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

2019 Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Directors

Mr. Huang Yilin *(Chairman)* (appointed as Chairman on 6 August 2019)
Mr. Yang Huahui *(Chairman)* (resigned on 6 August 2019)

Executive Directors

Mr. Li Baochen *(Chief Executive Officer)* (appointed on 13 January 2020)
Mr. Wang Xiang
Ms. Zeng Yanxia
Ms. Zhang Chunjuan (appointed on 2 August 2019)
Mr. Huang Jinguang (resigned as Chief Executive Officer on 13 January 2020 and resigned as Executive Director and Vice Chairman on 6 February 2020)

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. Huang Yilin (appointed on 6 August 2019)
Mr. Yang Huahui (resigned on 6 August 2019)
Mr. Qin Shuo

Nomination Committee

Mr. Huang Yilin *(Chairman)* (appointed on 6 August 2019)
Mr. Yang Huahui *(Chairman)* (resigned on 6 August 2019)
Mr. Tian Li
Mr. Qin Shuo

COMPANY SECRETARY

Mr. Cho Ka Wai

AUTHORISED REPRESENTATIVES

Ms. Zhang Chunjuan (appointed on 2 August 2019)
Ms. Zeng Yanxia (resigned on 2 August 2019)
Mr. Cho Ka Wai

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited
Second Floor
Century Yard
Cricket Square, P.O. Box 902
Grand Cayman KY1-1103
Cayman Islands

PRINCIPAL BANKERS

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

WEBSITE

www.xyzq.com.hk

STOCK CODE

6058

FINANCIAL HIGHLIGHTS

RESULTS

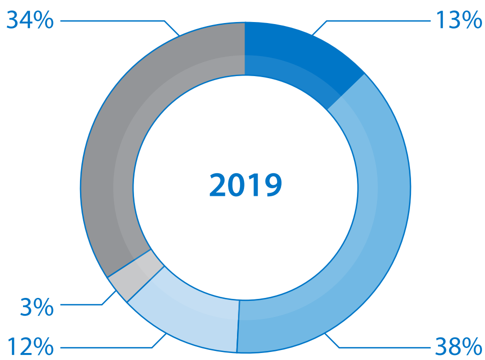
	For the year ended 31 December		
	2019	2018	Change
	HK$	HK$	*%*
Commission and fee income from brokerage services *(note a)*	**167,797,427**	212,494,664	–21.0%
Commission and advisory fee income from corporate finance services	**154,775,270**	211,332,207	–26.8%
Management fee and advisory fee income from asset management services	**36,076,093**	19,225,687	87.6%
Interest income from loans and financing services	**479,197,671**	428,170,359	11.9%
Income from financial products and investments	**423,716,806**	139,822,685	203.0%
Revenue	**1,261,563,267**	1,011,045,602	24.8%
(Loss)/profit for the year	**(461,859,447)**	143,800,671	–421.2%
Per share			
Basic (loss)/earnings per share (HK$) *(note b)*	**(0.1155)**	0.0360	–420.8%
Dividend per share (HK$)	**–**	0.0230	–100.0%
Net assets per share *(note c)*	**0.96**	1.10	–12.7%

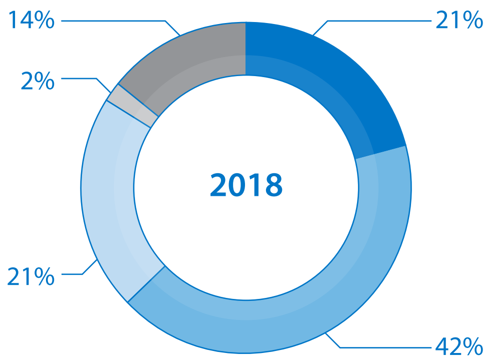
Notes:

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

b. Basic (loss)/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.





● Brokerage ● Loans and financing ● Corporate finance ● Asset management ● Financial products and investments

FINANCIAL HIGHLIGHTS

FINANCIAL CONDITIONS

	As at 31 December 2019 HK$	As at 31 December 2018 HK$	Change %
Total assets	**24,304,672,709**	23,343,840,317	4.1%
Equity attributable to owners of the Company	**3,839,641,916**	4,391,073,572	–12.6%
Number of issued shares	**4,000,000,000**	4,000,000,000	0.0%
Net profit margin	**–36.6%**	14.2%	–357.7%
Return on equity *(note a)*	**–10.6%**	3.3%	–421.2%
Return on total assets	**–1.9%**	0.6%	–416.7%
Gearing ratio *(note b)*	**315.7%**	238.2%	32.5%
Net debt to equity ratio *(note c)*	**176.1%**	203.6%	-13.5%

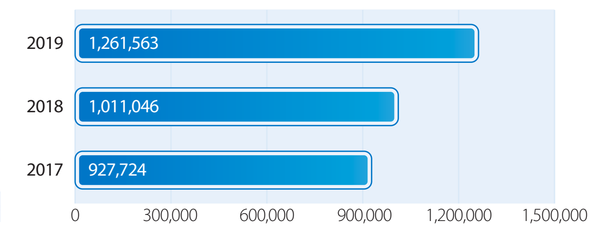
Notes:

a. Return on equity is calculated by dividing the (loss)/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 2019 was HK$4,357,589,737 (2018: HK$4,376,754,911).

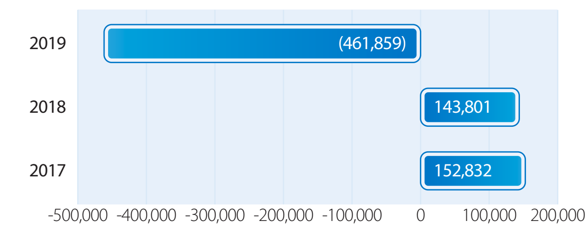
b. Gearing ratio is calculated by dividing the total of the bank borrowings, other borrowings, notes and bonds as at the end of the year by the equity attributable to owners of the Company as at the end of the year.

c. Net debt to equity ratio is calculated by dividing the total of the bank borrowings, other borrowings, notes and bonds 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.

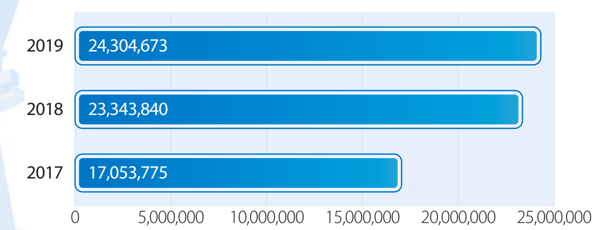
Revenue
(HK$'000)



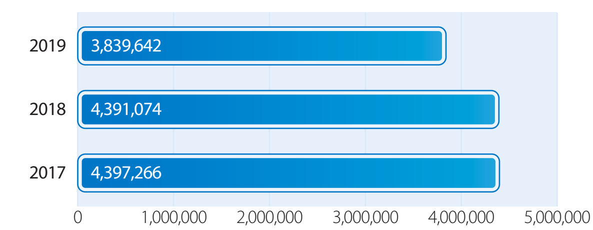
Profit for the year
(HK$'000)



Total assets
(HK$'000)



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



CHAIRMAN'S STATEMENT

I would like to report to the shareholders that China Industrial Securities International Financial Group Limited ("CISI", together with its subsidiaries, the "Group") managed to keep its various businesses, other than the margin financing business, generally stable as Hong Kong's economy contracted in 2019. For the year ended 31 December 2019, the Group's operating revenue amounted to HK$1,261.56 million (2018: HK$1,011.05 million), representing an increase of 24.8% over the previous year. As a result of the provision for impairment of margin financing, net loss after taxation was HK$461.86 million (2018: profit was HK$143.80 million).

BUSINESS REVIEW

Amid the complex and challenging global environment and the downside pressure of the Chinese domestic economy in 2019, the Chinese economy continued to grow healthily as restructuring continued to proceed and transformation and upgrade reaped remarkable achievements. In 2019, China's GDP reached RMB99.0865 trillion, which was close to RMB100 trillion, while GDP per capita was RMB70,892 or US$10,276 converted at the average annual exchange rate, putting China well over the US$10,000 mark for the first time.

Hong Kong's economy contracted in 2019 for the first time since 2009, in sharp contrast to the solid growth over the previous two years. As the global economic growth began to weaken and trade frictions between the United States and the Mainland were escalating, Hong Kong's economy continued to slow down in the first half of 2019 from the second half of 2018, growing only by 0.6% moderately year-on-year. Subsequently, the economy deteriorated sharply as the economic sentiment as well as consumer– and tourism-related activities were severely hit by the local social unrest, having contracted by 2.8% and 2.9% respectively in the third and fourth quarters. For 2019 as a whole, the economy contracted by 1.2%, the first annual decline since 2009.

In 2019, the overall trading volume of Hong Kong's stock market declined. The Group's businesses, other than the loans and financing services, continued to develop relatively stably. For example, the institutional client business was growing rapidly, offering a strong support for generating revenue from the brokerage business; an outstanding team of qualified personnel for the corporate financing business completed a number of underwriting projects for IPOs and stock placements on the Main Board of the Hong Kong Stock Exchange in 2019, and completed two IPOs on the Main Board of the Hong Kong Stock Exchange as the sole sponsor in early 2020, having created a good market reputation; the asset management business continued to improve its product lines and sales channels, set up its first public fund – China Core Asset Fund, and reached product launch agreements with a number of banks; and financial products and the investment business reaped good investment returns while risks were under effective control.

Because of the outstanding performance in its overseas research services in 2019, the Group received the award for the "Most Innovative Research Institution"（最具創新能力研究機構）at the 9th China Securities Golden Bauhinia Awards Ceremony（第九屆中國證券金紫荊獎頒獎典禮）. The Company received the "Capital Market's Star Investment Bank of the Year Award"（年度資本市場明星投行獎）at the annual "China Financing Award"（中國融資大獎）organized by "China Financial Market" (《中國融資》), a well-known financial magazine in Hong Kong; and the "Hong Kong Service Brand Award under the Category of Securities Brokerage Business"（香港證券經紀業務服務品牌大獎）at the "Jun Ding Award for China Investment Banks & Securities Brokers 2019"（2019中國區投資銀行&證券經紀商君鼎獎）ceremony hosted by China's authoritative media "Securities Times"（證券時報）. China Industrial Securities International Futures Limited（興證國際期貨有限公司）, a subsidiary of the Group, received the "2019 Model Chinese Futures Dealer"（2019模範中資期貨商）award from the Hong Kong Stock Exchange for its outstanding performance in the trading of futures products.

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

PROSPECTS

In the first quarter of 2020, the global economic and financial trends face greater fluctuations and challenges due to the outbreak of novel coronavirus epidemic around the world and the collapse in crude oil prices. However, the temporary impact of the epidemic will not affect the long-term upward trend of China's economy. After the epidemic, China's economy will continue to march forward steadily along the track of high-quality development.

The Group adheres to the people-oriented principle and attaches great importance to the safety of employees. Under the precondition of ensuring the normal operation of the business, the Group has made flexible arrangement according to the development of the epidemic. In particular, we arrange certain employees to work from home, provide employees with masks and sanitizer and carry out the disinfection work in our offices.

In the coming year, the Group will focus our work on the corporate financing and bond underwriting business, institutional sales business, wealth management business, asset management business and overseas research business to achieve organic growth and high-quality development of these businesses, so as to increase the percentage of revenue from fee-based services.

As to financial products and investments, we will apply a relatively cautious investment strategy, capture more opportunities for the carry trade in the market and the allocation of quality assets, and increase investment returns steadily while investment risks are under stringent control. In terms of the margin business, in line with the regulatory changes made by the Securities and Futures Commission of Hong Kong to step up the management and control of risks associated with the margin business, the Group will gradually cut down the total size of the margin business, and adjust and optimize the composition of customers and revenue.

Meanwhile, the Group will continue to improve the overall risk management governance structure; to establish rules, regulations and a system covering overall risk management for improving risk management tools; and to increase resources commitment to information technology, so as to reinforce real-time management and control of risks by means of information technology.

In the future, the Group will, by leveraging its strength in the core regions of China, continue to proceed with business restructuring and optimization, improve the compliance and risk control system, establish a long-term internal control mechanism and generate returns for shareholders and investors through long-term and stable development.

Huang Yilin
Chairman

27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OVERVIEW

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

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

ANALYSIS ON PRINCIPAL BUSINESSES

(I) Policy Review

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

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

(II) Market Review

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

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

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

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

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

(III) Competitive Environment

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

(IV) Business Review

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

Brokerage

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

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

In 2019, thanks to the efforts of the Group's institutional sales team in developing its client base of public offering funds and insurance institutions, the number of institutional clients and assets continued to increase. As of the end of 2019, the number of institutional clients and their assets increased by 32% and approximately 84% respectively, as compared to the beginning of the year.

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

Corporate finance

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

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

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

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

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

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

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

Asset management

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

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

In the future, the Group will continue to promote the sales and refine the asset management of China Core Asset Fund to establish brand awareness, and to invest in the sales channels and product innovation to improve product research and development and sales capabilities.

Loans and financing

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

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

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

Financial products and investments

For the year ended 31 December 2019, thanks to its effective risk control measures, the Group recorded income from financial products and investments (including interest income) amounting to HK$423.72 million (2018: HK$139.82 million), representing a significant increase of 203.0% over last year.

The financial products and investments business of the Group mainly includes USD-denominated bonds and other investments in fixed income products. In 2019, the Group recorded satisfying investment return resulting from the increasing yields of US$ bonds issued by PRC-based companies against the considerable decline of yields of US 10-year treasury bonds, due to Sino-US trade friction, the continuous interest rate reduction by global central banks, the Brexit and other geopolitical factors.

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

FINANCIAL POSITIONS

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

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

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

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

As at 31 December 2019, the notes outstanding of the Group amounted to HK$31.30 million (details of which are set out in note 32 to the consolidated financial statements, 31 December 2018: HK$62.85 million). The Company entered into subscription agreements in connection with the issue of US$200 million and US$75 million 5% guaranteed bonds due 2020 on 26 August 2019 and 26 September 2019, respectively. The bonds outstanding of the Group amounted to HK$2,173.67 million (31 December 2018: Nil). The gearing ratio of the Group (defined as the sum of bank borrowings, other borrowings, notes outstanding and bonds divided by total equity) increased by approximately 32.5% to 3.157 (31 December 2018: 2.382).

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

PROSPECTS AND FUTURE PLAN

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

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

SIGNIFICANT ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There were no significant acquisitions or disposals of subsidiaries and affiliated companies by the Group for the year ended 31 December 2019.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2019, the Group's assets pledged were mainly debt securities pledged as collateral for repurchase agreements. For details please refer to note 38 to the consolidated financial statements.

EMPLOYEE INFORMATION

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

CONTINGENT LIABILITIES

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

EVENT AFTER THE REPORTING PERIOD

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

The impact of the novel coronavirus outbreak does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019 (details of which are set out in note 53 to the consolidated financial statements).

RISK MANAGEMENT

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

Credit risks

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

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

The Group closely monitors the margin ratio and loan-to-value ratio of the loans and financing clients and takes appropriate action to recover or minimise loss where it foresees that the client may default in his or her obligation; the senior management and heads of business units of the Group regularly review the balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, especially during adverse market movements; the Group has established credit policy with respect to the trading limit, credit line and credit period granted to loans and financing clients, and will review and revise such policy on an ongoing basis; the Group conducts regular review in respect of outstanding margin loans to assess exposure to credit risks.

Liquidity risks

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

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

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

Compliance and Legal Risks

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

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

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

Market risks

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

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

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

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

The Group assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and profitability of different types of bonds, and controls the investment horizon of debt securities investment; the Group monitors investments on a timely basis, including trading positions, unrealised profit or loss, risk exposure and trading activities, and establishes mechanisms that set pre-determined points to halt profit or loss on an overall basis or on a single bond.

Foreign currency risks

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

Interest rate risks

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

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

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

Operational risks

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Huang Yilin ("Mr. Huang"), aged 51, was appointed as a non-executive Director on 12 July 2017 and a member of audit committee under the Board, the chairman of the Board, the chairman of nomination committee under the Board and a member of remuneration committee on 6 August 2019. Mr. Huang was also appointed as a director of Industrial Securities (Hong Kong) Financial Holdings Limited, which is the controlling shareholder of the Company (as defined in the Listing Rules) and China Industrial Securities International Holdings Limited on 12 July 2017. Mr. Huang has over 19 years of experience in the financial services industry.

Mr. Huang is currently the vice president of Industrial Securities Co. Ltd. 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 headquarter, the general manager of fixed income and derivatives product department, and the general manager of fixed income business headquarter of Industrial Securities Co. Ltd.

Mr. Huang obtained a doctor's degree in western economics from Wuhan University, the PRC in July 1998.

EXECUTIVE DIRECTORS

Mr. Li Baochen ("Mr. Li"), aged 42, was appointed as an executive Director and Chief Executive Officer on 13 January 2020. Mr. Li is also a director of various subsidiaries of the Group. Mr. Li was also appointed as a director and chief executive officer of Industrial Securities (Hong Kong) Financial Holdings Limited on 31 July 2019, which is the controlling shareholder of the Company (as defined in the Listing Rules). Currently, he is a director and vice chairman of Chinese Securities Association of Hong Kong Company Limited. Mr. Li has over 16 years of experience in the financial services industry.

Mr. Li was the product manager of personal banking of Industrial and Commercial Bank of China, Shenzhen Branch; the general manager of the market research and development department of China Lianhe Credit Rating Co., Ltd.; the managing director, deputy general manager and general manager of the fixed income business headquarter of Industrial Securities Co., Ltd.

Mr. Li obtained a master's degree in economics from Nankai University, the PRC in July 2003.

Mr. Wang Xiang ("Mr. Wang"), aged 40, was appointed as an executive Director on 1 June 2016 and a deputy Chief Executive Officer on 8 June 2016. Mr. Wang is also a director of various subsidiaries of the Group. Mr. Wang has over 11 years of experience in the financial services industry.

Mr. Wang joined the Industrial Securities Group as a research analyst at the 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.

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Ms. Zeng Yanxia ("Ms. Zeng"), aged 43, was appointed as an executive Director on 1 June 2016 and a deputy Chief Executive Officer on 8 June 2016 and was the chief financial officer of the Company from 8 June 2016 to 17 July 2019. Ms. Zeng is also a director of various subsidiaries of the Group. Ms. Zeng has over 13 years of experience in the financial services industry.

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

Ms. Zhang Chunjuan ("Ms. Zhang"), aged 36, was appointed as a deputy Chief Executive Officer and chief financial officer of the Company on 17 July 2019 and an executive Director on 2 August 2019. Ms. Zhang is also a director of various subsidiaries of the Group. Ms. Zhang has over 11 years of experience in financial services industry.

From July 2008 to September 2013, Ms. Zhang served as the manager of information management and analysis department of the integrated business planning department of planning and finance department of Industrial Securities Co., Ltd. ("Industrial Securities"). From October 2013 to April 2015, Ms. Zhang served as the manager and senior manager of tax planning and accounting internal control department of finance department of Industrial Securities. From May 2015 to May 2017, Ms. Zhang served as the manager and senior manager of financial management and analysis department financial management division of finance department of Industrial Securities. From May 2017 to December 2017, Ms. Zhang served as the assistant general manager of finance department and manager of financial management analysis department. From January 2018 to October 2018, Ms. Zhang served as the director of planning and analysis department of planning and finance department of Industrial Securities. From October 2018 to March 2019, Ms. Zhang served as the assistant general manager of planning and finance department and the director of planning and analysis department of Industrial Securities.

Ms. Zhang obtained a master's degree in accounting from Shanghai University of Finance and Economics in July 2008. She is also a certified public accountant and intermediate accountant of the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Hong Ying ("Ms. Hong"), aged 69, was appointed as an independent non-executive Director on 27 July 2016 and the chairman of audit committee under the Board on 30 September 2016. Ms. Hong has over 41 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 and an independent director of Jilin Jinguan Electric Co., Ltd.（吉林金冠電氣股份有限公司）on 16 October 2019.

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.

Mr. Tian Li ("Mr. Tian"), aged 51, was appointed as an independent non-executive Director on 27 July 2016 and 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 19 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 engages in strategic investment, asset management, and the provision of corporate advisory services, and he also currently serves as the independent 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 an executive director of New York Institute of Finance Inc., an executive director and chief executive officer of NYIF International Holding LLC, a legal representative of NYIF Information Technology Development Co., Ltd. and a managing director of Shanghai Li Ding Information Technology Development Limited（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. Qin Shuo ("Mr. Qin"), aged 51, was appointed as an independent non-executive Director on 27 July 2016 and a member of remuneration committee and nomination committee under the Board on 30 September 2016. Mr. Qin was the chief editor of China Business News（第一財經日報）, from June 2004 to October 2015 and was 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. 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）. 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）, whose shares are listing on The Shanghai Stock Exchange (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's degree 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 2019 (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 7 to 14 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 58 of this report.

The Board did not recommend any payment of a final dividend for the year ended 31 December 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 61 and note 49 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the distributable reserves of the Company amounted to approximately HK$3,368,534,784 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 11% 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 184 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. Huang Yilin *(Chairman)* (appointed as Chairman on 6 August 2019)
Mr. Yang Huahui *(Chairman)* (resigned on 6 August 2019)

EXECUTIVE DIRECTORS:

Mr. Li Baochen *(Chief Executive Officer)* (appointed on 13 January 2020)
Mr. Wang Xiang
Ms. Zeng Yanxia
Ms. Zhang Chunjuan (appointed on 2 August 2019)
Mr. Huang Jinguang (resigned as Chief Executive Officer on 13 January 2020 and resigned as executive Director and Vice Chairman on 6 February 2020)

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. Wang Xiang, Ms. Zeng Yanxia and Mr. Qin Shuo 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.

Pursuant to article 112 of the Articles, Mr. Li Baochen and Ms. Zhang Chunjuan shall retire from office, and being eligible, will offer themselves for re-election as the Directors at the forthcoming AGM.

None of the Directors 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 2019 interim report of the Company are set out below:

Director	Detail of Change
Hong Ying	Appointed as an independent director of Jilin Jinguan Electric Co., Ltd.(吉林金冠電氣股份有限公司)on 16 October 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 2019, 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 (resigned on 6 February 2020)	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 31 December 2019, 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 2019, 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**
Industrial Securities (Hong Kong) Financial Holdings Limited	Beneficial owner	2,077,337,644	51.93%
Industrial Securities Co., Ltd.* *(Note 1)*	Interest of controlled corporation	2,077,337,644	51.93%
Harvest Capital Management Co., Ltd *(Note 2)*	Investment manager	293,232,000	7.33%
Harvest Fund Management Co., Ltd. *(Note 2)*	Interest of controlled corporation	293,232,000	7.33%
China Credit Trust Co., Ltd *(Note 2)*	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 3)*	Interest of controlled corporation	205,853,089	5.15%
Yang Zhiying *(Note 4)*	Interest of spouse	205,853,089	5.15%

Notes:

1. 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.

2. 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.

3. 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.

4. 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 2019, 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.

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

On 15 May 2019, the Company as borrower entered into a facility letter (the "Facility Letter A") with a bank as lender in relation to an uncommitted revolving loan facility of US$30,000,000. As a condition of the Facility Letter A, it shall be an event of default if Industrial Securities ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company.

On 15 May 2019, the Company as borrower entered into a facility letter (the "Facility Letter B") with a bank as lender in relation to an uncommitted revolving loan facility of HK$200,000,000. As a condition of the Facility Letter B, it shall be an event of default if Industrial Securities ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain the absolute management control over the Company.

On 15 May 2019, the Company as borrower entered into a facility agreement (the "Facility Agreement A") with a bank as lender in relation to an uncommitted revolving loan facility of HK$300,000,000. The Facility Agreement A has a term of 12 months commencing from the date of the Facility Agreement A. As a condition of the Facility Agreement A, it shall be an event of default if Industrial Securities ceases to maintain its status as the Company's controlling shareholder and pledge the Company's shares externally.

On 15 May 2019, the Company as borrower entered into a facility agreement (the "Facility Agreement B") with a bank as lender in relation to an uncommitted revolving loan facility of US$80,000,000. As a condition of the Facility Agreement B, it shall be an event of default if Industrial Securities ceases to maintain its actual control status and management control over the Company. "Management Control" means, as between Industrial Securities and the Company, that (i) a majority of the incumbent directors of the Company are nominees of Industrial Securities and (ii) Industrial Securities has control over the management strategies and policies of the Company.

On 9 July 2019, the Company and China Industrial Securities International Brokerage Limited ("CISI Brokerage"), a direct wholly-owned subsidiary of the Company, as borrower, entered into a facility letter (the "Facility Letter") with a bank, as lender (the "Lender"), pursuant to which the Lender has agreed to make available an uncommitted revolving loan facility of up to HK$1,200,000,000 to the Company and CISI Brokerage. As a condition of the Facility Letter, it shall be an event of default if Industrial Securities ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company.

On 26 February 2020, regarding the Company as borrower entered into a facility letter (the aforesaid "Facility Letter B") with a bank as lender in relation to an uncommitted revolving loan facility of HK$200,000,000 on 15 May 2019, the borrower confirmed the acceptance of the Facility Letter B issued by the bank revising the Facility Letter B up to an aggregate of HK$300,000,000. As a condition of the Facility Letter B, it shall be an event of default if Industrial Securities ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain the absolute management control over the Company.

As at the date of this report, the above specific performance obligation imposed on Industrial Securities under the aforesaid facility agreements 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, 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 renewed 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 the abovementioned services by Industrial Securities Consultancy Service (Shenzhen) Company Limited to the Company are 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 2019, the Group incurred a consultancy service fee of HK$19,668,087 to Industrial Securities Consultancy Service (Shenzhen) Company Limited.

The relevant pricing policy and guideline stated in the Prospectus have been complied with when determining the transaction price and terms. Industrial Securities (Hong Kong) Financial Holdings Limited, as the controlling shareholder of the Company, holds 51.93% interest of the Company. Industrial Securities (Hong Kong) Financial Holdings Limited holds 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 2019 and confirmed that they were 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, 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).

On 8 May 2019, China Industrial Securities International Holdings Limited transferred all its interests in the Company to Industrial Securities (Hong Kong) Financial Holdings Limited. China Industrial Securities International Holdings Limited is no longer the Controlling Shareholder of the Company while Industrial Securities and Industrial Securities (Hong Kong) Financial Holdings Limited are still the Controlling Shareholders of the Company.

During the Year, Industrial Securities and Industrial Securities (Hong Kong) Financial Holdings Limited 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$24,000.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 18 May 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 emphasizes 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 41 to 52 of this report.

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 2019 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 2019 have been reviewed by the audit committee of the Company.

AUDITOR

KPMG were first appointed as auditors of the Company in 2019 upon the retirement of Deloitte Touche Tohmatsu.

KPMG will retire and, being eligible, offer themselves for re-appointment at the forth coming annual general meeting of the Company. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Huang Yilin
Chairman

Hong Kong, 27 March 2020

* *For identification purposes only*

CORPORATE GOVERNANCE REPORT

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 one non-executive Director, four executive Directors, and three independent non-executive Directors.

Non-executive Director

Mr. Huang Yilin *(Chairman)*

Executive Directors

Mr. Li Baochen *(Chief Executive Officer)*
Mr. Wang Xiang
Ms. Zeng Yanxia
Ms. Zhang Chunjuan

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**[1]	**Annual General Meeting**[1]
Non-executive Directors:		
Mr. Yang Huahui *(Chairman)*[2]	7/7	1/1
Mr. Huang Yilin *(Chairman)*[2]	8/8	1/1
Executive Directors:		
Mr. Li Baochen *(Chief Executive Officer)*[2]	N/A	N/A
Mr. Huang Jinguang *(Chief Executive Officer and Vice Chairman)*[2]	8/8	1/1
Mr. Wang Xiang	8/8	1/1
Ms. Zeng Yanxia	8/8	1/1
Ms. Zhang Chunjuan[2]	4/4	N/A
Independent Non-executive Directors:		
Ms. Hong Ying	8/8	1/1
Mr. Tian Li	8/8	1/1
Mr. Qin Shuo	8/8	1/1

Notes:

(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 2019.

(2) Mr. Yang Huahui resigned as non-executive Director and Chairman on 6 August 2019. Mr. Huang Yilin was appointed as Chairman on 6 August 2019. Mr. Huang Jinguang resigned as Chief Executive Officer on 13 January 2020 and resigned as executive Director and Vice Chairman on 6 February 2020. Mr. Li Baochen was appointed as executive Director and Chief Executive Officer on 13 January 2020. Ms. Zhang Chunjuan was appointed as executive Director on 2 August 2019.

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 resigned as a non-executive Director and ceased to be the Chairman on 6 August 2019, and Mr. Huang Yilin was appointed as the Chairman on the same date. Mr. Huang Jinguang resigned as the Chief Executive Officer on 13 January 2020 and resigned as executive Director and the Vice Chairman on 6 February 2020, Mr. Li Baochen was appointed as the Chief Executive Officer on 13 January 2020. Currently, Mr. Huang Yilin is the Chairman and Mr. Li Baochen 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. Li Baochen (appointed on 13 January 2020)	N/A
Mr. Wang Xiang	A & B
Ms. Zeng Yanxia	A & B
Ms. Zhang Chunjuan	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 KPMG as its external auditor. The remuneration paid/payable to the external auditor is set out as follows:

Services rendered	**Fee paid/payable HK$**
Audit services	2,200,000
Non-audit services	205,200

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 2018 Annual Report and the Group's interim results and 2019 Interim Report 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 to the Board to adopt a revised terms of reference of the Audit Committee;

(iv) made recommendation on the change of the auditor; and

(v) 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)*	2/2
Mr. Huang Yilin	2/2
Mr. Tian Li	2/2

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. Huang Yilin, 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 executive Director;

(iii) made recommendation to the Board on the remuneration of new executive Director;

(iv) made recommendation to the Board on the remuneration of the chairman and vice chairman of the Board;

(v) made recommendation to the Board on the renewal of independent non-executive Directors' service contracts; and

(vi) made recommendation to the Board to adopt a revised terms of reference of the Remuneration Committee.

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)*	4/4
Mr. Yang Huahui (resigned on 6 August 2019)	4/4
Mr. Huang Yilin (appointed on 6 August 2019)	N/A
Mr. Qin Shuo	4/4

* The denominator represents the number of the Remuneration Committee meetings held during the tenure of each Director in the financial year ended 31 December 2019.

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. Huang Yilin, and two independent non-executive Directors, namely Mr. Tian Li and Mr. Qin Shuo. Mr. Huang Yilin 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) assessed the independence of the independent non-executive Directors;

(iii) made recommendation to the Board on appointment of new executive Director, Chairman and Vice Chairman; and

(iv) 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)* (resigned on 6 August 2019)	3/3
Mr. Huang Yilin *(Chairman)* (appointed on 6 August 2019)	N/A
Mr. Tian Li	3/3
Mr. Qin Shuo	3/3

* The denominator represents the number of the Nomination Committee meetings held during the tenure of each Director in the financial year ended 31 December 2019.

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. 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 each year and at the place as determined by the Board. Each general meeting, other than the 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 the Board fails to proceed to convene such meeting within 21 days of such deposit, the requisitionists may do so themselves.

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 2019. Mainly focusing on creating customer value, advancing employee value, emphasizing shareholder and investor value, exploring social responsibility's value, and practising 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 commits to fulfilling 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 employee diversity, and develops competitive compensation system, benefit scheme, prospective career path and training for employees. The Group dedicates itself in achieving the 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 actively promotes green office and low carbon policies 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.

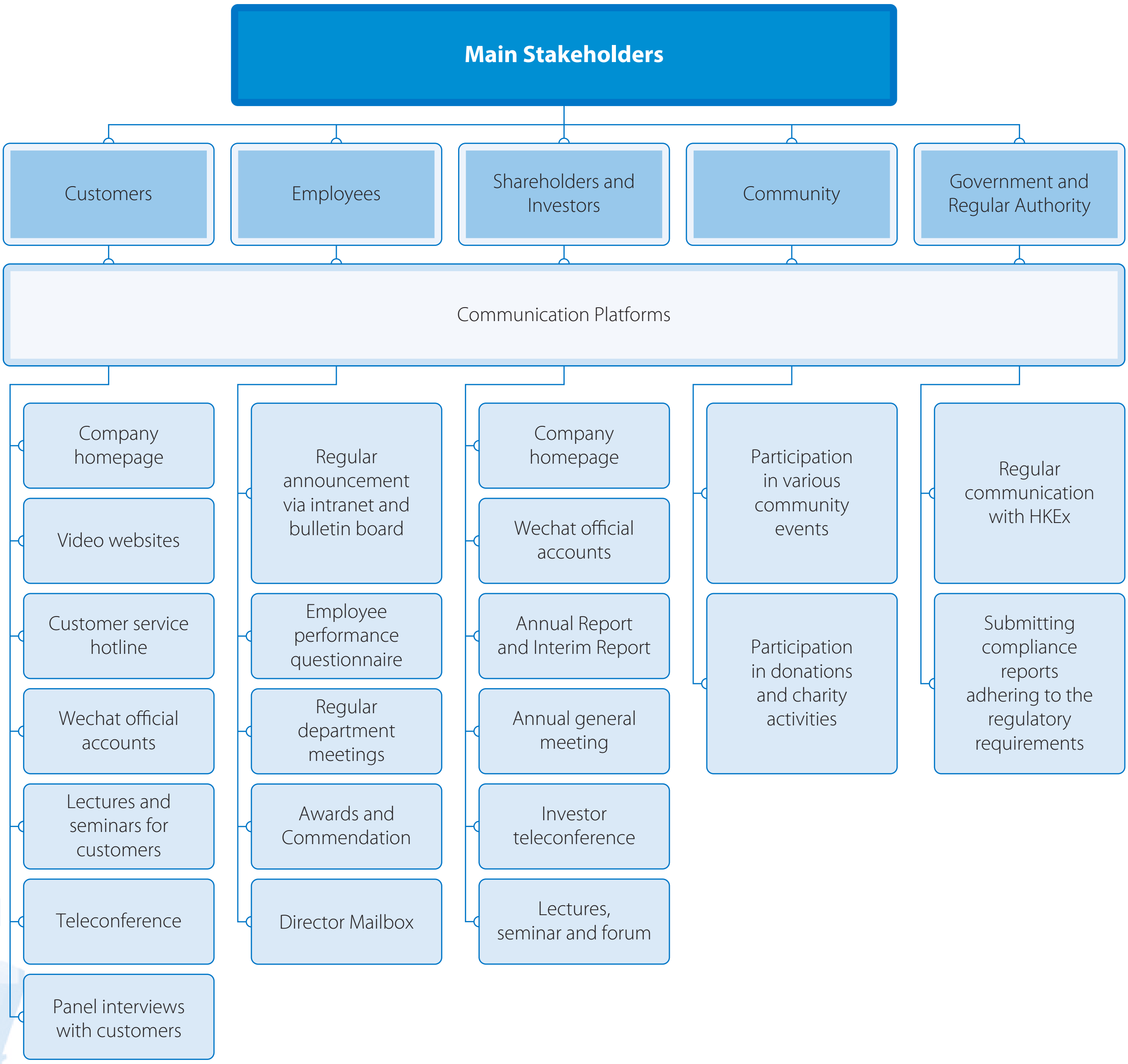
Committing to the development of sustainable finance. As a financial services provider, the Group is eager to provide green financial services for upstream and downstream companies, thus to protect and improve the ecological environment. The Group has been attempting to assess environmental and social 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 actively integrates 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 the Shenzhen-Hong Kong Stock Connect, and securities and futures in overseas market (including the United States, Taiwan, Singapore, Australia, the United Kingdom and Germany) through the brokers 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 of stocks and bonds, selling stocks and bonds in secondary market, and provision of financial advisory services to the client who seeks 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

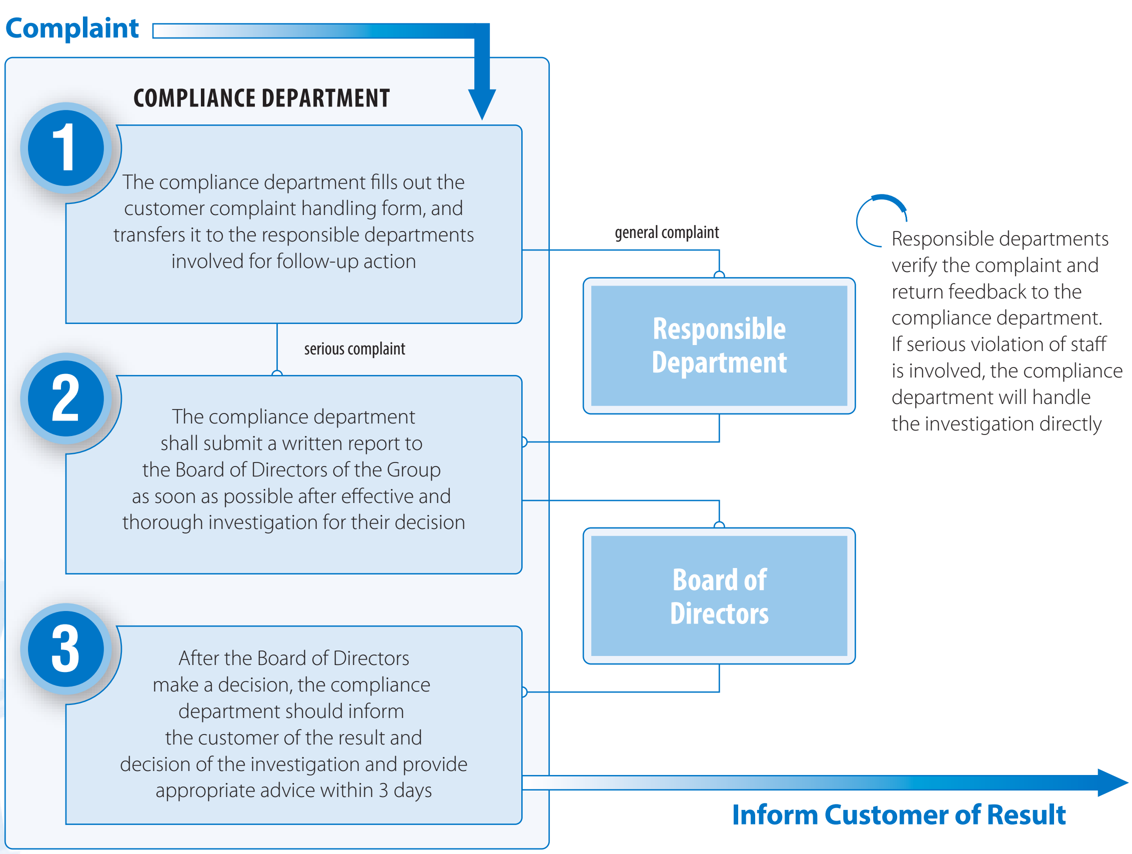
Not only does the Group's professional teams have solid business knowledge and rich industry experience to grasp the latest developments in capital market and financial industry, the Group also understands customer needs, opinions and expectations towards the Group in different aspects through the latest 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 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 compliance department of the Group has built a complete complaint management system in compliance with the regulatory requirements of the Securities and Futures Commission 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 are 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 complainants.

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 "pioneering and progressive, responsible and dedicated, innovative and collaborative". 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 emphasizes 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	125
Female	94
Age distribution of present employees	
Under 30	57
31 to 40	96
41 to 50	48
Above 50	18
Regions	
Hong Kong	149
Mainland	67
Norway	1
Taiwan	1
Singapore	1
Turnover Rate by Gender	
Male	9.50%
Female	5.70%
Turnover Rate by Age	
Under 30	5.23%
31 to 40	7.13%
41 to 50	1.43%
Above 50	1.43%

The Group had a total of 219 employees (including directors) for the year ended 31 December 2019, of whom 125 were male and 94 were female, representing 57% and 43% of the total number of employees respectively. Employees between 31 to 40 years old were the main force of the Group, accounting for 44% of the total number of employees. The Group tended to provide more developing opportunities to the younger generation as there were 57 employees under 30 years old, and only 18 employees were above 50 years old. The Group pushed on localization process, with 149 local employees, 67 employees from the Mainland, 1 employee from Norway, 1 employee from Taiwan and 1 employee from Singapore. 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 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 conducts 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 is 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 employees 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 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 employees 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, basketball 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.

– "Best Securities Firm Award" conferred by iFast Wealth Advisers Awards

– "Jun Ding Award for Hong Kong Securities Brokerage Service Brand" at the "2019 Jun Ding Award for Investment Bank & Securities Broker in China" organized by Securities Times

"Caring Company" conferred by the Hong Kong Council of Social Service

Mr. Yang Huahui, the Chairman of the Company, was awarded the "Best Enterprise Leader Award" at the "China Financial Market Awards 2019" organized by China Financial Market

"Star Investment Banking Award in the Capital Market" at the "China Financial Market Awards 2019" organized by China Financial Market

"2019 Model Chinese Futures Traders" conferred by the Hong Kong Stock Exchange

"Community Excellence Award" conferred by the Community Chest of Hong Kong

"Most Innovative Research Institution" at the 2019 China Securities "Golden Bauhinia Awards" organized by Ta Kung Pao（大公報）

EXPLORING SOCIAL RESPONSIBILITY VALUE

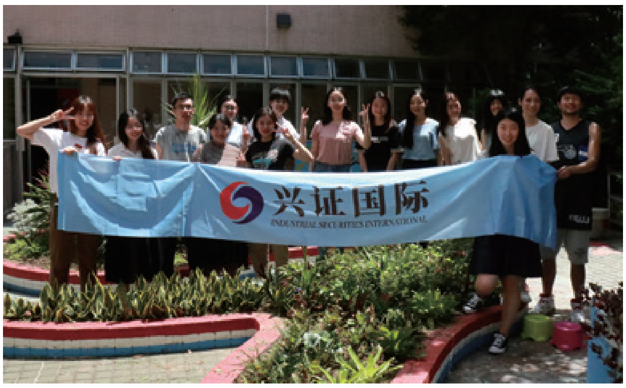
The Group has been committed to becoming the main force to promote social development and to actively serve the community. The Group regards building a better society and return to society as an important way to realise the enterprise's value, and thus attaches great importance to and takes the initiative 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 interests and insider 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 and actively participates in various social development and public welfare projects which focus on groups in need. On 26 July 2019, the Group arranged employees to visit Po Leung Kuk Wong Chuk Hang Service for the Elderly to re-organize potted plants in the center and assist them in weeding and planting trees and flowers. On 6 December 2019, the Group arranged employees to visit Po Leung Kuk Wong Chuk Hang Hospice for the Elderly to greet sick old people and interact with them through chatting, playing games and singing. On 17 December 2019, the Group arranged employees to visit Po Leung Kuk Tai Kok Tsui Home for the Elderly cum Cherish Day Care Centre for the Elderly to greet the seniors and drink tea with them. 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 connecting 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. In March 2019, the Group joined the millions of people around the globe to save energy and turned off its office lights in support of WWF's annual Earth Hour, and is committed to fulfilling its mission of environmental protection and realizing the harmonious and sustainable co-development between the Group and the environment.

Environmental performance and low Carbon policy

Scope of GHG Emission	Emissions (in tonnes of CO_2e)
Scope 1	23.75
Scope 2	364
Scope 3	70.20
Total	457.95

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 23.75 tCO2e; Scope 2 calculated GHG emissions of electricity use, generating 364 tCO2e; Scope 3 calculated the GHG emissions of waste paper recycled to landfill generating 70.20 tCO2e. The total amount of GHG emissions produced by the Group as a whole was 457.95 tCO2e.

Direct energy use

Total consumption of unleaded petrol	8,772 L
Consumption intensity of unleaded petrol	5.02 km/L

Indirect Energy Use

Total amount of electricity used	455,000 kWh
Intensity of electricity used	159.08 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 455,000 kWh, and the energy consumption intensity was 159.08 kWh/m^2 based on the office area, generating 364 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 two company vehicles are the passenger cars that are fueled by unleaded petrol in line with Euro 5 emission standards. The Group has 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 44,000 km, and consumed 8,772 L unleaded petrol with intensity of 5.02 km/L based on driving distance, and generated GHG emission of 23.75 tCO2e.

Non-Hazardous Waste

Total Paper Consumption	14,624 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 14,624 kg of paper has been used for daily office operations, contributing to 70.20 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.

The Group, as a co-organizer, sponsored and supported to hold the "Hong Kong Stock Investment Summit for Green Economy & Sustainable Development Value" in the first half of 2019. The themes of the summit are social sustainable development, environmental management and protection, human health and development. Topics, such as promotion of social sustainable development by high-tech enterprises of 5G, internet and smart city, facilitation of new urbanization construction by real estate and traffic enterprises, contribution of environmental management and protection by energy and environmental enterprises, and technological innovation on human health area by pharmaceutical and large health enterprises, were discussed during the meeting.

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 ("the Group") set out on pages 58 to 183, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2019 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 the 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Impairment assessment for margin loans	
Refer to note 22 to the consolidated financial statements and the accounting policies on page 77.	
The Key Audit Matter	**How the matter was addressed in our audit**
At 31 December 2019, the gross amount of margin loans and its related impairment allowance amounted to HK$4,249 million and HK$406 million respectively. The net carrying amount represented 16% of the Group's total assets. Management exercises significant judgement in determining the expected credit loss ("ECL") of margin loans. The ECL is subject to a number of key parameters and assumptions, including the classification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions. Margin loans is categorized as Stage 3 when it is credit-impaired. Management performs individual assessment for each client by considering various factors including the credit enhancements provided to the Group. This is primarily in the form of securities of which the value can be referenced to quoted prices. In cases of collateral shortfalls, management will consider other factors such as remedies available for recovery and the financial situation of the borrower. We identified the impairment assessment for 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.	Our audit procedures for the impairment assessment for margin loans included the following: • understanding and assessing the design, implementation and operating effectiveness of the key internal controls over the approval, recording and monitoring of margin loans and collateral shortfalls and the ECL assessment procedures. For the key underlying systems used for the processing of transactions in relation to margin loans, this included involving our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant key internal controls over access to these systems and controls over data and change management; • understanding and assessing the established policies and procedures on impairment assessment including the staging criteria, application of assumptions and inputs into the model; • evaluating, with the assistance of our internal valuation specialists, the reasonableness and appropriateness of the ECL model and the critical assumptions, inputs and parameters used in the model; • assessing the valuation of collateral held for a sample of margin loan balances with publicly available market prices; • assessing the existence of collateral by comparing a sample of securities held as collateral as extracted from the Group's records with independent confirmations or third party statements from brokers or clearing houses; and • assessing the existence and quality of collateral, guarantees or other forms of credit support in evaluating the adequacy of impairment allowance made by the Group for material margin loans classified as Stage 3.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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.

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body 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 scepticism 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 the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 the Audit Committee, 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 this independent auditor's report is Ko Sze Man.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$	2018 HK$ *(Note)*
Commission and fee income from customers	*5*	**358,648,790**	443,052,558
Interest revenue	*5*	**535,096,512**	433,136,939
Net investment income and gains or losses	*5*	**367,817,965**	134,856,105
Total revenue	*5*	**1,261,563,267**	1,011,045,602
Other income	*5*	**131,340,135**	53,584,083
Share of result of a joint venture	*16*	**(7,188,844)**	(498,698)
Finance costs	*7*	**(569,952,191)**	(386,951,178)
Commission and fee expenses	*8*	**(72,846,533)**	(111,605,723)
Staff costs	*9*	**(232,101,080)**	(187,040,901)
Other operating expenses		**(175,163,993)**	(182,361,532)
Impairment losses on financial assets	*9*	**(874,301,268)**	(6,105,250)
Other gains or losses	*9*	**1,027,010**	10,483,808
(Loss)/profit before taxation	*9*	**(537,623,497)**	200,550,211
Taxation	*10*	**75,764,050**	(56,749,540)
(Loss)/profit for the year		**(461,859,447)**	143,800,671
Total comprehensive income for the year attributable to owners of the Company		**(461,859,447)**	143,800,671
(Loss)/earnings per share			
Basic (expressed in HKD)	*13*	**(0.1155)**	0.0360

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

The notes on pages 64 to 183 form part of these financial statements. Details of dividends declared for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$	2018 HK$ (Note)
Non-current assets			
Property and equipment	14	**29,522,322**	26,668,610
Intangible assets	15	**6,897,819**	2,822,898
Interest in a joint venture	16	**32,345,418**	39,534,262
Financial assets at fair value through profit or loss	17	**48,004,707**	46,987,812
Reverse repurchase agreements	19	**169,074,404**	–
Statutory deposits	20	**12,094,229**	11,132,259
Deferred tax assets	28	**84,368,068**	3,896,066
Deposits, other receivables, prepayments and other assets	21	**48,187,079**	13,546,949
		430,494,046	144,588,856
Current assets			
Accounts receivable	22	**5,543,114,617**	6,907,207,392
Loans receivable	18	**–**	71,444,048
Reverse repurchase agreements	19	**856,955,362**	334,317,392
Financial assets at fair value through profit or loss	17	**9,077,929,636**	8,734,109,327
Statutory deposits	20	**14,133,035**	11,859,727
Deposits, other receivables, prepayments and other assets	21	**1,171,699,907**	394,214,270
Tax receivable		**64,522**	43,178
Bank balances – trust accounts	23	**1,850,331,251**	5,228,829,297
Bank balances – general accounts and cash	23	**5,359,950,333**	1,517,226,830
		23,874,178,663	23,199,251,461
Current liabilities			
Accounts payable	26	**3,411,501,538**	5,991,194,627
Accruals and other payables	27	**179,145,153**	181,422,911
Amount due to a related party	24	**5,744,417**	3,174,615
Contract liabilities		**179,333**	126,000
Tax payable		**66,906,352**	86,791,183
Financial liabilities at fair value through profit or loss	25	**39,401,016**	288,701,100
Repurchase agreements	29	**3,101,099,261**	1,542,080,825
Bank borrowings	30	**6,371,479,379**	5,586,797,616
Other borrowings	31	**196,217,064**	1,485,297,574
Notes	32	**31,302,195**	62,850,751
Bonds	32	**2,173,672,130**	–
Lease liabilities	33	**13,404,498**	–
Other liabilities	47	**546,215,309**	399,729,979
		16,136,267,645	15,628,167,181
Net current assets		**7,737,911,018**	7,571,084,280

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**2019 HK$**	2018 HK$ *(Note)*
Non-current liabilities			
Accruals and other payables	*27*	**–**	785,704
Financial liabilities at fair value through profit or loss	*25*	**639,840,032**	–
Repurchase agreements	*29*	**340,765,474**	–
Bank borrowings	*30*	**3,348,128,927**	3,322,863,676
Deferred tax liabilities	*28*	**28,715**	950,184
		4,328,763,148	3,324,599,564
Net assets		**3,839,641,916**	4,391,073,572
Capital and reserves			
Share capital	*34*	**400,000,000**	400,000,000
Share premium		**3,379,895,424**	3,379,895,424
(Accumulated loss)/retained earnings		**(394,273,173)**	157,158,483
Other reserve		**11,577,844**	11,577,844
Capital reserve	*35*	**442,441,821**	442,441,821
Equity attributable to owners of the Company		**3,839,641,916**	4,391,073,572

The consolidated financial statements on pages 64 to 183 were approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

Li Baochen
DIRECTOR

Zhang Chunjuan
DIRECTOR

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Equity attributable to owners of the Company					
	Share capital HK$ *(Note 34)*	**Share premium** HK$	**Capital reserve** HK$ *(Note 35)*	**Other reserve** HK$	**Retained earnings/ (Accumulated loss)** HK$	**Total equity** HK$
At 1 January 2018	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
HKFRS 16 adjustment on retained earnings *(note 3)*	–	–	–	–	2,427,791	2,427,791
At 1 January 2019 (after adjustment)	400,000,000	3,379,895,424	442,441,821	11,577,844	159,586,274	4,393,501,363
Dividends recognised as distribution *(note 12)*	–	–	–	–	(92,000,000)	(92,000,000)
Loss and total comprehensive income for the year	–	–	–	–	(461,859,447)	(461,859,447)
At 31 December 2019	400,000,000	3,379,895,424	442,441,821	11,577,844	(394,273,173)	3,839,641,916

The notes on pages 64 to 183 form part of these financial statements.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	**2019** **HK$**	2018 HK$ *(Note)*
OPERATING ACTIVITIES			
(Loss)/profit before taxation		**(537,623,497)**	200,550,211
Adjustments for:			
Finance costs		**569,952,191**	386,951,178
Depreciation of property and equipment		**44,358,192**	9,799,999
Losses on written off/disposal of property and equipment, net		**–**	30,795
Amortisation of intangible assets		**1,850,322**	551,226
Impairment losses on financial assets		**874,301,268**	6,105,250
Fair value changes of interest held by third-party unitholders/ shareholders of consolidated investment funds		**(29,298,504)**	(15,936,005)
Share of result of a joint venture		**7,188,844**	498,698
Operating cash flows before movements in working capital		**930,728,816**	588,551,352
(Increase)/decrease in statutory deposits		**(3,235,278)**	6,347,343
Increase in deposits, other receivables, prepayments and other assets		**(812,125,767)**	(93,434,945)
Increase in financial assets at fair value through profit or loss		**(342,533,744)**	(1,816,931,223)
Decrease/(increase) in accounts receivable		**490,415,720**	(1,950,209,820)
Decrease in loans receivable		**71,614,048**	41,285,952
Increase in reverse repurchase agreements		**(691,712,374)**	(335,307,392)
Decrease/(increase) in bank balances – trust accounts		**3,378,498,046**	(1,839,087,622)
(Decrease)/increase in accounts payable		**(2,579,693,089)**	1,787,522,888
Increase in accruals and other payables		**181,635**	18,559,278
Increase in financial liabilities at fair value through profit or loss		**389,156,241**	101,978,262
Increase in repurchase agreements		**1,891,414,430**	440,546,639
Increase in contract liabilities		**53,333**	126,000
Increase in amount due to a related party		**2,569,802**	217,468
Cash generated from/(used in) operations		**2,725,331,819**	(3,049,835,820)
Tax paid		**(25,535,596)**	(8,242,557)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**2,699,796,223**	(3,058,078,377)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(3,299,697)**	(16,728,101)
Proceeds from disposal of property and equipment		**129,802**	812,633
Purchase of intangible assets		**(5,925,243)**	(1,757,583)
Acquisition of a consolidated structured entity	*45*	**302,964**	–
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 INVESTING ACTIVITIES		**(8,792,174)**	(44,802,644)

	Notes	2019 HK$	2018 HK$ (Note)
FINANCING ACTIVITIES	42		
Interest paid		**(509,060,046)**	(370,264,865)
Bank borrowings raised		**18,298,700,000**	40,582,001,825
Repayments of bank borrowings		**(17,518,700,000)**	(37,083,730,813)
Other borrowings raised		**663,357,145**	790,022,977
Repayments of other borrowings		**(1,937,874,069)**	(524,992,892)
Proceeds from issue of notes		**31,148,400**	62,650,400
Redemption of notes		**(62,650,400)**	(62,549,900)
Proceeds from issue of bonds		**2,139,012,259**	–
Capital element of lease rentals paid		**(31,806,509)**	–
Interest element of lease rentals paid		**(1,142,215)**	–
Dividends paid		**(92,000,000)**	(120,000,000)
Contributions from third-party unitholders/shareholders of consolidated investment funds		**201,718,606**	177,054,702
Withdrawals from third-party unitholders/shareholders of consolidated investment funds		**(28,983,717)**	(11,454,513)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**1,151,719,454**	3,438,736,921
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,842,723,503**	335,855,900
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,517,226,830**	1,181,370,930
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**5,359,950,333**	1,517,226,830
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances – general accounts and cash	23	**5,359,950,333**	1,517,226,830
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE			
Interest received		**1,034,352,170**	825,769,200
Dividend received		**8,210,326**	17,019,408

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

The notes on pages 64 to 183 form part of these financial statements.

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The shares of the Company have been listed in GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investments in debt and equity securities (see note 2(k));

– derivative financial instruments (see note 2(k)); and

– net assets attributable to third-party unit holder/shareholders' interests in consolidated investment funds (see note 2(k)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

(c) 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, but possesses the practical ability to direct the relevant activities of the investee, the Group considers all relevant facts and circumstances in assessing whether or not the Group has power over the investee, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

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.

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 in 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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".

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 structured entities" within other liabilities in the consolidated statement of financial position, if any.

(e) Investment in a joint venture

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture (after applying the ECL model to such other long-term interests where applicable (see 2(k)).

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment in a joint venture *(Continued)*

If an investment in an joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(k)).

In the Company's statement of financial position, investment in a joint venture is stated at cost less impairment losses (see note 2(i)).

(f) Revenue from contracts with customers

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, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Revenue from contracts with customers *(Continued)*

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Revenue from contracts with customers *(Continued)*

Variable consideration *(Continued)*

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.

Further details of the Group's revenue and other income recognition policies are as follows:

(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 the Group has fulfilled its obligations under the respective contracts. Depending on the nature of the services and the contract terms, corporate advisory fee and sponsor fee are recognised in profit or loss over time using a method that depicts the Group's performance, or at point in time when the service is completed;

(iv) Commission income arising from placing, underwriting and sub-underwriting is recognised as income when the Group has fulfilled its obligations its obligations in accordance with the terms of the agreements;

(v) Realised profits or losses from financial assets/financial liabilities at fair value through profit or loss ("FVTPL") and derivatives are recognized 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;

(vi) Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(k)); and

(vii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property and equipment

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)):

- right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

- items of equipment, including right-of-use assets arising from leases of underlying equipment (see note 2(q)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold improvement	Over the lease term
Motor vehicles	12.5%
Furniture and fixtures	20%
Computer equipment	50%
Properties leased for own use	Over the lease term

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) 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).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets *(Continued)*

Financial guarantee contracts is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the original or modified terms of a debt instrument. A contract is classified as a financial guarantee contract when the following conditions are satisfied:

– The reference obligation is a debt instrument

– The holder is compensated only for a loss that it incurs

– The contract does not compensate the holder for more than the actual loss that it incurs.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	3 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) 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 amounts 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.

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.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) 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 they 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.

(k) 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.

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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

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 gross carrying amount of a financial asset or the amortised cost of a financial liability.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

(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 unrealised gain or loss is determined as the change in the fair values of the financial asset between the reporting period, whilst realised gain is determined as difference between the transaction price and the fair value at the prior period-end. 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

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(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.

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(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, 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(vi) Financial guarantee contracts held

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

– the guarantee is implicitly part of the contractual terms of the debt instrument;

– the guarantee is required by laws and regulations that govern the contract of the debt instrument;

– the guarantee is entered into at the same time as and in contemplation of the debt instrument; and

– the guarantee is given by the parent of the borrower or another company within the borrower's group.

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

– the guarantee is implicitly part of the contractual terms of the debt instrument;

– the guarantee is required by laws and regulations that govern the contract of the debt instrument;

– the guarantee is entered into at the same time as and in contemplation of the debt instrument; and

– the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial asset'.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) 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 other than equity investment, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

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.

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 permits the entire combined contract to be designated as at FVTPL.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Non-substantial modifications of financial liabilities

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.

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 subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position and continue to be recognised as "financial assets at FVTPL". 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 measured at amortised cost as they are held for the collection of contractual cash flows which represent solely payments of principal and interest. 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.

(l) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(f)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(k).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) 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 taxable profits will be available to allow all or part of the asset to be recovered.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Taxation *(Continued)*

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.

(p) 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).

(q) Leased asset

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Leased asset *(Continued)*

As a lessee *(Continued)*

(A) Policy applicable from 1 January 2019 (Continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see 2(g) and 2(i)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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.

(s) 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.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of its customers. These client securities arising thereon are excluded from the consolidated financial statements, as they are not assets of the Group.

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of the regulated business activities. The Group has classified the "bank balances — trust and segregated accounts" within the current assets in the consolidated statement of financial position and recognised the corresponding account payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies.

The Group is not allowed to use the clients' monies to settle its own obligations. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

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

HKFRS 16, Leases

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

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

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

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 16, Leases *(Continued)*

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

a. New definition of a lease

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

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

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are in relation to properties as disclosed in note 14. For an explanation of how the Group applies lessee accounting, see note 2(q).

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

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

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

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

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

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 16, Leases *(Continued)*

b. Lessee accounting and transitional impact *(Continued)*

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

The following table reconciles the operating lease commitments as disclosed in note 36(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

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

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

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 16, Leases *(Continued)*

b. Lessee accounting and transitional impact *(Continued)*

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

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

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

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

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 16, Leases *(Continued)*

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

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

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 23(a)).

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

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

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

HKFRS 16, Leases *(Continued)*

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

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

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

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

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 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$310,414,419 and HK$8,460,016 respectively as at 31 December 2019 (2018: HK$399,350,992 and HK$680,767 respectively) 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.

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 likelihood of 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

Deferred tax asset of HK$82,410,899 has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK$499 million as at 31 December 2019 (2018:HK$ Nil) for subsidiaries that are expected to have taxable profits in the future. No deferred tax asset was recognised for tax losses of approximately HK$313 million (2018: HK$215 million) in respect of subsidiaries where it is not probable that sufficient profits will be generated. Details of the tax losses and the deferred tax are disclosed in note 28.

5. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	2019 HK$	2018 HK$
Commission and fee income from customers		
Brokerage:		
Commission and fee income from securities brokerage	**137,547,325**	182,195,344
Commission and fee income from futures and options brokerage	**24,283,654**	27,042,191
Commission income from insurance brokerage	**5,966,448**	3,257,129
	167,797,427	212,494,664
Corporate finance:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	**62,580,777**	124,986,524
– Equity securities	**53,820,935**	50,221,728
Corporate advisory fee income	**830,464**	3,141,044
Sponsor fee income	**7,800,000**	7,990,000
Arrangement fee	**29,743,094**	24,992,911
	154,775,270	211,332,207
Asset management:		
Asset management fee income	**31,834,962**	16,412,089
Investment advisory fee income	**4,241,131**	2,813,598
	36,076,093	19,225,687
	358,648,790	443,052,558
Interest revenue		
Loans and financing:		
Interest income from margin financing	**477,843,577**	422,945,725
Interest income from money lending activities	**1,354,094**	5,224,634
	479,197,671	428,170,359
Financial products and investments:		
Interest income from reverse repurchase agreements	**55,898,841**	4,966,580
	535,096,512	433,136,939

5. REVENUE AND OTHER INCOME *(Continued)*

Revenue *(Continued)*

	2019 HK$	2018 HK$
Net investment income and gains or losses		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	**372,191,758**	461,578,805
Dividend income from financial assets at fair value through profit or loss	**8,210,326**	12,189,462
Net realised gain/(loss) on financial assets at fair value through profit or loss	**56,272,961**	(258,760,737)
Net unrealised loss on financial assets at fair value through profit or loss	**(59,186,141)**	(215,663,069)
Interest income from derivatives	**10,406,981**	–
Net realised (loss)/gain on derivatives	**(66,079,277)**	28,323,024
Net unrealised gain on derivatives	**26,259,591**	6,323,484
Net realised loss on financial liabilities at fair value through profit or loss	**(6,365,184)**	(1,774,809)
Net unrealised gain on financial liabilities at fair value through profit or loss	**26,106,950**	102,639,945
	367,817,965	134,856,105
Total revenue	**1,261,563,267**	1,011,045,602

Timing of revenue recognition for commission and fee income from customers

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

Performance obligations for commission and fee income from customers

(1) Brokerage

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

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

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 2019 and 2018 and the expected timing of recognising revenue are as follows:

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

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)

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

Other Income

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

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 – 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.

6. SEGMENT REPORTING *(Continued)*

For the year ended 31 December 2019

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

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

6. SEGMENT REPORTING *(Continued)*

Geographical information

For the years ended 31 December 2019 and 2018, the Group's revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group's non-current assets excluding financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented for both years.

Information about major customers

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

7. FINANCE COSTS

	2019 **HK$**	2018 HK$
Interest on bank borrowings	**417,023,627**	285,292,485
Interest on bonds	**34,659,871**	–
Interest on other borrowings	**61,979,209**	48,821,087
Interest on repurchase agreements	**47,976,009**	39,331,735
Interest on secured margin loans from brokers	**138,979**	2,517,605
Interest on notes	**2,724,153**	4,457,547
Interest on clients' account	**2,924,421**	4,517,724
Interest on financial liabilities at fair value through profit or loss	**1,383,707**	1,482,048
Interest on lease liabilities	**1,142,215**	–
Others	**–**	530,947
	569,952,191	386,951,178

8. COMMISSION AND FEE EXPENSES

	2019 **HK$**	2018 HK$
Sales commission paid to account executives	**32,122,641**	51,977,493
Commission and fee paid to brokers	**19,674,417**	44,393,284
Others *(note)*	**21,049,475**	15,234,946
	72,846,533	111,605,723

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

9. (LOSS)/PROFIT BEFORE TAXATION

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

Notes:

(a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance. 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$29,298,504 (2018: net gain of HK$15,936,005). Details of the Group's interest in consolidated investment funds are disclosed in note 47.

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

10. TAXATION

	2019 HK$	2018 HK$
Hong Kong Profit Tax:		
Current year	**5,026,863**	61,784,010
Under/(over) provision in prior year	**602,558**	(1,197,069)
	5,629,421	60,586,941
Deferred Tax:		
Current year *(note 28)*	**(81,393,471)**	(3,837,401)
	(75,764,050)	56,749,540

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

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

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

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

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

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

(a) Directors' emoluments

During the years ended 31 December 2019 and 2018, the emoluments paid or payable by the Group are as follows:

	Fees HK$	Salaries and allowances HK$	Benefits in kind HK$	Discretionary bonus HK$ *(note b)*	Retirement benefit schemes contributions HK$	Total HK$
For the year ended 31 December 2019						
Yang Huahui *(note e)*	–	–	–	–	–	–
Huang Yilin *(note e)*	–	–	–	–	–	–
Huang Jinguang *(note a and c)*	–	2,943,352	–	2,488,900	–	5,432,252
Wang Xiang *(note a and c)*	–	2,344,352	–	1,851,000	–	4,195,352
Zeng Yanxia *(note a and c)*	–	2,104,352	–	1,755,800	–	3,860,152
Zhang Chunjuan *(note a and c)*	–	1,461,847	–	801,200	–	2,263,047
Hong Ying *(note d)*	221,952	–	–	–	–	221,952
Tian Li *(note d)*	221,952	–	–	–	–	221,952
Qin Shuo *(note d)*	209,027	–	–	–	–	209,027
	652,931	8,853,903	–	6,896,900	–	16,403,734

	Fees HK$	Salaries and 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

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

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 2019 and 2018 and Ms. Zhang Chunjuan during the year ended 31 December 2019 as they 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.

(e) The remuneration of Mr. Yang Huahui and Mr. Huang Yilin 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 2019 (2018: One) and details of whose emoluments are included in the disclosure above. The emoluments of the remaining four individuals for the year ended 31 December 2019 (2018: Four) are as below:

	2019 **HK$**	2018 HK$
Employees		
– salaries and allowances	**9,285,000**	7,653,000
– discretionary bonus	**13,970,000**	12,505,000
– retirement benefit schemes contributions	**69,000**	72,000
	23,324,000	20,230,000

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

(b) Highest paid individuals *(Continued)*

Their emoluments were within the following bands:

	Number of employees 2019	2018
HK$4,000,001 to HK$4,500,000	**1**	1
HK$4,500,001 to HK$5,000,000	**1**	2
HK$5,500,000 to HK$6,000,000	**1**	–
HK$6,500,001 to HK$7,000,000	**–**	1
HK$8,500,001 to HK$9,000,000	**1**	–

During the year ended 31 December 2019, 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 (2018: 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:

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

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

13. (LOSS)/EARNINGS PER SHARE

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

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

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

14. PROPERTY AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold improvement	Motor vehicles	Furniture and fixtures	Computer equipment	Properties leased for own use carried cost	Total
	HK$	HK$	HK$	HK$	HK$	HK$
Cost						
At 1 January 2018	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
Disposal	–	(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
Impact on initial application of HKFRS 16 *(Note)*	–	–	–	–	44,042,009	44,042,009
Additions	314,872	–	4,821	2,980,004	–	3,299,697
Disposals	–	(769,307)	–	–	–	(769,307)
At 31 December 2019	31,221,984	–	1,801,061	32,331,452	44,042,009	109,396,506
Depreciation						
At 1 January 2018	(9,075,911)	(510,111)	(159,156)	(17,237,717)	–	(26,982,895)
Written off	–	–	–	585,096	–	585,096
Disposals	–	42,301	–	–	–	42,301
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)
Disposals	–	639,505	–	–	–	639,505
Charge for the year	(9,939,370)	(38,057)	(360,788)	(2,821,168)	(31,198,809)	(44,358,192)
At 31 December 2019	(24,913,105)	–	(718,731)	(23,043,539)	(31,198,809)	(79,874,184)
Carrying values						
At 31 December 2019	6,308,879	–	1,082,330	9,287,913	12,843,200	29,522,322
At 31 December 2018	15,933,377	167,859	1,438,297	9,129,077	–	26,668,610

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 3.

14. PROPERTY AND EQUIPMENT *(Continued)*

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019 HK$	1 January 2019 HK$
Other properties leased for own use, carried at depreciated cost	**12,843,200**	44,042,009

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK$	2018 *(Note)* HK$
Depreciation charge of right-of-use assets	**31,198,809**	–
Interest on lease liabilities *(note 7)*	**1,142,215**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	29,917,847

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

There were no additions to right-of-use assets during the year except for the capitalisation of leases at 1 January 2019.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 23(a) and 33, respectively.

The lease typically runs for 2-3 years.

15. INTANGIBLE ASSETS

	Software	Trading rights	Total
	HK$	HK$	HK$
Cost:			
At 1 January 2018	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
Additions	5,925,243	–	5,925,243
At 31 December 2019	11,974,485	1,000,000	12,974,485
Amortisation			
At 1 January 2018	(3,675,118)	–	(3,675,118)
Charge for the year	(551,226)	–	(551,226)
At 31 December 2018	(4,226,344)	–	(4,226,344)
Charge for the year	(1,850,322)	–	(1,850,322)
At 31 December 2019	(6,076,666)	–	(6,076,666)
Carrying values			
At 31 December 2019	5,897,819	1,000,000	6,897,819
At 31 December 2018	1,822,898	1,000,000	2,822,898

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.

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.

16. INTEREST IN A JOINT VENTURE

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

	2019 HK$	2018 HK$
Cost of investment in a joint venture	**40,032,960**	40,032,960
Share of post-acquisition loss	**(7,687,542)**	(498,698)
	32,345,418	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
			2019	2018	**2019**	2018	
IS Investment Fund Segregated Portfolio Company – CIS New China Ever-Growing Fund Segregated Portfolio ("CISNCEF") *(note)*	Cayman Islands	Hong Kong	**28.62%**	28.62%	**50%**	50%	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 2019, 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. As at 31 December 2019, 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 2019, the current carrying amount of HK$32.3 million (2018: HK$39.5 million) in the consolidated statement of financial position represents the Group's maximum exposure in CISNCEF.

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

Summarised financial information of a joint venture

Summarised financial information of CISNCEF, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements are disclosed below:

	2019 HK$	2018 HK$
Current assets	**114,762,960**	139,693,438
Current liabilities	**(1,756,809)**	(1,571,408)
Net current assets and net assets	**113,006,151**	138,122,030
Included in the above assets and liabilities		
Cash and cash equivalents	**3,333,798**	5,917,802

	For the year ended 31 December 2019 HK$	For the period from 17 August 2018 (date of incorporation) to 31 December 2018 HK$
Investment gains or losses	**(25,214,659)**	(1,742,314)
Included in the above loss:		
Interest income	**4,894**	3,020

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

	2019 HK$	2018 HK$
Net assets of CISNCEF	**113,006,151**	138,122,030
Proportion of the Group's ownership interest in CISNCEF	**28.62%**	28.62%
	32,345,418	39,534,262

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

Notes:

(a) For the years ended 31 December 2019 and 2018, the Group invested in an unlisted equity investment of which the principal business was in the telecommunication industry.

(b) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK$1,743,086,603 at 31 December 2018, to non-bank financial institutions and entered into total return swap contract, whereby the Group received cash flow arising from transferred debt securities and receives the debt securities upon maturity of the contracts. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2018 as the Group retains significant risks and rewards of the transferred debt securities. There was no such arrangement at 31 December 2019. Apart from this, there were arrangements to sell debt securities under a repurchase agreement for the year ended 31 December 2019. Details of the arrangement are set out in note 29 and 38.

(c) For the year ended 31 December 2019, the Group entered into foreign currency forward contracts with total notional amount of US$400,505,697 (2018: US$30,000,000) with a non-bank financial institution. The foreign currency forward contracts sell USD and buy HKD at forward rate USD:HKD at 1:7.834 and buy USD and sell HKD weighted average rate USD:HKD at 1:7.814 (2018: sell USD and buy RMB at weighted average forward exchange rate USD:RMB at 1:6.79). The maturity date of the foreign currency forward contracts is within one year.

(d) As at 31 December 2019, notional amount of credit derivative contract with a non-bank financial institution was US$100,000,000 (2018: US$100,000,000).

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

18. LOANS RECEIVABLE

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

18. LOANS RECEIVABLE *(Continued)*

The credit quality of loans receivable are summarised as follows:

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

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

Fixed-rate loans receivable denominated in HKD

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

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

As at 31 December 2018, the loans receivable amounting to HK$66,974,995 were secured by listed securities from the borrowers and cash balance in their cash clients' accounts with an aggregate fair value of HK$103,133,000.

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

19. REVERSE REPURCHASE AGREEMENTS

	2019 HK$	2018 HK$
Analysed by collateral type:		
Debt securities		
– Hong Kong stock exchange	**431,819,345**	258,297,619
– Singapore stock exchange	**116,895,984**	77,009,773
– Unlisted	**386,895,404**	–
Unlisted equity securities	**91,409,033**	–
Less: impairment allowance	**(990,000)**	(990,000)
	1,026,029,766	334,317,392
Analysed as:		
Current	**856,955,362**	334,317,392
Non-current	**169,074,404**	–
	1,026,029,766	344,317,392

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 these as collateralised lending asset for the price paid to purchase the assets.

As at 31 December 2019, the fair value of the collateral was HK$1,974,019,719 (2018: HK$598,573,042).

20. 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.

21. DEPOSITS, OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS

	2019 **HK$**	2018 HK$
Deposits *(note a)*	**165,752,020**	366,354,772
Other receivables *(note b)*	**1,014,904,195**	35,823,665
Prepayments	**4,700,635**	5,582,782
Other assets *(note c)*	**34,530,136**	–
	1,219,886,986	407,761,219
Analysed as:		
Current	**1,171,699,907**	394,214,270
Non-current	**48,187,079**	13,546,949
	1,219,886,986	407,761,219

Notes:

(a) As at 31 December 2019 and 2018, the amount mainly comprises of cash collaterals posted to in banks and other financial institutions for total return swaps, sales and repurchase agreements and credit derivatives transaction.

(b) As at 31 December 2019, the balance included receivable from the derecognition of margin loans amounting to HK$1,003 million during the year. The amounts has been subsequently settled in 2020. Details are set out in note 22.

(c) Other assets represent compensation rights arising from financial guarantee contracts held by the Group. These guarantees are provided in respect of credit impaired margin loans after the origination of the loans and therefore are not determined as an integral element of the debt instruments. The compensation right is recognised when the Group recognises the related ECL as it is certain that the compensation will be received when enforced. Details of the ECL of the relevant margin loans are set out in note 40.

22. ACCOUNTS RECEIVABLE

	2019 HK$	2018 HK$
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	**4,248,656,051**	6,226,035,162
Less: impairment allowance	**(405,810,868)**	(323,921,857)
	3,842,845,183	5,902,113,305
Clearing house	**1,148,102,205**	366,488,173
Cash clients	**126,836,285**	85,689,554
Brokers	**57,056,336**	10,361,343
Clients for subscription of new shares in IPO	**30,302**	97,743
Less: impairment allowance	**(560,000)**	(560,000)
	1,331,465,128	462,076,813
	5,174,310,311	6,364,190,118
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing house	**36,125,995**	53,940,464
Brokers	**129,540,770**	169,970,214
Less: impairment allowance	**(88,000)**	(88,000)
	165,578,765	223,822,678
Accounts receivable arising from the business of corporate finance	**17,695,697**	20,526,889
Accounts receivable arising from the business of asset management	**28,823,967**	12,637,892
Less: impairment allowance	**(512,867)**	(512,867)
	28,311,100	12,125,025
Accounts receivable arising from the business of financial products and investments:		
Brokers	**157,218,744**	286,542,682
	5,543,114,617	6,907,207,392

22. 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.

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

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

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

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

During the year ended 31 December 2019, the Group has issued structured notes to third parties to transfer the cash flows of margin loans amounting to HK$1,876 million at a consideration of HK$1,339 million. Substantially all the risks and rewards have been transferred to the third party investors as the Group will pass all collected cash without material delay and is not obliged to pay if no cash is received by the Group. As a result, the related margin loans have been derecognised. The difference between consideration received and the carrying value of the relevant margin loans has been recognised as an impairment loss in the consolidated statement of profit or loss and other comprehensive income. The issued structured notes will expire in 2024 and the redemption price will be determined by the fair value of the underlying exposure upon expiry.

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

Corporate finance clients

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

22. ACCOUNTS RECEIVABLE *(Continued)*

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

Asset management clients

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

During the years ended 31 December 2019 and 2018, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

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

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

The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

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.

23. BANK BALANCES – TRUST ACCOUNTS/GENERAL ACCOUNTS AND CASH *(Continued)*

(a) Total cash outflow for leases

	2019 HK$	2018 HK$
Within operating cash flows	**–**	30,081,225
Within investing cash flows	**–**	–
Within financing cash flows	**32,948,724**	–

Note: As explained in the note 3(c), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amount relate to lease rentals paid.

24. AMOUNT DUE TO A RELATED PARTY

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

	2019 HK$	2018 HK$
Amount due to Industrial Securities (Shenzhen) *(note)*	**5,744,417**	3,174,615

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.

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$	2018 HK$
Held for trading		
Short position in listed equity securities	**30,853,500**	104,522,000
Credit derivatives *(note a)*	**8,460,016**	11,879,526
Foreign currency forward contracts *(note c)*	**87,500**	–
	39,401,016	116,401,526
Designated at fair value through profit or loss		
Unlisted issued structured products *(note b)*	**639,840,032**	172,299,574
	679,241,048	288,701,100
Analysed as:		
Current	**39,401,016**	288,701,100
Non-current	**639,840,032**	–
	679,241,048	288,701,100

Notes:

(a) For the year ended 31 December 2019, the Group held one credit derivative contract with a non-bank financial institution at a notional amount of USD130,000,000 of which the reference entity was within the banking sector in Hong Kong.

For the year ended 31 December 2018, the Group entered into two credit derivative contracts with a non-bank financial institution at notional amounts HK$100,000,000 and USD130,000,000, of which the reference entities were within the real estate sector in Hong Kong and the banking sector in Hong Kong respectively.

(b) As at 31 December 2019 and 2018, 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.

(c) As at the year ended 31 December 2019, the Group entered into foreign currency forward contracts with total notional amount of US$35,000,000 with bank. The foreign currency forward contracts sell USD at forward rate USD: HKD at 1:7.7837 and buy USD forward rate USD:HKD at 1:7.7862.

26. ACCOUNTS PAYABLE

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

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers as disclosed in note 22 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.

26. 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.

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

27. ACCRUALS AND OTHER PAYABLES

	2019 **HK$**	2018 HK$
Accrued charges *(note)*	**173,716,496**	156,249,234
Other payables	**5,428,657**	25,959,381
	179,145,153	182,208,615
Analysed as:		
Current	**179,145,153**	181,422,911
Non-current	**–**	785,704
	179,145,153	182,208,615

Note: The amount mainly comprises of the accrued operating expenses including staff salary and bonus and also commission to accounts executives.

28. DEFERRED TAX ASSETS AND LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 HK$	2018 HK$
Deferred tax assets	**84,368,068**	3,896,066
Deferred tax liabilities	**(28,715)**	(950,184)
	84,339,353	2,945,882

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2019 and 2018:

	Tax loss HK$	**ECL provision** HK$	**Accelerated tax depreciation** HK$	**Total** HK$
At 1 January 2018	–	–	(891,519)	(891,519)
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
Credit/(charge) to profit or loss *(note 10)*	82,410,899	(821,429)	(195,999)	81,393,471
At 31 December 2019	82,410,899	3,270,571	(1,342,117)	84,339,353

Deferred tax asset has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK$499 million as at 31 December 2019 (2018: HK$ Nil). No deferred tax has been recognised in the consolidated statement of financial position in relation to the deductible temporary differences of approximately HK$75 million arising from the unrealised gain (2018: HK$175 million arising from the unrealised losses) of debt securities under financial assets at FVTPL, and estimated unused tax losses of approximately of HK$313 million (2018: HK$215 million) as at 31 December 2019 as it is uncertain whether future taxable profits will be available.

29. REPURCHASE AGREEMENTS

	2019 HK$	2018 HK$
Analysed as:		
Current	**3,101,099,261**	1,542,080,825
Non-current	**340,765,474**	–
	3,441,864,735	1,542,080,825

As at 31 December 2019, debt securities which are classified as financial assets at FVTPL with carrying amount of HK$3,611,655,724 (2018: HK$2,042,711,942) 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. Details of the arrangement are set out in note 38. The interest rate of the Group's repurchase agreement as at 31 December 2019 is at fixed interest rage ranges from of 2.10% to 4.01% per annum (2018: 2.35% to 4.20% per annum) and repayable within 3 years.

30. BANK BORROWINGS

	2019 HK$	2018 HK$
Variable rate borrowings	**9,719,608,306**	8,909,661,292
Repayable within one year and contain a repayable on demand clause	**6,371,479,379**	5,586,797,616
Repayable within a period of more than one year but not exceeding two years	**3,348,128,927**	–
Repayable within a period of more than two years but not exceeding five years	**–**	3,322,863,676
	9,719,608,306	8,909,661,292

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 2019 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.3% to HIBOR+2.3% (2018: HIBOR+1.4% to HIBOR+2.3%).

At 31 December 2019, HK$9,703,599,612 (net of bank charge) (2018: HK$8,902,863,676) had been drawn under the aggregated banking facilities of HK$13,160,000,000 (2018: HK$15,017,200,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK$9,790,000,000 as at 31 December 2019 (2018: HK$9,180,000,000). Out of which HK$8,090,000,000 have been drawn as at 31 December 2019 (2018: HK$6,980,000,000).

No bank borrowings were secured by charges over clients' pledged securities as at 31 December 2019 and 2018.

The Group did not fulfil one of the bank covenants (i.e. consolidated EBITDA >150% finance charge) for bank borrowings amounting to HK$3,580,000,000 as at 31 December 2019. Management has taken actions to rectify this by requesting for waiver from the relevant banks and putting in place additional funding to manage the liquidity risk arising thereon.

31. OTHER BORROWINGS

	2019 HK$	2018 HK$
Borrowings associated with transferred assets *(as disclosed in note 38)*	**196,217,064**	1,485,297,574

The interest rate of the Group's other borrowings as at 31 December 2019 is at fixed interest rate of 4.30% to 6.00% per annum (2018: 3.58% to 4.85% per annum). The other borrowings are repayable within one year. As at 31 December 2019, client securities amounting to HK$391,006,060 has been pledged to other borrowings (2018: pledged by financial assets amounting to HK$1,786,257,427 as set out in note 38).

32. NOTES AND BONDS

During the years ended 31 December 2019 and 2018, the Company's wholly owned subsidiary issued guaranteed notes with fixed interest rate of 3% per annum with a one year maturity which is guaranteed by the Company.

During the year ended 31 December 2019, the Company issued corporate bonds with fixed interest rate of 5% per annum with a one year maturity which is guaranteed by the Company's wholly owned subsidiary.

There were no bonds issued in 2018.

33. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019		31 December 2018	
	Present value of the minimum lease payment HK$	**Total minimum lease payment HK$**	Present value of the minimum lease payment HK$	Total minimum lease payment HK$	Present value of the minimum lease payment HK$	Total minimum lease payment HK$
Within 1 year	**13,404,498**	**13,548,899**	32,294,847	32,948,724	–	–
After 1 but within 2 years	**–**	**–**	12,916,160	13,548,899	–	–
	13,404,498	**13,548,899**	45,211,007	46,497,623	–	–
Less: finance cost		**(144,401)**		(1,286,616)		–
Present value lease obligation		**13,404,498**		45,211,007		–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

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

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

35. CAPITAL RESERVE

As at 31 December 2019 and 2018, 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")).

36. COMMITMENTS

(a) Commitments under operating lease

At the end of each reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$
Within one year	33,518,106
In the second to fifth year inclusive	13,548,899
	47,067,005

For the year ended 31 December 2018, the Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. Operating lease payments represent rentals payable by the Group for its office premises and director/staff apartments. Leases and rentals are negotiated and fixed for periods of two to three years.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(o), and the details regarding the Group's future lease payments are disclosed in note 33.

(b) Investment commitments

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

37. EMPLOYEE BENEFITS

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.

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.

(a) Other borrowings

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". As at 31 December 2019, these other borrowings were pledged by client securities amounting to HK$391,006,060 (2018: pledged by financial assets amounting to HK$1,786,257,427).

(b) Repurchase agreements

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 2019

Analysed by liabilities type	**Carrying amount of transferred assets**			**Carrying amount of associated liabilities**	**Net position**
	Accounts receivable – collateral paid under total return swap HK$	**Financial assets at fair value through profit or loss HK$**	**Total HK$**	**HK$**	**HK$**
Repurchase agreements *(note 29)*	**–**	**3,611,655,724**	**3,611,655,724**	**3,441,864,735**	**169,790,989**

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 HK$	Financial assets at fair value through profit or loss HK$	Total HK$	HK$	HK$
Other borrowings *(note 31)*	43,170,824	1,743,086,603	1,786,257,427	1,485,297,574	300,959,853
Repurchase agreements *(note 29)*	–	2,042,711,942	2,042,711,942	1,542,080,825	500,631,117

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, notes and bonds as disclosed in notes 30, 31 and 32, and equity attributable to owners of the Company (comprising issued share capital, reserves and retained earnings) as follows:

	2019 HK$	2018 HK$
Bank borrowings	**9,719,608,306**	8,909,661,292
Other borrowings	**196,217,064**	1,485,297,574
Notes	**31,302,195**	62,850,751
Bonds	**2,173,672,130**	–
Equity attributable to owners of the Company	**3,839,641,916**	4,391,073,572
	15,960,441,611	14,848,883,189

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

	2019 HK$	2018 HK$
Financial assets		
Amortised cost	**14,986,309,446**	14,461,203,396
Financial assets at fair value through profit or loss	**9,125,934,343**	8,781,097,139
Financial liabilities		
Financial liabilities at fair value through profit or loss	**1,255,456,357**	688,431,079
Amortised cost	**18,998,743,540**	18,264,335,666

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, reverse repurchase agreements, accounts receivable, loans receivable, deposits and other receivables, bank balances and cash, accounts payable, repurchase agreements, bank borrowings, other borrowings, notes, bonds, 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 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.

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.

	2019 **HK$**	2018 HK$
Profit after taxation for the year		
Increase by 50 bps	**(44,323,325)**	(27,584,475)
Decrease by 50 bps	**74,386,992**	51,552,447

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.

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 Group mitigates currency risk using cross-currency forward contracts to hedge movements in exchange rates where necessary.

The major foreign currency exposure of the Group in HKD equivalent is presented below:

	Assets		Liabilities	
	2019	2018	**2019**	2018
	HK$	HK$	**HK$**	HK$
United States dollars ("USD")	**15,557,542,720**	12,881,314,812	**7,715,187,473**	6,255,315,112
Renminbi ("RMB")	**414,970,544**	674,609,443	**113,342,550**	372,500,236

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	
	2019	2018
	HK$	HK$
Increase in profit after taxation for the year	**12,593,000**	12,613,000

Other price risk

The Group is exposed to price changes arising from investments classified as financial assets at FVTPL.

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.

The following table summarises the impact on changes in prices/unit prices of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss on the Group's profit after tax for the year:

2019

	Exposure	Impact on a 5% increases in price on profit after tax for the year	Impact on a 5% decreases in price on profit after tax for the year
Financial assets at fair value through profit or loss (except for foreign currency forward contracts and credit derivative)			
Listed equity securities, listed funds, listed and unlisted debt securities, listed convertible bonds	8,707,632,645	435,381,632	(435,381,632)
Unlisted equity securities, investment funds, debt linked note and equity linked note	310,414,419	15,520,721	(15,520,721)
Financial liabilities at fair value through profit or loss (except for foreign currency exchange contracts and credit derivative)			
Unlisted structured financial products	629,789,650	(31,489,483)	31,489,483
Short position	30,853,500	(1,542,675)	1,542,675
Other liabilities (third parties unit holders of consolidated investment funds)	397,754,496	(19,887,725)	19,887,725
		397,982,470	(397,982,470)

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk (Continued)

2018

	Exposure	Impact on a 5% increases in price on profit after tax for the year	Impact on a 5% decreases in price on profit after tax for the year
Financial assets at fair value through profit or loss (except for foreign currency exchange contracts and credit derivatives)			
Listed equity securities, listed funds, listed and unlisted debt securities, listed convertible bonds	6,845,649,709	342,282,485	(342,282,485)
Unlisted equity securities, investment funds, debt linked note and equity linked note	1,814,958,062	90,747,903	(90,747,903)
Financial liabilities at fair value through profit or loss (except for credit derivatives)			
Unlisted structured financial products	168,416,061	(8,402,803)	8,402,803
Short position	104,522,000	(5,226,100)	5,226,100
Other liabilities (third parties unit holders of consolidated investment funds)	350,867,555	(17,543,378)	17,543,378
		401,858,107	(401,858,107)

The fair value of derivative financial instruments depends on the foreign currency exchange rate underlying investment linked index and credit spread of reference entities. If the foreign currency linked index or credit spread increased/decreased by 1 bps, profit after tax for the year ended 31 December 2019 would have an estimated HK$1,808,623 decrease/increase (2018: HK$5,224,422 decrease/increase).

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 2019 and 2018, 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 during the year. In addition, there was with a maximum exposure of approximately HK$1,090,194,000 (2018: HK$356,626,000) as the Group issued protection under certain credit instruments.

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, 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. In this regard, the directors of the Company consider that the Group's credit risk is sufficiently managed.

The credit risk on bank balances is limited because the counterparties are with high credit ratings assigned by international credit-rating agencies. More than 75% 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 details in note 22, 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 39% (2018: 24%) of the total loans to margin clients as at 31 December 2019. The balances due from the ten largest securities margin clients were approximately HK$1,517,188,000 (2018: HK$1,439,986,000), of which the amount is secured by clients' securities with an aggregate fair value of HK$5,453,602,000 (2018: HK$5,141,808,000),. 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. As at 31 December 2019, the Group did not have any exposure to credit risk on loans receivable. As at 31 December 2018, apart from the exposures to the concentration of credit risk from two independent counterparties amounting to HK$52,729,158, 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 it 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. 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)*

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 credit-linked notes and listed note, held by the Group, as rated by well-known rating agencies.

	As at 31 December 2019	As at 31 December 2018
Portfolio by issuer rating		
Financial assets at fair value through profit or loss		
AAA to A-	**7.5%**	8.0%
BBB+ to BBB-	**21.4%**	13.8%
BB+ and below	**5.5%**	18.2%
Non-rated *(note)*	**65.6%**	60.0%
	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.

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.

The risk management department is responsible for developing and maintaining the processes for measuring ECL, the impairment requirements under HKFRS 9. The ECL are assessed by the Group on quarterly 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.

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, the value of guarantee that is an integral part of the loan, 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 taking into account expected changes in the exposure after the reporting date.

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. For secured margin loans, the number of days past due and loan-to-collateral value ("LTV") are used to determine significant increase in credit risk. For other financial assets, the number of days past due is used 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

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:

	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2019 HK$	Gross carrying amount 2018 HK$
Financial assets at amortised costs						
Loans receivable	*18*	N/A	Low risk	12-month ECL	**–**	71,614,048
Reverse repurchase agreements	*19*	N/A	Low risk	12-month ECL	**1,027,019,766**	335,307,392
Secured margin loans	*22*	N/A	Low risk	12-month ECL	**2,905,253,918**	3,626,017,967
			Doubtful	Lifetime ECL (not credit impaired)	**266,824,048**	713,357,721
			Loss	Credit impaired	**1,076,578,085**	1,886,659,474
					4,248,656,051	6,226,035,162
Accounts receivable (except for secured margin loans)	*22*	N/A	(Note 2)	Lifetime ECL (not credit impaired)	**1,698,776,023**	1,004,575,097
				Lifetime ECL (credit-impaired)	**2,654,278**	1,679,857
					1,701,430,301	1,006,254,954
Bank balances – trust accounts	*23*	BBB or above	N/A	12-month ECL	**1,850,581,251**	5,229,079,297
Bank balances – general accounts and cash	*23*	BBB or above	N/A	12-month ECL	**5,359,950,333**	1,517,226,830
Deposits and other receivables	*21*	N/A	(Note 1)	12-month ECL	**1,180,656,215**	402,178,437

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.

	2019 Past due HK$	2019 Not past due/ Repayable on demand HK$	2019 Total HK$	2018 Past due HK$	2018 Not past due/ Repayable on demand HK$	2018 Total HK$
Deposits and other receivables	**–**	**1,180,656,215**	**1,180,656,215**	–	402,178,437	402,178,437

2. For accounts receivable (except for secured margin loans), 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 according to the stage of ECL for which an impairment allowance is recognised as follows:

As at 31 December 2019

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Reverse repurchase agreements				
Gross carrying amount	**1,027,019,766**	**–**	**–**	**1,027,019,766**
Loss allowance	**(990,000)**	**–**	**–**	**(990,000)**
Net carrying amount	**1,026,029,766**	**–**	**–**	**1,026,029,766**
Secured margin loans				
Gross carrying amount	**2,905,253,918**	**266,824,048**	**1,076,578,085**	**4,248,656,051**
Loss allowance	**(15,229,222)**	**(4,434,423)**	**(386,147,223)**	**(405,810,868)**
Net carrying amount	**2,890,024,696**	**262,389,625**	**690,430,862**	**3,842,845,183**
Bank balances – trust accounts				
Gross carrying amount	**1,850,581,251**	**–**	**–**	**1,850,581,251**
Loss allowance	**(250,000)**	**–**	**–**	**(250,000)**
Net carrying amount	**1,850,331,251**	**–**	**–**	**1,850,331,251**

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

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	–	–	–	–
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 and 1 January 2019	170,000	–	–	170,000
Changes due to financial instruments: recognised as at 1 January 2019				
Impairment losses reversed	(170,000)	–	–	(170,000)
As at 31 December 2019	–	–	–	–

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.

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	–	–	–	–
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, 1 January 2019 and 31 December 2019	990,000	–	–	990,000

40. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

As at 31 December 2019, the Group measured the loss allowance for reverse repurchase agreements of Stage 1 amounting to HK$990,000 (2018: HK$990,000), which was contributed by the new reverse repurchase agreements originated during the year with a gross carrying amount of HK$1,027.0 million (2018: HK$335.3 million).

Movement in the allowances for impairment for bank balances – trust accounts is as follows:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	HK$	HK$	HK$	HK$
As at 1 January 2018	–	–	–	–
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, 1 January 2019 and 31 December 2019	250,000	–	–	250,000

As at 31 December 2019, the Group measured the loss allowance for bank balances – trust accounts of Stage 1 amounting to HK$250,000 (2018: HK$250,000), which was contributed by the fixed deposits in the trust accounts with a gross carrying amount of HK$1,625.3 million (2018: HK$4,691.7 million).

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 1 January 2018	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 and 1 January 2019	15,516,854	6,315,387	302,089,616	323,921,857
Changes due to financial instruments recognised as at 1 January 2019:				
– Transfer to Stage 3	(2,526,971)	(3,736,694)	6,263,665	–
– Transfer to Stage 2	(852,226)	1,200,762	(348,536)	–
– Transfer to Stage 1	3,497,602	(2,435,962)	(1,061,640)	–
Impairment losses recognised	11,719,963	4,354,349	862,570,625	878,644,937
Impairment losses reversed	(15,635,259)	(1,343,494)	(16,548,543)	(33,527,296)
Written-off	–	–	(290,394,561)	(290,394,561)
Derecognised by way of note issuance *(Note 22)*	–	–	(536,717,832)	(536,717,832)
New financial assets originated or purchased	3,509,259	80,075	60,294,429	63,883,763
As at 31 December 2019	15,229,222	4,434,423	386,147,223	405,810,868

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$81.9 million (2018: HK$3.5 million) for the year ended 31 December 2019.

The movement was mainly driven by secured margin loans of Stage 3. Due to the fluctuation of the stock market, the collateral valuations fell short of the related margin accounts. Additional loss allowance of HK$922.9 million (2018: HK$11.8 million) was made for secured margin loans with a gross carrying amount of HK$2,952.3 million (2018: HK$784.7 million) at Stage 3.

This increase was partially set off by write-off of secured margin loans with a gross carrying amount of HK$290.4 million (2018: Nil) at Stage 3, derecognition of margin loans by way of note issuance with a gross carrying amount of HK$1,875.7 million (2018: Nil) and reversal of impairment losses for secured margin loans with a gross carrying amount of HK$2,688.1 million.

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. The write-off was made in respect of secured margin loans that have been fully provided for in the prior years. These loans were still subject to enforcement activities under the Group's recovery procedures.

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 2019

	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	1,329,725,717	2,299,411	1,332,025,128
Loss allowance	(75,512)	(484,488)	(560,000)
Net carrying amount	1,329,650,205	1,814,923	1,331,465,128
Accounts receivable arising from the business of dealing in futures and options contracts			
Gross carrying amount	165,666,765	–	165,666,765
Loss allowance	(88,000)	–	(88,000)
Net carrying amount	165,578,765	–	165,578,765
Accounts receivable arising from the business of corporate finance			
Gross carrying amount	17,695,697	–	17,695,697
Loss allowance	–	–	–
Net carrying amount	17,695,697	–	17,695,697
Accounts receivable arising from the business of asset management			
Gross carrying amount	28,469,100	354,867	28,823,967
Loss allowance	(158,000)	(354,867)	(512,867)
Net carrying amount	28,311,100	–	28,311,100
Accounts receivable arising from the business of financial products and investments			
Gross carrying amount	157,218,744	–	157,218,744
Loss allowance	–	–	–
Net carrying amount	157,218,744	–	157,218,744
Total			
Gross carrying amount	1,698,776,023	2,654,278	1,701,430,301
Loss allowance	(321,512)	(839,355)	(1,160,867)
Net carrying amount	1,698,454,511	1,814,923	1,700,269,434

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: *(Continued)*

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

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)	Lifetime ECL (Credit-impaired)	Total
	HK$	HK$	HK$
As at 1 January 2018	–	–	–
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, 1 January 2019 and 31 December 2019	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$1,004.6 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. Management considers that there were no material changes in the impairment assessment of the accounts receivable (except for secured margin loans) as at 31 December 2019, so there was no movement during the year.

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.

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 equity-linked note and debt-linked notes held by the Group, is shown below.

	Notes	**2019 Financial assets at fair value through profit or loss HK$**	2018 Financial assets at fair value through profit or loss HK$
Carrying amount	*17*	**8,375,466,491**	7,921,229,951
Concentration by sector			
Banks		**1,390,996,998**	934,687,895
Other financial institutions		**2,033,453,607**	3,581,140,508
Insurance		**79,725,195**	154,178,213
Corporate:		**4,790,954,100**	3,221,580,973
Real estate		**2,374,869,848**	1,700,722,264
Chemicals		**127,982,178**	224,844,654
Customer services		**319,325,499**	29,187,000
Food		**–**	16,248,964
Entertainment		**–**	21,568,379
Industrial and construction		**871,344,433**	483,173,530
Transportation		**69,991,242**	51,397,840
Telecommunications		**–**	44,415,653
Utilities		**991,903,408**	208,958,249
Metals and mining		**35,537,492**	441,064,440
Retail		**80,336,591**	29,642,362
		8,375,466,491	7,921,229,951
Concentration by location			
China		**3,901,269,270**	1,381,235,492
Europe		**235,548,318**	406,080,153
Hong Kong		**3,026,861,238**	2,174,333,262
Asia		**154,189,565**	110,897,673
Australia		**–**	104,349,258
America		**1,057,598,100**	3,744,334,113
		8,375,466,491	7,921,229,951

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, 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 and bank loans that do not meet covenant conditions are included in the time band according to the loan maturity date. The directors of the company do not believe that it is probable the banks will exercise their discretionary rights to demand immediate repayment. The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay. 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 2019, the aggregate undiscounted principal amounts of these bank borrowings of the Group amounted to HK$6,360,000,000 (2018: HK$5,580,000,000). The maturity dates for other financial liabilities are based on the agreed repayment dates.

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 2019						
Accounts payable	N/A	3,411,501,538	–	–	3,411,501,538	3,411,501,538
Financial liabilities held for trading	N/A	39,401,106	–	–	39,401,016	39,401,016
Financial liabilities designated at fair value through profit or loss (including interest payable)	N/A	–	–	639,840,032	639,840,032	639,840,032
Repurchase agreements (including interest payable)	2.75%	2,702,587,878	401,851,392	371,084,267	3,475,523,537	3,441,864,735
Bank borrowings (including interest payable)	4.82%	6,424,711,285	134,680,817	3,487,878,832	10,047,270,934	9,719,608,306
Other borrowings (including interest payable)	4.88%	59,275,047	138,377,694	–	197,652,741	196,217,064
Notes (including interest payable)	3%	–	31,720,103	–	31,720,103	31,302,195
Bonds	5%	–	2,249,015,712	–	2,249,015,712	2,173,672,130
Lease liabilities	3.72%	–	13,548,899	–	13,548,899	13,404,498
Other payables	N/A	5,248,657	–	–	5,248,657	5,248,657
Amount due to a related party	N/A	5,744,417	–	–	5,744,417	5,744,417
Other liabilities	N/A	546,215,309	–	–	546,215,309	546,215,309

Note: As mentioned in note 22, the Group has issued structured notes to third parties to transfer the cash flow of margin loans. The issued notes will expire in 2024 and the redemption price will be determined by the fair value of the underlying exposure upon expiry.

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

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 2019 and 2018.

40. FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

The following tables give information about how the fair values of financial assets and financial liabilities measured at fair value are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

	Fair value as at			
	31 December 2019 HK$	31 December 2018 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	**333,622,245**	250,488,074	Level 1	Quoted price in active markets
– Unlisted	**241,171,753**	374,529,995	Level 3	Market approach based on the Comparable Companies Method with the Price to Earnings and EV/EBITDA 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	Level 1	Quoted price in active markets
– Traded on stock exchanges and unlisted	**7,560,555,820**	1,784,955,456	Level 2	Quoted from brokers or market makers
– Unlisted	**778,710,000**	–	Level 2	Recent transaction price
Credit derivative	**1,183,320**	2,747,716	Level 2	Quoted from market makers
Foreign currency forward contracts	**3,936,218**	2,322,556	Level 2	Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate

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 2019 HK$	31 December 2018 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	Level 1	Quoted price in active markets
– Traded on stock exchange	**36,200,671**	–	Level 2	Quoted from brokers or market makers
Funds				
– Traded on stock exchange	**101,311,650**	69,441,600	Level 1	Quoted price in active market
– Unlisted	**–**	88,528,438	Level 2	NAV of funds with reference to underlying investment portfolios which have observable quoted price in active markets
– Unlisted	**69,242,666**	24,820,997	Level 3	NAV of fund provided by external counterparty *(note b)*
– Unlisted	**–**	46,987,812	Level 2	Recent transaction price
Unlisted equity-linked note	**–**	398,055,808	Level 2	Observable quoted price of underlying equity investment in active market
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
	9,125,934,343	8,781,097,139		

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 2019 HK$	Fair value as at 31 December 2018 HK$	Fair value hierarchy	Valuation technique(s) and key input(s)
2) Financial liabilities held for trading				
Short position in listed equity securities	**30,853,500**	104,522,000	Level 1	Quoted price in active market
Credit derivative	**–**	11,198,759	Level 2	Quoted price from market makers
Credit derivative	**8,460,016**	680,767	Level 3	Quoted price from market makers *(note c)*
Foreign currency forward contracts	**87,500**	–	Level 2	Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate
	39,401,016	116,401,526		
3) Financial liabilities designated at fair value through profit or loss				
Unlisted structured products (with the underlying investment related to listed debt securities)	**80,696,680**	148,930,662	Level 2	Observable quoted price of underlying investments in active market
Unlisted structured product (with the underlying investment related to unlisted debt security)	**107,648,354**	23,368,912	Level 2	Observable quoted price of underlying investment from market makers
Unlisted structured product (with the underlying investment related to unlisted fund)	**451,494,998**	–	Level 2	Recent transaction price
	639,840,032	172,299,574		

40. FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

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.

During the year ended 31 December 2019, debt securities and convertible bonds amounting to HK$192,042,267 and HK$36,200,671 respectively were transferred from level 1 to level 2 due to disappearance of an active market. There was no transfer between level 1 and level 2 during the year ended 31 December 2018. The Group assumes all transfers took place at the end of the financial year.

Reconciliation of level 3 fair value measurements

31 December 2019

	2019		**2018**	
	Financial liabilities at fair value through profit or loss HK$	Financial assets at fair value through profit or loss HK$	**Financial liabilities at fair value through profit or loss HK$**	Financial assets at fair value through profit or loss HK$
Opening balance	**(680,767)**	399,350,992	**–**	–
Additions	**(8,460,016)**	–	**–**	313,177,638
Transfer into Level 3 *(note a)*	**–**	48,004,707	**–**	23,502,000
Settled during the year	**680,767**	–	**–**	–
Total unrealised gains/(loss) in profit or loss	**–**	(136,941,280)	**(680,767)**	62,671,354
Closing balance	**(8,460,016)**	310,414,419	**(680,767)**	399,350,992

40. FINANCIAL INSTRUMENTS *(Continued)*

Reconciliation of level 3 fair value measurements *(Continued)*

Notes:

(a) The fair value of the unlisted funds were determined with reference to the recent transaction price and therefore classified as Level 2 investment in the previous year. During the year, the fair value of the unlisted funds were determined based on NAV reported by external counterparty which involved significant unobservable inputs. Thus, the instrument was transferred from Level 2 to Level 3 category.

Derivative financial instruments settled daily

	As at 31 December 2019		
	Notional	Fair value	
	amount	Assets	Liabilities
	HK$	HK$	HK$
Foreign currency exchange futures	233,576,910	–	2,191,932
Interest rate futures	1,031,790,750	903,912	–
Total	1,265,367,660	903,912	2,191,932
Less: Settlement		(903,912)	(2,191,932)
Net Position		–	–

40. FINANCIAL INSTRUMENTS *(Continued)*

Derivative financial instruments settled daily *(Continued)*

	As at 31 December 2018		
	Notional amount	Fair value	
		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		–	–

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 2019 and 2018.

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, foreign currency forward and sale and repurchase agreements.

The Group's total return swaps transactions and foreign currency forward 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.

41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

In addition, the Group pledged collateral in the form of cash and/or securities 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.

As at 31 December 2019

	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	5,329,507,765	(155,197,454)	5,174,310,311	(131,631,000)	(3,148,633,093)	1,894,046,218
Debt securities pledged as collaterals for repurchase agreements (as disclosed in note 38)	3,611,655,724	–	3,611,655,724	(3,441,864,735)	–	169,790,989
Reverse repurchase agreements	1,026,029,766	–	1,026,029,766	–	(1,026,029,766)	–

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 2019 *(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 received HK$	Net amount HK$
Financial liabilities						
Accounts payable arising from the business of dealing in securities	3,167,796,832	(155,197,454)	3,012,599,378	(131,631,000)	(8,212,188)	2,872,756,190
Repurchase agreements	3,441,864,735	–	3,441,864,735	(3,441,864,735)	–	–

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	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		Net amount
				Financial instruments	Collateral received	
	HK$	HK$	HK$	HK$	HK$	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)	–	–	–	–

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	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities 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 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)	–	–	–	–

Notes:

(a) During the year ended 31 December 2018, 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. There were no such arrangement at 31 December 2019.

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.

	Bonds HK$ *(Note 32)*	Bank borrowings HK$ *(Note 30)*	Other borrowings HK$ *(Note 31)*	Notes HK$ *(Note 32)*	Financial liabilities at fair value through profit or loss HK$ *(Note 25)*	Repurchase agreements HK$ *(Note 29)*	Accounts payable HK$ *(Note 26)*	Other liabilities HK$ *(Note 47)*	Lease liabilities HK$ *(Note 33)*	Total HK$
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
Impact on initial application of HKFRS 16 *(note 3)*	–	–	–	–	–	–	–	–	45,211,007	45,211,007
At 1 January 2019	–	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	45,211,007	18,724,727,155
Financing cash flow:										
– Borrowings raised	–	18,298,700,000	663,357,145	–	–	–	–	–	–	18,962,057,145
– Repayment of borrowings	–	(17,518,700,000)	(1,937,874,069)	–	–	–	–	–	–	(19,456,574,069)
– Issuance of notes	–	–	–	31,148,400	–	–	–	–	–	31,148,400
– Redemption of notes	–	–	–	(62,650,400)	–	–	–	–	–	(62,650,400)
– Interest paid	–	(387,076,613)	(76,542,795)	(2,770,709)	–	(39,606,529)	(3,063,400)	–	–	(509,060,046)
– Net proceeds from issue of bonds	2,139,012,259	–	–	–	–	–	–	–	–	2,139,012,259
– Capital element of lease rentals paid	–	–	–	–	–	–	–	–	(31,806,509)	(31,806,509)
– Interest element of lease rentals paid	–	–	–	–	–	–	–	–	(1,142,215)	(1,142,215)
– Contribution from third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	–	–	–	201,718,606	–	201,718,606
– Withdrawal from third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	–	–	–	(28,983,717)	–	(28,983,717)
Operating cash flow:										
– Change in financial liabilities at fair value through profit or loss	–	–	–	–	389,156,241	–	–	–	–	389,156,241
– Change in repurchase agreements	–	–	–	–	–	1,891,414,430	–	–	–	1,891,414,430
– Change in accounts payable	–	–	–	–	–	–	(2,579,693,089)	–	–	(2,579,693,089)
Fair value changes of interest held by third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	–	–	–	(29,298,504)	–	(29,298,504)
Finance costs	34,659,871	417,023,627	61,979,209	2,724,153	1,383,707	47,976,009	3,063,400	–	1,142,215	569,952,191
Investing cash flow:										
Net assets acquired at the date of acquisition attributable to third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	–	–	–	302,964	–	302,964
Other non-cash movements	–	–	–	–	–	–	–	2,745,981	–	2,745,981
	2,173,672,130	9,719,608,306	196,217,064	31,302,195	679,241,048	3,441,864,735	3,411,501,538	546,215,309	13,404,498	20,213,026,823

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

	Bank borrowings HK$ *(Note 30)*	Other borrowings HK$ *(Note 31)*	Notes HK$ *(Note 32)*	Financial liabilities at fair value through profit or loss HK$	Repurchase agreements HK$	Accounts payable HK$	Accrued interest HK$	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

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 2019 and 2018 was as follows:

	2019 **HK$**	2018 HK$
Short-term benefits	**33,060,016**	30,659,000
Post-employment benefits	**145,500**	144,000

(b) Right of trading of RMB denominated securities in the PRC

During the years ended 31 December 2019 and 2018, 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 2019, the Company paid a consultancy service fee of HK$19,668,087 (2018: HK$21,615,877) 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 2019 and 2018, 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.

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

45. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

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

Consideration transferred

	HK$
Cash	5,000,000

Assets acquired and liabilities recognised at the date of acquisition

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

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

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

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

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

Net cash inflow on acquisition of a consolidated structured entity

	HK$
Cash and cash equivalent balances acquired	5,302,964
Less: consideration paid in cash	(5,000,000)
	302,964

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
				2019	2018	
				%	%	
Directly owned						
China Industrial Securities International Brokerage Limited	Hong Kong	Hong Kong	HK$3,500,000,000 (2018: 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

46. SUBSIDIARIES *(Continued)*

Name of investment fund	Place of incorporation	Place of operation	Class of share	Effective interest holding at 31 December 2019 %	Effective interest holding at 31 December 2018 %	Principal activities
Indirectly owned						
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 – CISI Stable Growth Bond Fund Segregated Portfolio ("CISISF") (Former name: IS Investment Fund Segregated Portfolio Company – CIS USD Fixed Income Fund Segregated Portfolio ("CISFF")) *(note a)*	Cayman Islands	Hong Kong	Participating	**93.16**	98.75	Investment trading
IS Investment Fund Segregated Portfolio Company – WVCIS Value Growth Fund Segregated Portfolio ("CISWF") *(note a)*	Cayman Islands	Hong Kong	Participating	**47.12**	48.49	Investment trading
IS Investment Fund Segregated Portfolio Company – CIS The Belt and Road PE Fund I ("CISBF") *(note a)*	Cayman Islands	Hong Kong	Participating	**50**	50	Investment trading
IS Investment Fund Segregated Portfolio Company – CIS Multi-Tranche Money Market Fund SP ("CISMM") *(note a)*	Cayman Islands	Hong Kong	Participating	**36.55**	56.97	Investment trading
IS Investment Fund Segregated Portfolio Company – CIS Alpha-H Fund SP ("Alpha-H")	Cayman Islands	Hong Kong	Participating	**73.81**	N/A	Investment trading

Notes:

(a) China Industrial Securities International Asset Management Limited, a wholly owned subsidiary of the Group, holds all management shares of IS Investment Fund Segregated Portfolio Company ("IS IFSPC"). China Industrial Securities International Asset Management Limited has been appointed as an investment manager of CISEF, CISRF, CISISF, CISWF, CISBF, CISMM and Alpha-H 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 2019 and 2018.

(b) During the year ended 31 December 2018, the Group disposed of CISEF. Details of the disposal is disclosed in note 44.

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 2019, loss contributed by the consolidated investment funds (excluding third party interests as stated below), were HK$12,276,266 (2018: loss of HK$48,651,406). As at 31 December 2019, the total assets and total liabilities (excluding third party interests as stated below) of the consolidated investment funds, were HK$1,859,570,159 and HK$421,092,218 respectively (2018: HK$2,522,969,056 and HK$691,633,483 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 2019 changes in interests held by third-party unit holders/shareholders of HK$29,298,504 (2018: HK$15,936,005) 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$546,215,309 (2018: HK$399,729,979) as at 31 December 2019 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, China Industrial Securities International Asset Management Limited, 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 certain investment funds are regarded as unconsolidated structured entities as the Group does not hold any participating shares in the investment funds and is not able to exercise control over their operation, or it has no significant variable financial interest. Hence, they are not consolidated in the consolidated financial statements.

China Industrial Securities International Asset Management Limited 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 2019 is HK$26,575,000 (2018: HK$5,796,000) (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 2019 is HK$29,857,000 (2018: HK$10,600,000). The net asset value of total assets under management for these funds amounts to approximately HK$6,641 million as at 31 December 2019 (2018: HK$5,433 million).

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 2019 and 2018, 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.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$	2018 HK$
Non-current assets		
Property and equipment	**28,909,038**	26,024,602
Intangible assets	**819,586**	879,382
Investment in subsidiaries	**3,370,310,164**	2,600,134,817
Deposits, other receivables and prepayments	**13,552,560**	13,458,444
Deferred tax assets	**1,192,355**	–
	3,414,783,703	2,640,497,245
Current assets		
Deposits, other receivables and prepayments	**5,510,044**	3,587,282
Amounts due from subsidiaries/related parties	**9,800,889,846**	10,166,664,465
Bank balances – general accounts and cash	**2,331,319,114**	67,377,004
	12,137,719,004	10,237,628,751
Current liabilities		
Accruals and other payables	**113,107,753**	92,352,601
Amounts due to subsidiaries/related parties	**11,476,437**	3,174,615
Tax payable	**2,765,328**	36,210,215
Bank borrowings	**6,121,412,850**	5,086,488,062
Bonds	**2,173,672,130**	–
Lease liabilities	**13,404,498**	–
	8,435,838,996	5,218,225,493
Net current assets	**3,701,880,008**	5,019,403,258
Non-current liabilities		
Accruals and other payables	**–**	785,704
Deferred tax liabilities	**–**	914,767
Bank borrowings	**3,348,128,927**	3,322,863,676
	3,348,128,927	3,324,564,147
Net assets	**3,768,534,784**	4,335,336,356
Capital and reserves		
Share capital	**400,000,000**	400,000,000
Share premium	**3,359,547,592**	3,359,547,592
(Accumulated loss)/retained earnings	**(433,454,629)**	133,346,943
Capital reserve	**442,441,821**	442,441,821
Equity attributable to owners of the Company	**3,768,534,784**	4,335,336,356

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in the Company's reserves

	Share premium HK$	Capital reserve HK$	Retained earnings/ (accumulated loss) HK$	Total HK$
At 1 January 2018	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
HKFRS 16 adjustment on retained earnings	–	–	2,427,791	2,427,791
Dividends recognised as distribution	–	–	(92,000,000)	(92,000,000)
Loss and total comprehensive income for the year	–	–	(477,229,363)	(477,229,363)
At 31 December 2019	3,359,547,592	442,441,821	(433,454,629)	3,368,534,784

50. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

51. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate holding company is Industrial Securities (Hong Kong) Financial Holdings Limited which is incorporated in Hong Kong. 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.

52. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

53. NON-ADJUSTING EVENT AFTER REPORTING PERIOD

Impact of outbreak of novel coronavirus

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

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

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2015	2016	2017	2018	**2019**
	HK$	HK$	HK$	HK$	**HK$**
REVENUE	364,324,168	507,300,113	927,724,226	1,011,045,602	**1,261,563,267**
Other income	3,865,371	7,419,660	23,630,339	53,584,083	**131,340,135**
Share of result of a joint venture	–	–	–	(498,698)	**(7,188,844)**
Finance costs	(45,843,172)	(73,251,260)	(166,817,874)	(386,951,178)	**(569,952,191)**
Commission and fee expenses	(79,996,504)	(47,536,937)	(101,172,102)	(111,605,723)	**(72,846,533)**
Staff costs	(100,009,268)	(129,440,925)	(163,560,791)	(187,040,901)	**(232,101,080)**
Other operating expenses	(85,253,840)	(92,383,061)	(130,199,762)	(182,361,532)	**(175,163,993)**
Listing expenses	(1,598,329)	(22,899,313)	–	–	**–**
Impairment losses on financial assets	–	–	(290,394,561)	(6,105,250)	**(874,301,268)**
Other gains and losses	(7,419,313)	(15,831,828)	78,875,531	10,483,808	**1,027,010**
PROFIT/(LOSS) BEFORE TAXATION	48,069,113	133,376,449	178,085,006	200,550,211	**(537,623,497)**
Taxation	2,434,920	(32,256,895)	(25,253,165)	(56,749,540)	**75,764,050**
PROFIT/(LOSS) FOR THE YEAR	50,504,033	101,119,554	152,831,841	143,800,671	**(461,859,447)**
Other comprehensive income (expense) for the year	18,443,580	(38,104,605)	30,109,172	–	**–**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	68,947,613	63,014,949	182,941,013	143,800,671	**(461,859,447)**
EARNINGS/(LOSS) PER SHARE					
Basic (expressed in HKD)	0.0991	0.0420	0.0382	0.0360	**(0.1155)**

ASSETS AND LIABILITIES

	As at 31 December				
	2015	2016	2017	2018	**2019**
	HK$	HK$	HK$	HK$	**HK$**
Total assets	4,916,439,425	13,398,147,405	17,053,775,016	23,343,840,317	**24,304,672,709**
Total liabilities	(4,419,183,440)	(9,103,822,604)	(12,656,509,202)	(18,952,766,745)	**(20,465,030,793)**
Net assets	497,255,985	4,294,324,801	4,397,265,814	4,391,073,572	**3,839,641,916**

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