively).

Third-party interests in consolidated structured entities consist of third-party unit holders/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

For the year ended 31 December 2018, interests held by third-party unit holders/shareholders of HK$15,936,005 (2017: HK$102,018) in consolidated structured entities are included as other gains within other gains or losses in the consolidated statement of profit or loss and other comprehensive income and the interests held by third-party unit holders/shareholders amounted to HK$399,729,979 (2017: HK$278,866,324) as at 31 December 2018 are included in other liabilities in the consolidated statement of financial position.

48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

A wholly owned subsidiary of the Company, CISI Asset Management, serves as the investment manager of several investment funds, which are considered to be structured entities within the definition of HKFRS 12 *Disclosure of interests in other entities*. The directors of the Company are of the opinion that the investment funds are regarded as unconsolidated structured entities as the Group does not hold any participating shares in the investment funds which is not able to exercise control over their operation and has no significant variable financial interest. Hence, they are not consolidated in the consolidated financial statements.

CISI Asset Management receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities invest in a range of asset classes. The carrying values of the Group's interests in these unconsolidated structured entities as recognised in the consolidated statement of financial position as at 31 December 2018 is HK$5,796,000 (2017: HK$3,075,000) (included in accounts receivable) and the management fee and performance fee recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is HK$10,600,000 (2017: HK$6,972,000). The net asset value of total assets under management for these funds amounts to approximately HK$5,433 million as at 31 December 2018 (2017: HK$5,359 million).

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48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest their capital, from third-party investors, in a portfolio of assets according to respective investment restrictions set out in the offering documentation in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, the portfolio of assets held by these unconsolidated structured entities are susceptible to market price risk and the performance of the investment manager.

Maximum exposure to loss

The Group's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount mentioned as above.

Financial support

The Group has not provided financial support to any of its unconsolidated structured entities during the years ended 31 December 2018 and 2017, and has no contractual obligations or current intention of providing financial support in the future.

Other information

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Group's interest in the unconsolidated structured entities.

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49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$	2017 HK$
Non-current assets		
Property and equipment	**26,024,602**	19,775,614
Intangible assets	**879,382**	211,021
Investment in subsidiaries	**2,600,134,817**	2,611,761,045
Deposits, other receivables and prepayments	**13,458,444**	11,544,450
	2,640,497,245	2,643,292,130
Current assets		
Deposits, other receivables and prepayments	**3,587,282**	10,193,603
Amounts due from subsidiaries/related parties	**10,166,664,465**	5,885,032,842
Bank balances – general accounts and cash	**67,377,004**	270,739,675
	10,237,628,751	6,165,966,120
Current liabilities		
Accruals and other payables	**92,352,601**	101,878,338
Amounts due to related parties	**3,174,615**	2,957,147
Tax payable	**36,210,215**	32,852,390
Bank borrowings	**5,086,488,062**	4,330,000,000
	5,218,225,493	4,467,687,875
Net current assets	**5,019,403,258**	1,698,278,245
Non-current liabilities		
Accruals and other payables	**785,704**	3,234,408
Deferred tax liabilities	**914,767**	694,472
Bank borrowings	**3,322,863,676**	–
	3,324,564,147	3,928,880
Net assets	**4,335,336,356**	4,337,641,495
Capital and reserves		
Share capital	**400,000,000**	400,000,000
Share premium	**3,359,547,592**	3,359,547,592
Retained earnings	**133,346,943**	135,652,082
Capital reserve	**442,441,821**	442,441,821
Equity attributable to owners of the Company	**4,335,336,356**	4,337,641,495

For the year ended 31 December 2018

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in the Company's reserves

	Share premium HK$	Capital reserve HK$	Retained earnings HK$	Total HK$
At 1 January 2017	3,359,547,592	442,441,821	97,196,320	3,899,185,733
Dividends recognised as distribution	–	–	(80,000,000)	(80,000,000)
Profit and total comprehensive income for the year	–	–	118,455,762	118,455,762
At 31 December 2017	3,359,547,592	442,441,821	135,652,082	3,937,641,495
Dividends recognised as distribution	–	–	(120,000,000)	(120,000,000)
Profit and total comprehensive income for the year	–	–	117,694,861	117,694,861
At 31 December 2018	3,359,547,592	442,441,821	133,346,943	3,935,336,356

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2014 HK$	2015 HK$	2016 HK$	2017 HK$	**2018** **HK$**
REVENUE	120,001,758	364,324,168	507,300,113	927,724,226	**1,011,045,602**
Other income	4,365,712	3,865,371	7,419,660	23,630,339	**53,584,083**
Share of result of a joint venture	–	–	–	–	**(498,698)**
Finance costs	(16,682,557)	(45,843,172)	(73,251,260)	(166,817,874)	**(386,951,178)**
Commission and fee expenses	(12,976,346)	(79,996,504)	(47,536,937)	(101,172,102)	**(111,605,723)**
Staff costs	(36,377,417)	(100,009,268)	(129,440,925)	(163,560,791)	**(187,040,901)**
Other operating expenses	(37,460,628)	(85,253,840)	(92,383,061)	(130,199,762)	**(182,361,532)**
Listing expenses	–	(1,598,329)	(22,899,313)	–	**–**
Impairment losses on financial assets	–	–	–	(290,394,561)	**(6,105,250)**
Other gains and losses	2,248,537	(7,419,313)	(15,831,828)	78,875,531	**10,483,808**
PROFIT BEFORE TAXATION	23,119,059	48,069,113	133,376,449	178,085,006	**200,550,211**
Taxation	(4,347,723)	2,434,920	(32,256,895)	(25,253,165)	**(56,749,540)**
PROFIT FOR THE YEAR	18,771,336	50,504,033	101,119,554	152,831,841	**143,800,671**
Other comprehensive income (expense) for the year	(18,443,580)	18,443,580	(38,104,605)	30,109,172	**–**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	327,756	68,947,613	63,014,949	182,941,013	**143,800,671**
EARNINGS PER SHARE					
Basic (expressed in HKD)	0.0399	0.0991	0.0420	0.0382	**0.0360**

ASSETS AND LIABILITIES

	As at 31 December				
	2014 HK$	2015 HK$	2016 HK$	2017 HK$	**2018** **HK$**
Total assets	2,137,432,645	4,916,439,425	13,398,147,405	17,053,775,016	**23,343,840,317**
Total liabilities	(1,716,754,735)	(4,419,183,440)	(9,103,822,604)	(12,656,509,202)	**(18,952,766,745)**
Net assets	420,677,910	497,255,985	4,294,324,801	4,397,265,814	**4,391,073,572**

興證國際金融集團有限公司
China Industrial Securities International Financial Group Limited