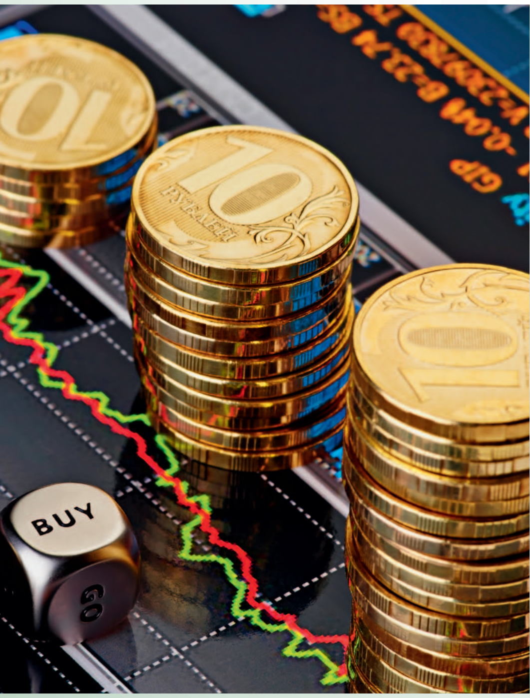
South China Financial Holdings Limited

南華金融控股有限公司

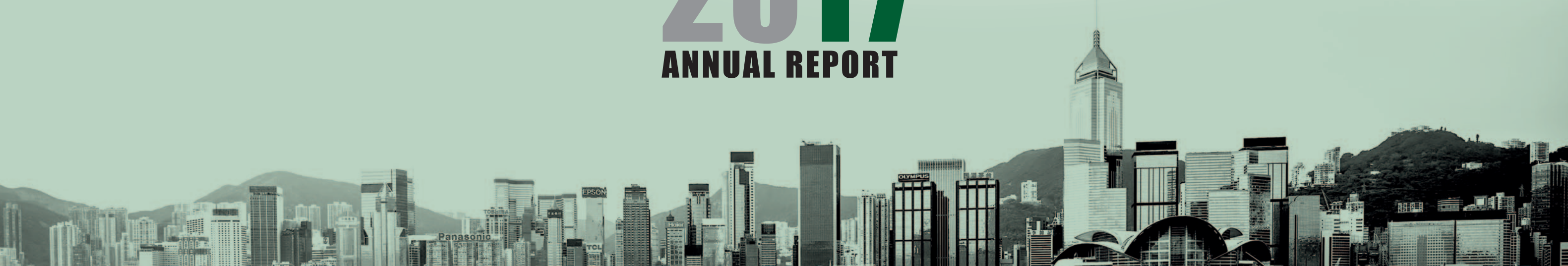
Incorporated in Hong Kong with limited liability

Stock Code : 00619





# 2017 ANNUAL REPORT



# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor (*Vice Chairman*)
Ms. Ng Yuk Mui Jessica (*Executive Vice Chairman*)
Dr. Wang Wei Hsin (*Chief Executive Officer*)

### Independent Non-executive Directors

Hon. Raymond Arthur William Sears, Q.C.
Mrs. Tse Wong Siu Yin Elizabeth
Mr. Tung Woon Cheung Eric

## AUDIT COMMITTEE

Mr. Tung Woon Cheung Eric
(*Chairman of the Committee*)
Hon. Raymond Arthur William Sears, Q.C.
Mrs. Tse Wong Siu Yin Elizabeth

## REMUNERATION & NOMINATION COMMITTEE

Mrs. Tse Wong Siu Yin Elizabeth
(*Chairman of the Committee*)
Hon. Raymond Arthur William Sears, Q.C.
Mr. Tung Woon Cheung Eric

## REGISTERED OFFICE

28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

## AUDITOR

Ernst & Young
*Certified Public Accountants*

## BANKERS

Standard Chartered Bank (Hong Kong) Limited
Bank of Communications Co., Limited
Chong Hing Bank Limited
Bank of China (Hong Kong) Limited
Nanyang Commercial Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited
Dah Sing Bank, Limited
Industrial and Commercial Bank of China (Asia) Limited
OCBC Wing Hang Bank Limited
China Construction Bank (Asia) Corporation Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
China CITIC Bank International Limited
Fubon Bank (Hong Kong) Limited
Chiyu Banking Corporation Ltd.
CIMB Bank Berhad

## SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

## STOCK CODE

00619

## WEBSITE

http://www.sctrade.com

# Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Financial Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

## FINANCIAL SUMMARY

The Group recorded revenue of HK$254.3 million and profit after tax of HK$52.5 million for the year ended 31 December 2017 as compared with the revenue of HK$121.4 million and the post-tax loss of HK$56.7 million for the corresponding period last year.

In 2017, the world experienced a robust economic recovery synchronously, the major financial markets rose to multi-year or historical highs on the backing of improving economic fundamentals. In the United States, domestic demand and labour market has reported significant improvement since the Trump's presidency. Strong corporate earnings, optimism over tax reform and accommodative monetary policy helped boosting investment sentiment in the market, the United States market continued its bullish run. In Mainland China, after a round of supply-side reform, the industry structure was optimized and the quality and efficiency was improved, the Chinese economy made headway.

During the year, the Hong Kong stock market also reported a notable growth with Hang Seng index up 36%, outperformed the major markets in the world. The launch of Hong Kong Stock Connect, the "North Capital" injected new surge of energy and uplifted trading volume to Hong Kong market while shoring up Hong Kong's share prices.

The strong growth in revenue and turning profit from loss in 2017 were largely attributable to an improvement in operating results of brokerage operations and a substantial gain on the Group's trading and investment amidst a market rally during the year under review.

## DIVIDEND

No interim dividend was paid (2016: Nil). The board of directors of the Company (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

## BUSINESS REVIEW

### Broking, trading and investment

The average daily Hong Kong market turnover for the year ended 31 December 2017 was HK$88.2 billion, an increase of 31.8% when compared with HK$66.9 billion for the last year. Benefiting from the local market rally in the year, revenue from the broking business recorded a 73.8% year-on-year increase to HK$52.7 million. Operating loss for the broking business for the year decreased significantly to HK$25.4 million from the loss of HK$65.1 million for the same period of 2016. The decline in loss from the segment was largely attributable to internal business structure reshuffling, and corresponding changes to resource allocation during the year under review, as well as the buoyant brokerage income. As a result of the internal business structure reshuffling, the operating costs of broking segment decreased whereas the operating costs of asset and wealth management and corporate advisory and underwriting segments increased.

The Group's securities portfolio held for trading presented under financial assets at fair value through profit or loss as at 31 December 2017 increased to HK$609.7 million from HK$394.6 million as at 31 December 2016. The breakdown is set out in the following table:

| Stock code | Name of security | Carrying value as at 31 December 2017 | Percentage of shareholding interest | Fair value gain/(loss) during the year |
|---|---|---|---|---|
| | | HK$'000 | | HK$'000 |
| 670 | China Eastern Airlines Corporations Limited | 171,047 | 0.647 | 57,946 |
| 992 | Lenovo Group Ltd. | 97,390 | 0.184 | (8,097) |
| 1033 | Sinopec Oilfield Service Corporation | 70,450 | 2.581 | (11,115) |
| 3988 | Bank of China Limited | 66,704 | 0.021 | (88) |
| 1097 | i-CABLE Communications Limited | 50,190 | 3.532 | (12,695) |
| Others | | 153,904 | | (10,891) |
| Total | | 609,685 | | 15,060 |

Hong Kong saw a rally in local market with the Hang Seng Index ("HSI") and the Hang Seng China Enterprises Index ("HSCEI") rising 36.0% and 24.6% respectively in 2017, outperforming after a year of relatively mild increase compared to the gains in other major markets in 2016. Strong performance in local market was largely attributable to rallies in leading global markets and the rebound of the Mainland market on a stabilized economy and strong corporate earnings. Persisting and strong southbound inflows through Stock Connect also partly supported the local market. The Group recognized a gain of HK$105.8 million from its trading and investment segment as opposed to the loss of HK$43.1 million for the same period last year. Fair value gain on investments held for trading in 2017 amounted to HK$15.2 million as compared with the fair value loss of HK$62.0 million in 2016.

## Margin financing and money lending

The aggregate of the carrying value of loan portfolio increased 20.1% during the year to HK$388.2 million as at 31 December 2017 from HK$323.1 million as at 31 December 2016. Revenue recorded in 2017 was HK$28.1 million comparing to HK$22.1 million for the corresponding period in 2016. Earnings from this segment decreased from HK$17.7 million in 2016 to HK$9.3 million, mainly due to a higher costs incurred in growing the personal lending business team and developing relevant business and related impairment charge provided for in 2017. The money lending business was resumed in late 2016 and hence no corresponding impairment charge was recognized in the last year. The Group saw a 21.1% growth of net margin loan book as at 31 December 2017 from a year back on a market rally and strong market momentum. During the year under review, the personal lending portfolio increased to HK$13.4 million, albeit growing slower than expected, and we are prudently optimistic that money lending business will resurrect its pace of growth in the year to come with more new product offerings to spur the business.

## Corporate advisory and underwriting

In 2017, total fundraising amount of the Hong Kong IPO market shrank 34.2% year-on-year. There were 160 newly listed companies in Hong Kong in 2017 as compared to 117 in 2016. Amidst strong momentum in IPO market, we completed one IPO deal as sole sponsor and lead manager and participated in another two IPO deals as co-lead manager in this year. We also participated in several primary and secondary market placings and continued to extend our footprint in the corporate advisory sector.

As a result, revenue from the Group's corporate advisory and underwriting business increased to HK$26.1 million in 2017 from HK$21.3 million in 2016. In order to build sustained growth and foster further expansion in our investment banking business, the investment banking teams were expanded to cope with the strong deal flow and greater resources were devoted to business development and engaged to assist in the identification of deals with IPO potential and merger and acquisition opportunities in the PRC and overseas. Therefore, the operating costs of the segment were higher in 2017 compared to 2016, turning its operating result to a loss of HK$5.4 million in 2017 from the profit of HK$7.7 million a year earlier.

## Asset and wealth management

Revenue recorded in 2017 was HK$3.3 million as compared with HK$1.0 million in 2016. Operating loss was widened to HK$25.0 million for 2017 from HK$4.1 million in 2016. The increase in loss was largely attributable to a surge in operating costs of the segment resulting from increased staff costs and, as mentioned above, a redeployment and shift of certain business units between segments to support the business focus under new business direction starting early 2017.

The Group's asset management division commenced business in early 2017 and earned fee income from investment management and advisory services accordingly.

As mentioned in the interim report, the launch of an investment fund was put on hold in the first half of 2017 in light of the prevailing market conditions. In the second half of the year, the asset management division faced another headwind when launching Asia Pacific REITs in September as China escalated its capital outflow controls to stem capital outflows for investment overseas, impeding the asset management division to raise sufficient funds from the potential investors in mainland China and, hence, the launch of Asia Pacific REITs. As a result, the Group restructured the asset management division in an effort to curb the costs arising from the early rapid expansion. Meanwhile, we are also working on securing multiple investment mandates from various institutional clients that, if concluded, will expand our fee income from investment management and advisory services.

Hong Kong is a key conduit for foreign and Mainland investments. In consideration of the robust growth in insurance sector in Hong Kong and the growing affluent population in mainland China, we deployed more resources to expand and enhance our wealth management platform in the region and expanded its channels in China in an effort to tap more businesses from the thriving insurance sector and promote fund distributions in the first half of this year. We have established a network of sales distribution for wealth management via channels across China which contributes steady, albeit low level of regular income as part of the 2017 business development. The tightened grip over the capital outflows in China also boded ill on the Group's wealth management business, making it unable to grow at a rapid pace and produce income to the Group previously as expected, and the Group adjusted resource deployment accordingly until the relaxation of such control comes to light.

## Media publications and financial public relation

The acquisition of a financial media group engaged in the publication of "Capital" series magazines was completed in January 2017. The acquisition was in line with the Group's overall mission as a distinctive "one-stop services" financial institution, and the Group has since then commenced the integration of the business, focusing on the capitalization of synergistic benefits.

The revenue and operating loss of the media publications and financial public relation business segment were HK$17.6 million and HK$33.2 million in 2017. The loss included one-off transaction costs amounting to HK$27,000 and HK$1.2 million during the year ended 31 December 2017 in relation to the acquisition of the financial media group and the Media Group Acquisition, respectively. More details in relation to the Media Group Acquisition are disclosed in the paragraph headed "Event After The Year End". Suffering from the sluggish economy and bleak consumer sentiment over the past 2 years, growth of local advertising spending was slow in the first half of 2017, but picked up in the second half with overall ad spend in 2017 seeing growth of 4%, mainly attributable to increase in mobile ad spend (1.5 times) as well as television and outdoor advertising. Yet, growth of ad spend in traditional print media remains torpid.

During the year, the financial media group focused on investing on the research and development, and infrastructural development of its digital offerings and products, including very recently launching its new "Capital" website, Capital TV and new video-driven products, in order to build an integrated omni-channel media platform, to capture growing digital-related advertising budgets, and extend the reach of the Capital brand in the market. A new corporate services team was established and integrated with the FPR services arm, to focus on the development and servicing of corporate clients, in providing more comprehensive and competitive integrated marketing services. On higher research and development costs and sluggish ad spend on traditional print media, the segment reported a loss in the current year. With the improving advertising market, re-accelerating economic growth in Hong Kong, and a developing new integrated-omni-channel media platform, we are cautiously confident that the operating performance of media sector will fare better in the near future.

## Property investment

As of 31 December 2017, 100% of the total gross floor areas under the investment properties were rented out to third parties. Rental income rose by 12.8% to HK$10.6 million in 2017 as compared with the corresponding period a year earlier.

There was a fair value gain of HK$40.0 million recorded in 2017 as compared with a fair value gain of HK$42.5 million for the same corresponding period in 2016. Operating profit of HK$49.9 million was recorded in 2017, approximately 1.3% less than the same in 2016.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEGES

As at 31 December 2017, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

## CAPITAL STRUCTURE

### Use of proceeds update

As disclosed in the 2016 Annual Report dated 28 March 2017, the unutilized net proceeds from rights issue completed on 11 August 2016 amounted to HK$391.2 million as at 28 February 2017, of which (i) approximately HK$280 million was intended to be used to set up a securities joint venture in mainland China, (ii) HK$87.2 million earmarked for use towards the lending business, and (iii) HK$24 million for use as seed capital in fund products by the Company and the costs incidental to setting up of fund products.

The Group has continued to use the unutilized funds according to the revised intended use. As at 31 December 2017, the unutilized net proceeds have been reduced to HK$302.8 million, of which (a) the amount of HK$280 million was designated for setting up of a securities joint venture in Mainland China and (b) HK$22.8 million towards asset management related business. During the year, the Company has actively identified parties for the purpose of establishing a securities joint venture in mainland China, but no such initial negotiations came to fruition. The Company shall continue to actively seek appropriate partners but believes that the process is unlikely to complete in the imminent future.

Consistent with the long term goal of supporting the sustainable and healthy development of the Company's principal operating activities, the Company follows the prevailing practice and continues to apply the following capital management and interim deployment strategies in respect of the abovementioned unutilized proceeds of approximately HK$302.8 million, pending the identification and conclusion of a securities joint venture and subject to the progress of business and the launch of the fund products under asset management business:

1. used as standby capital to support the securities brokerage business, the securities financing business and lending business when needed; and

2. for better effectiveness and returns in respect of the Company's capital management, and to improve cash flow management, the Company shall adopt a treasury management model that may involve (but shall not be limited to) repayment of revolving bank loans, holding fixed income instruments, high grade equity instruments and other financial investments.

## EVENT AFTER THE YEAR END

Reference is made to the announcements of Company dated 14 July 2017, 11 September 2017, 10 November 2017, 11 December 2017 and 15 February 2018 in relation to, among others, the major and connected transaction on the acquisition of the entire issued share capital of Perfect Riches Limited, Super Bellax Ltd., Great Ready Assets Limited and Jade Fountain Limited (the "Media Group Acquisition") and the circular in relation thereto was dispatched to the shareholders of the Company on 9 March 2018 (the "Circular"). The Media Group Acquisition, approved by independent shareholders of the Company at an extraordinary general meeting held on 28 March 2018, was completed on 29 March 2018. Details in relation to the Media Group Acquisition are disclosed in the aforesaid announcements and the Circular.

The consideration of the Acquisition was HK$15 million (the "Consideration"), subject to the adjustment set out in the sub-paragraph headed "3. Consideration and adjustment to the Consideration" under the paragraph headed "III. The New Agreement" under the Letter from the Board of the Circular.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group had obtained short term bank credit facilities which were reviewed on a yearly basis and a long term mortgage loan. The facilities for the share margin finance operations were secured by the securities of the Group and its margin clients. The outstanding credit facilities were guaranteed by the Company.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, other borrowings, less cash and bank balances. Capital represents total equity. As at 31 December 2017, net debt amounted to HK$370.4 million (2016: HK$209.3 million), which, when related to the Group's capital and net debt of HK$1,537.3 million (2016: HK$1,303.7 million), represented a gearing ratio of approximately 24.1% (2016: 16.1%).

The Group had a cash balance of HK$241.3 million at the end of the year (2016: HK$355.4 million). The Group had sufficient working capital to meet its operational needs.

## CHARGES ON ASSETS

As at 31 December 2017, the Group's investment properties and listed securities held in trading and investment portfolio were pledged to banks for banking facilities.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material contingent liabilities.

## INVESTMENTS

For the year ended 31 December 2017, the Group's portfolio of Hong Kong listed securities increased due to net addition and the revaluation gain during the year.

## EMPLOYEES

As at 31 December 2017, the total number of employees of the Group was 235 (31 December 2016: 184). Employee's cost (including directors' emoluments) amounted to approximately HK$118.8 million for the year (2016: approximately HK$76.1 million).

In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidized external training are offered to employees. Continuous professional training will continue to be arranged for those staff who are registered with the Securities and Futures Commission. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. Selected employees may also be granted share option and share award under the share option scheme and share award scheme adopted by the Company.

## ENVIRONMENTAL POLICIES

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also promote the services of e-statement to our clients which help to reduce on paper usage.

## COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, which have significant impact on the Group. Updates on the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

## RELATIONSHIPS WITH KEY STAKEHOLDERS

### Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly import. The Group continues to be an attractive employer for recognizing and reward the contribution of the employees to the growth and development of the Group through various incentive means.

### Customers

The Group has the mission to provide excellent customer service whilst maintaining long term profitability, business and asset growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer service towards market penetration and expansion.

### Suppliers

We firmly believe that our suppliers are equally important in building high-quality business. We proactively communicate with our suppliers to ensure they are committed to delivering high-quality and sustainable products and services.

### Shareholders

One of the corporate goals of the Group is to enhance corporate value to shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding shareholders taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

## POSSIBLE RISKS AND UNCERTAINTIES

The Group has reviewed the possible risks and uncertainties which may affect its business, financial condition, operations and prospects based on its risk management and internal control systems and considered that the major risks and uncertainties that may affect the Group include (i) fluctuations of fair value gain or loss on financial assets, foreign exchange and investment properties; (ii) changes in market interest rates may expose the Group to high interest expense on its net debt obligations carrying floating interest rates; (iii) credit risk and recoverability of provision of finance which may incur bad debts during the downturn of economy; and (iv) the uncertainties of fiscal, political and monetary policy developments would contribute partly to the high volatility of global markets which may directly affect the performance of the Group. In response to the above mentioned possible risks, the Group has a series of risk mitigation controls and risk management policies to cope with the possible risks and has serious scrutiny over the selection of quality customers. The Group has formed various committees to develop and review strategies, policies and guidelines on risk control; which enable the Group to monitor and respond to risk effectively and promptly.

## PROSPECTS

Starting 2016 up to the first half of 2017, the Group expanded new business teams including asset management and money-lending, and built up stronger and larger teams in the investment banking division as well as wealth management operation, to further develop our market and business horizons, broadening the scope of our financial services offerings in greater China region.

The Hong Kong stock market advanced and outperformed the major markets in the world in 2017 on the rally of leading global markets with US and other major markets rising to multi-year or historical highs during the year. Hong Kong IPO activities is expected to remain strong, as Hong Kong maintains its role as a leading financial hub in Asia, with an edge in gaining access to international institutional investors as well as high net-worth investors. In order to capitalize on such strong market potential, the Group will continue to optimize its investment banking platform and diversify its IPO sponsor, underwriting, fixed income underwriting, cross-border M&A and financial advisory services in this region.

Even as New York displaced Hong Kong as top IPO hub in 2017 and Hong Kong fell to the fourth place after Shanghai and London in term of the aggregate amount of fundraising, Hong Kong with its established legal and financial services framework is still a preferred fund raising venue to Mainland enterprises. The recently proposed changes to the listing regulations allowing dual class share listing and accepting young biotech firms to go listing before they turn profitable which are expected to take effect in mid-2018, once they take effect, will make Hong Kong more competitive among global bourse operators. The rule-easing is tipped to appeal the fast-growing Chinese giant technology and biotech companies to go listing in Hong Kong. This will broaden the bandwidth of business opportunities in the city's capital market, propping up the industry outlook as well. At as the date of this annual report, the Group's investment banking teams have already secured several IPO deals in the pipeline and are thereby expected to see more IPO deals to be completed and approved for listing in 2018 and beyond.

On the back of a robust economic growth in the region, particularly from Greater China region, increased level of savings and exploding rise in wealthy population, it is expected that the asset management and wealth management sectors in Hong Kong will continue to grow. The Group's assets and wealth management businesses, for various reasons, were performing well behind the expected yardstick in 2017. As an interim measure to pare down the rising loss from this segment, the Group has restructured its asset and wealth management operations to more effectively develop the business and launch new products in a cost efficient manner as the market remains promising with ample opportunities. To this end, the Group needs to keep track the market changes closely and make corresponding changes to its strategy in order to reshape ourselves in a position to grasp business from thriving insurance sector and promote fund distributions.

In line with the Group's overall mission as a distinctive one-stop shopping platform, we have commenced its integration plan with the financial media group acquired in early 2017 by drawing on the strengths of the Group and the financial media group together to, among others, make use of the financial media group's digital and print media platforms, event management and marketing services to provide value-added marketing communications solutions to existing and potential clients and business partners, thereby building up the FPR business, fostering the Group's vision to be an one-stop shop financial services provider. The integration is in progress as at the date of this annual report.

As a further step to optimize the value of building an integrated platform combining financial services and financial media business, the Directors have resolved to enter into an agreement for a conditional acquisition of the entire interest in a media group engaged in the publication of lifestyle series magazines and related digital media assets, and creative services and event management services (the "Media Group") at the cash consideration of HK$15 million, subject to cash adjustment in a manner as contemplated in the relevant sales and purchase agreement for the Media Group Acquisition. The Media Group Acquisition was approved by independent shareholders of the Company on 28 March 2018 and the Media Group becomes the Company's wholly-owned subsidiaries thereafter. The Board is of view that the Media Group is able to augment the existing businesses of the Group by leveraging the combined strengths of the Group and the Media Group acquired under the Media Group Acquisition to create and maximize synergies in the sharing of resources, enhanced clientele, membership and audience base, digital abilities, bargaining power, cross referrals and aggregate contents, among others. The established media brand names, the ability to engage with a wide audience and readership of the financial media business and the business of the Media Group, the established membership base, clientele and editorial network, and the ability to produce and curate premium content, will, through data-driven technology and an integrated-digital platform, enable the Group to generate big data, to develop customized products which meet the needs of consumers more precisely, and target desired client groups more precisely through its omni-channel media products. The combined services of the FPR, the financial media business and the business of the Media Group would further enhance and distinguish the positioning of the enlarged Group as a full-fledged corporate marketing and financial public relations consultancy service supplier, and create a more comprehensive and competitive service set. It is our view that the combined services would distinguish the positioning of the Company to create a more comprehensive and competitive financial and media services set to our corporate clients in great China region. More importantly, it is a long term goal of the Group to build an integrated platform which is able to provide opportunities for growth, not only in its existing business but also into new business lines, to provide a full range of value added services to its end clients in Hong Kong and mainland China; and the digital world offers such an environment in the enlarged business ecosystem as the customer or audience base grows.

Looking ahead, the Company expects existing businesses, coupled with the integration and collaboration with financial media as well as the newly acquired non-financial media platforms, will broaden the revenue base and strengthen the competitive edge of the Group that will further enhance the investors' returns in the long term.

## APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

**Ng Hung Sang**
*Chairman*

Hong Kong, 29 March 2018

# Directors' Biographical Details

## EXECUTIVE DIRECTORS

**Mr. Ng Hung Sang**, aged 68, is an Executive Director, the Chairman and a member of the Executive Committee of the Company. He is actively involved in the overall corporate policies, strategic planning and business development of the Group. He is also an executive director and the chairman of South China Holdings Company Limited, being listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and South China Assets Holdings Limited, being listed on the Growth Enterprise Market of the Stock Exchange. He holds a Master degree in Marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a Director of the Company on 7 December 1988. He is the father of Ms. Ng Yuk Mui Jessica, an Executive Director and the Executive Vice Chairman of the Company, and a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

**Ms. Cheung Choi Ngor**, aged 64, is an Executive Director, the Vice Chairman and a member of the Executive Committee of the Company. She is also an executive director, a vice chairman and the chief executive officer of South China Holdings Company Limited, being listed on the Main Board of the Stock Exchange and an executive director of South China Assets Holdings Limited, being listed on the Growth Enterprise Market of the Stock Exchange. She also holds several directorships in certain subsidiaries of the Group. She holds a Master degree in business administration from University of Illinois in the United States of America. She is a member of 10th, 11th and 12th National Committee of the Chinese People's Political Consultative Conference. She was appointed as a Director of the Company on 7 December 1988.

**Ms. Ng Yuk Mui Jessica**, aged 39, is an Executive Director, the Executive Vice Chairman and a member of the Executive Committee of the Company. She is also a non-executive director of South China Holdings Company Limited, being listed on the Main Board of the Stock Exchange and an executive director and the executive vice chairman of South China Assets Holdings Limited, being listed on the Growth Enterprise Market of the Stock Exchange. She is the executive vice chairman of South China Media Limited. She holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom and was admitted to the Hong Kong Bar in 2006. She is an associate member of the Chartered Institute of Management Accountants and a member of 12th Hebei Provincial Committee of the Chinese People's Political Consultative Conference. She was appointed as a Director of the Company on 12 November 2015. She is the daughter of Mr. Ng Hung Sang, an Executive Director, the Chairman and a substantial shareholder of the Company.

**Dr. Wang Wei Hsin**, aged 52, is an Executive Director, the Chief Executive Officer and a member of the Executive Committee of the Company. He has extensive management experience in the financial services industry. Prior to joining the Group, Dr. Wang served as a chairman and chief executive officer of SinoPac Securities (Asia) Limited and was responsible for the business development and operations in Asia since 2009. Prior to that, he was chief investment officer for Japan CDW Group and chief financial officer of its Taiwan subsidiary, as well as having played significant roles in Yes-Asia.com and China Development Industrial Bank. Dr. Wang possesses a PhD in Management Science (Financial Engineering) from Imperial College London and was the fellow of Royal Society of Statistics during 1999 to 2000. He joined the Group as Chief Executive Officer on 3 May 2016 and appointed as a Director of the Company on 28 March 2017.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Hon. Raymond Arthur William Sears, Q.C.**, aged 85, is an Independent Non-executive Director, a member of the Audit Committee and the Remuneration and Nomination Committee of the Company. He is a retired High Court Judge and holds a Master's degree in Law from Cambridge University in the United Kingdom. He became a Queen's Counsel in 1975 and was a former vice-chairman of the Judicial Section of the International Bar Association. In the United Kingdom, he had been a leading Counsel in England to the Government and large Authorities on redevelopment and construction projects and to the General Medical Council. In 1986 and 1987, he was a Justice of the Supreme Court of Hong Kong and the Commissioner to the Sultan of Brunei, respectively. From 1994 to 1999, he was a Senior Civil High Court Judge. He was appointed as a Director of the Company on 24 March 2000.

**Mrs. Tse Wong Siu Yin Elizabeth**, aged 60, is an Independent Non-executive Director, a member of the Audit Committee and the chairman of the Remuneration and Nomination Committee of the Company. She is also an independent non-executive director of South China Holdings Company Limited, being listed on the Main Board of the Stock Exchange. She is also the chairman of the Hong Kong Flower Retailers Association, the convenor of Youth Skills Competition in Floristry of Vocational Training Council, the technical advisor of the Environmental Services Industry of Employees Retraining Board, a member of the judge panel of Hong Kong Flower Show and a member of Small and Medium Enterprises Committee. She received an award of the Hundred Outstanding Women Entrepreneur in China in 2009. She holds a Bachelor degree of Science from the University of Western Ontario in Canada. She was appointed as a Director of the Company on 25 November 1992.

**Mr. Tung Woon Cheung Eric**, aged 47, is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company. He is the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange; an executive director, the chief financial officer and company secretary of Beijing Enterprises Water Group Limited, a company listed on the Main Board of the Stock Exchange; an independent non-executive director of GR Properties Limited, a company listed on the Main Board of the Stock Exchange; the company secretary of Biosino Bio-Technology and Science Incorporation, a company listed on the Growth Enterprise Market of the Stock Exchange. He graduated from York University, Toronto, Canada with a bachelor honours degree in administrative studies. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a U.S. Certified Public Accountant of The American Institute of Certified Public Accountants. He was appointed as a Director of the Company on 21 September 2004.

# Directors' Report

The directors of the Company (the "Directors") submit herewith their report and the audited financial statements for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The principal activities of the subsidiaries consist of securities, commodities, bullion and forex broking and trading, margin financing and money lending, provision of corporate advisory and underwriting services, asset and wealth management, property investment, media publications and financial public relation services and investment holding. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the possible risks and uncertainties to which the Group is facing and an indication of likely future developments in the Group's business, can be found in the Chairman's Statement and Management Discussion and Analysis set out on pages 3 to 13 of this Annual Report. This discussion forms part of this Directors' Report.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the financial statements on pages 55 to 158 of this Annual Report.

No interim dividend was paid (2016: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER

Annual General Meeting of the Company will be held on Thursday, 14 June 2018 (the "AGM"). The register of members of the Company will be closed from Friday, 8 June 2018 to Thursday, 14 June 2018, both days inclusive, during which period no share transfer will be registered. To be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates of the Company must be lodged for registration with the Company's Share Registrar, Union Registrars Limited of Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Thursday, 7 June 2018. The notice of the AGM will be published on the websites of the Company and the Stock Exchange and despatched to the shareholders of the Company in due course.

## DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company has no reserves available for distribution.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 159 to 160 of this Annual Report. This summary does not form part of the audited financial statements.

## SHARE CAPITAL AND EQUITY-LINKED AGREEMENT

Details of movements in the ordinary shares, share options and share awards (if any) of the Company during the year are set out in notes 21, 31 and 32 to the financial statements.

Details of equity-linked agreement are included in the section "Share option scheme" below.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, the trustee of the Company's employees' share award scheme (the "Share Award Scheme") had not purchased any share of the Company pursuant to the terms of the rules and trust deed of the Share Award Scheme. In addition, the Company purchased 20,400,000 ordinary shares of the Company on the Stock Exchange at an aggregate price of HK$1,201,100 (excluding transaction costs). The repurchased shares had been cancelled subsequently. Details of the repurchased shares are as follows:

| Month/Year | Number of shares repurchased | Highest price | Lowest price | Aggregate price paid |
|---|---|---|---|---|
| | | *(HK$)* | *(HK$)* | *(HK$)* |
| May 2017 | 17,200,000 | 0.063 | 0.058 | 1,019,900 |
| June 2017 | 3,200,000 | 0.057 | 0.056 | 181,200 |
| | 20,400,000 | | | 1,201,100 |
| | | | Total expenses on share repurchased | 4,707 |
| | | | | 1,205,807 |

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, the aggregate turnover attributable to the Group's five largest customers and the aggregate purchases from the Group's five largest suppliers accounted for less than 30% of the total turnover and purchases, respectively, for the year.

## DIRECTORS

The Directors during the year and up to the date of this Directors' Report were:

**Executive Directors:**
Ng Hung Sang (*Chairman*)
Cheung Choi Ngor (*Vice Chairman*)
Ng Yuk Mui Jessica (*Executive Vice Chairman*)
Wang Wei Hsin (*Chief Executive Officer*) (appointed on 28 March 2017)

**Independent Non-executive Directors:**
Raymond Arthur William Sears, Q.C.
Tse Wong Siu Yin Elizabeth
Tung Woon Cheung Eric

A full list of the names of the directors of the Group's subsidiaries can be found on the Company's website at www.sctrade.com.

In accordance with article 116 of the Articles of Association of the Company, Ms. Ng Yuk Mui Jessica, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Tung Woon Cheung Eric will retire from office by rotation, and being eligible, offer themselves for re-election at the AGM. Save as disclosed, all other remaining Directors continue in office.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange from each of the Independent Non-executive Directors, namely Hon. Raymond Arthur William Sears, Q.C., Mrs. Tse Wong Siu Yin Elizabeth and Mr. Tung Woon Cheung Eric, and considers all the Independent Non-executive Directors to be independent.

## DIRECTORS' BIOGRAPHIES

Biographical details of the Directors up to the date hereof are set out on pages 14 to 15 of this Annual Report.

## DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the AGM has an unexpired service contract with the Company and/or its subsidiaries, which is not determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' REMUNERATION

The remuneration payable to each of Executive Directors was determined by the Remuneration and Nomination Committee with reference to the prevailing market practice, the Company's remuneration policy, the respective Directors' duties and responsibilities and their contributions to the Group. The Board considers and, where it thinks fit, approves the remuneration of the Non-executive Directors as recommended by the Remuneration and Nomination Committee based on the abovementioned factors. No Director shall be involved in the decision of his or her own remuneration.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

### Long positions in ordinary shares of the Company

| **Directors** | **Capacity** | **Number of ordinary shares** | **Total number of ordinary shares** | **Approximate percentage of shareholding to total issued ordinary shares** |
|---|---|---|---|---|
| Ng Hung Sang ("Mr. Ng") | Beneficial owner | 556,663,200 | 4,423,080,384 | 29.36% |
| | Interest of controlled corporation | 3,866,417,184 (*Note*) | | |
| Cheung Choi Ngor ("Ms. Cheung") | Beneficial owner | 615,015,578 | 615,015,578 | 4.08% |
| Raymond Arthur William Sears, Q.C. | Interest of spouse | 2,650,000 | 2,650,000 | 0.02% |

*Note:* The 3,866,417,184 shares of the Company held by Mr. Ng through controlled corporations included 1,176,301,512 shares held by Fung Shing Group Limited ("Fung Shing"), 2,231,184,000 shares held by Parkfield Holdings Limited ("Parkfield"), 99,993,600 shares held by Ronastar Investments Limited ("Ronastar") and 358,938,072 shares held by Uni-spark Investments Limited ("Uni-spark"). Fung Shing, Parkfield and Ronastar were directly wholly owned by Mr. Ng. Uni-spark was indirect wholly-owned by Mr. Ng.

Save as disclosed herein, as at 31 December 2017, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, entered in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES

The Company adopted a share option scheme in May 2002 ("2002 Share Option Scheme"), which was terminated in June 2012, and a share option scheme in June 2012 ("2012 Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, who contribute to the success of the Group's operations, and retaining such participants for their continuing support to the Group. The share options granted under the above schemes are unlisted. Further details of the abovementioned share option schemes are disclosed in note 32 to the financial statements.

No new share option was granted under the 2002 Share Option Scheme subsequent to its termination in June 2012. During the year ended 31 December 2017, the Company had 31,076,924 share options outstanding under the 2012 Share Option Scheme, the exercise of which being subject to the fulfillment of the vesting period requirement. Such share options, if exercised in full, will give rise to proceeds receivable of HK$6.06 million in total.

| | Number of share options | | | | | |
|---|---|---|---|---|---|---|
| **Name or category of participants** | **At 1 January 2017** | **Lapsed during the year** | **At 31 December 2017** (*Note*) | **Date of grant of share options** (DD/MM/YYYY) | **Exercise period of share options** (DD/MM/YYYY) | **Exercise price per share** HK$ |
| Employees | 15,538,462 | (5,179,488) | 10,358,974 | 09/06/2015 | 09/06/2016–08/06/2018 | 0.195 |
| | 10,358,975 | – | 10,358,975 | 09/06/2015 | 09/06/2017–08/06/2019 | 0.195 |
| | 10,358,975 | – | 10,358,975 | 09/06/2015 | 09/06/2018–08/06/2020 | 0.195 |
| **Total** | 36,256,412 | (5,179,488) | 31,076,924 | | | |

*Note:* Representing 0.206% of the total issued voting shares in the Company as at 31 December 2017.

## EMPLOYEES' SHARE AWARD SCHEME

On 10 June 2015, the Company adopted the Share Award Scheme whereby the Company may grant share awards to selected employees in recognition of their contributions to the Group and as incentive to retain them to support the operations and ongoing development of the Group and attract suitable personnel for the Group's further development. Pursuant to the terms and the conditions of the Share Award Scheme, the Company shall settle a sum up to and not exceeding HK$20 million for the purchase of shares of the Company and/or other shares listed on the Main Board or the GEM Board of the Stock Exchange from market. Such shares shall form part of the capital of the trust fund set up for the Share Award Scheme. The Board may, from time to time, select employees for participation in the Share Award Scheme and cause to be paid an amount to the trustee from the Company's resources for the purpose of purchase of shares as referred to in the above.

During the year ended 31 December 2017, 8,000 shares of South China Holdings Company Limited were granted to an employee of the Group.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section "Share Option Schemes", at no time during the year was the Company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, the chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

## RETIREMENT SCHEMES

Details of the retirement schemes of the Group are set out in note 2.4 to the financial statements.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Details of the transactions during the year between the Group and connected persons (as defined in the Listing Rules) in which a Director has beneficial interest are set out in the section "Connected Transactions" of this Directors' Report and note 40 to the financial statements.

Save as disclosed above, no transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or any connected entity thereof had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACT

The Company has not entered into any contract by which a person undertakes the management and administration of the whole or any substantial part of the business of the Company and there was no such contract subsisted at any time during the year.

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

As at 31 December 2017, substantial shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 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 were as follow:

### Long position in the ordinary shares

| Shareholders | Capacity | Number of ordinary shares | Approximate percentage of shareholding to total issued ordinary shares |
|---|---|---|---|
| Ng Lai King Pamela | Interest of spouse (*Note* 1) | 4,423,080,384 | 29.36% |
| Fung Shing | Beneficial owner (*Note* 2) | 1,176,301,512 | 7.81% |
| Parkfield | Beneficial owner (*Note* 3) | 2,231,184,000 | 14.81% |

*Notes:*

1. Ms. Ng Lai King Pamela is the spouse of Mr. Ng. By virtue of the SFO, Ms. Ng Lai King Pamela is deemed to be interested in the 4,423,080,384 shares which Mr. Ng is interested in.

2. Fung Shing is wholly-owned by Mr. Ng. The number of shares held by Fung Shing includes its interests in the 1,176,301,512 shares.

3. Parkfield is wholly-owned by Mr. Ng. The number of shares held by Parkfield includes its interest in the 2,231,184,000 shares.

Save as disclosed herein, as at 31 December 2017, the Company was not notified by any persons (other than Directors or chief executive of the Company as discussed above) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 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' INTERESTS IN A COMPETING BUSINESS

The Company and South China Assets Holdings Limited ("SCAH"), a company listed on The Growth Enterprise Market of the Stock Exchange, have certain common directors. The principal activities of SCAH include property investment and development in the People's Republic of China, money lending, provision of investment advisory and asset management services and dealing in securities.

Mr. Ng, Ms. Cheung and Ms. Ng Yuk Mui Jessica, all being Executive Directors of the Company, are also the executive directors of SCAH during the year.

Mr. Ng is also the chairman of the board and controlling shareholder of SCAH. Ms. Cheung is one of the directors and substantial shareholders of a controlled corporation of Mr. Ng which holds 10.29% interest in SCAH directly and 9.74% indirect interest in SCAH through its wholly-owned subsidiary as at 31 December 2017. Mr. Ng together with his associates hold 64.92% interest in SCAH as at 31 December 2017.

The Group undertakes a wide range of financial services businesses of sizable scale in operations and with solid client portfolio while SCAH is in the course of diversifying into the financial services businesses.

The above-mentioned common directors declare their interests in competing business and abstain from voting in transactions in which the Company and SCAH compete or is likely to compete with each other and, therefore, do not control the Board as far as transaction in relation to competing business is concerned. As such, the Board consists of a majority of four members out of seven members, and is considered as independent from the board of SCAH. To the best of the knowledge of the Directors, the Group is capable of carrying on its businesses independently and at arm's length from the businesses of SCAH. Given the difference in business focus as referred to in the preceding paragraph, the competition between the businesses of the Company and SCAH is considered to be relatively remote.

## PERMITTED INDEMNITY

Pursuant to the Company's Articles of Association, every Director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings in which judgement is given in his favour, or in which he is acquitted. The Company has taken out directors' and officers' liability insurance to protect the Directors against potential costs and liabilities arising from the claims brought against them, if any.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules throughout the year and up to the date of this report.

## CONNECTED TRANSACTIONS

Set out below is the information in relation to the connected transactions involving the Company and/or its subsidiaries during the year.

Pursuant to the sale and purchase agreement dated 3 November 2016, Perfect Mind Ventures Limited, a direct wholly-owned subsidiary of the Company, as purchaser agreed to acquire, and Win Gain Investments Limited and Surge Fast Assets Limited, direct and indirect subsidiaries of Mr. Ng, respectively, as vendors agreed to sell the entire issued share capital of Media Bonus Limited and Golden Ways Limited at a cash consideration of HK$20 million subject to an adjustment (the "Acquisition 1"). Given each of the vendors is an associate of Mr. Ng, it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Acquisition 1 constituted a connected transaction for the Company and was subject to announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Acquisition 1 and the transactions contemplated thereunder were duly approved, ratified and confirmed by the independent shareholders of the Company on 17 January 2017. The Acquisition 1 was completed on 18 January 2017 and the total consideration was adjusted with reference to the completion accounts made up to the completion date amounted to approximately HK$22.0 million. Details of the Acquisition 1 were disclosed in the announcement and circular dated 3 November 2016 and 29 December 2016, respectively.

Pursuant to the sale and purchase agreement dated 14 July 2017, Perfect Mind Ventures Limited, a direct wholly-owned subsidiary of the Company, as purchaser agreed to acquire, and Nicemate Investments Limited, Jessica Publications (BVI) Limited, Win Gain Investments Limited and Ace Market Investments Limited, indirect subsidiaries of Mr. Ng, as vendors agreed to sell the entire issued share capital of Perfect Riches Limited, Super Bellax Ltd., Great Ready Assets Limited and Jade Fountain Limited at a cash consideration of HK$15 million subject to adjustment (the "Acquisition 2"). Given each of the vendors is an associate of Mr. Ng, it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Acquisition 2 constituted a connected transaction for the Company and was subject to announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Acquisition 2 and the transactions contemplated thereunder were duly approved, ratified and confirmed by the independent shareholders of the Company on 28 March 2018. The Acquisition 2 was completed on 29 March 2018. Details of the Acquisition 2 were disclosed in the announcements dated 14 July 2017, 11 September 2017, 10 November 2017, 11 December 2017 and 15 February 2018 and in the circular dated 9 March 2018.

## AUDITOR

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Ng Hung Sang**
*Chairman*

Hong Kong, 29 March 2018

# Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize accountability and transparency to the shareholders. Periodic review will be made to the corporate governance practices to comply with the regulatory requirements.

## CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the year ended 31 December 2017 except that the chairman of the Board was unable to attend the regular board meeting of the Company held on 28 March 2017, the chairman and the vice chairman of the Board were unable to attend the regular board meeting of the Company held on 30 March 2017 and the chairman of the Board was unable to attend the annual general meeting of the Company held on 14 June 2017 which deviated from code provisions A.6.7 and E.1.2 of the CG Code as they had other business engagements at the relevant time.

## BOARD COMPOSITION AND BOARD PRACTICES

As at 31 December 2017, the members of the Board were as follows:

### Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor (*Vice Chairman*)
Ms. Ng Yuk Mui Jessica (*Executive Vice Chairman*)
Dr. Wang Wei Hsin (*Chief Executive Officer*)

### Independent Non-executive Directors

Tse Wong Siu Yin Elizabeth
Raymond Arthur William Sears, Q.C.
Tung Woon Cheung Eric

Independent Non-executive Directors represented not less than one-third of the Board for the year ended 31 December 2017. Directors' biographies and the relevant relationships amongst them are set out in the Directors' Biographical Details on pages 14 to 15 in this Annual Report.

The Board composition is reviewed regularly to ensure that it has a balance of skills and experience appropriate to the requirements of the businesses of the Group. A balanced composition of Executive Directors and Non-executive Directors is maintained to enable the Board to exercise independent judgement effectively and provide sufficient checks and balances that safeguard the interests of shareholders and the Group. The Company has also complied with the Listing Rules requirement that at least one of the Independent Non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise.

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

The Company is committed to equality of opportunity and does not discriminate on the grounds of race, gender, age, disability, nationality or any other factors. It also recognizes and embraces the benefits of diversity in Board members. The Company has adopted a board diversity policy in August 2013. Under the board diversity policy, a range of diversity perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service are taken into account when considering the nomination of a candidate for directorship and all Board appointments are based on meritocracy. Candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board and the ultimate decision is based on merit and contribution that the selected candidates will bring to the Board. The Remuneration and Nomination Committee monitors the implementation of the diversity policy and review the same as appropriate.

The appointment of Directors is recommended by the Remuneration and Nomination Committee and approved by the Board based on the formal written procedure and policy for the appointment of new directors. When selecting potential candidates for directorship, their skills, experience, expertise, devotion of time and conflicts of interests are the key factors to consider.

All Directors (including Non-executive Directors) of the Company are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association. The Board is collectively responsible for the formulation of the Group's strategy and overseeing the management of the business and affairs of the Group.

Daily operation and management of the business of the Group including, inter alia, the implementation of strategies are delegated to the Executive Committee, which comprises all Executive Directors. The Executive Committee reports its work and business decisions to the Board periodically.

The roles of Chairman and Chief Executive Officer are separate and are clearly defined. Such roles are performed by different individuals with a view to reinforcing independence and accountability. Key and important decisions are fully discussed at board meetings.

The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and have received adequate and reliable information in a timely manner.

The Board held four meetings in 2017:

| | Number of Meetings Attended/ Eligible to Attend |
|---|---|
| ***Executive Directors*** | |
| Ng Hung Sang (*Chairman*) | 2/4 |
| Cheung Choi Ngor (*Vice Chairman*) | 3/4 |
| Ng Yuk Mui Jessica (*Executive Vice Chairman*) | 4/4 |
| Wang Wei Hsin (*Chief Executive Officer*) | 3/3 |
| ***Independent Non-executive Directors*** | |
| Raymond Arthur William Sears, Q.C. | 4/4 |
| Tse Wong Siu Yin Elizabeth | 4/4 |
| Tung Woon Cheung Eric | 4/4 |

The Board meets at least four times a year. At least fourteen days' notice is given to all Directors for each regular Board meeting. All Directors are given the opportunity to include matters for discussion in the agenda. Agenda and Board papers are sent to all Directors at least three days before each regular Board meeting. Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles of Association of the Company.

The Company Secretary ensures that the procedures and all applicable rules and regulations are complied with. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Director.

Directors have full access to information on the Group and are able to seek independent professional advice at the Group's expense as they consider appropriate.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding the directors' securities transaction. In addition, the Board has established similar guidelines for relevant employees who are likely to possess inside information in relation to the Group or its securities.

In response to the Company's specific enquiry, all Directors of the Company confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by Directors throughout the year ended 31 December 2017.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of risks it is willing to take in achieving the Group's strategic objectives, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and also reviewing their effectiveness to safeguard interests of shareholders, customers, employees, and the Group's assets. Such systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives of the Group, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management provides a confirmation to the Board on the effectiveness of these systems. The management under the supervision of the Board has established an on-going process for developing a Group risk profile, identifying, evaluating and managing the significant risks faced by the Group. This process includes enhancing the systems of risk management and internal controls from time to time in response to the changes to business environment or regulatory guidelines. During the year 2017, the Group has revised and implemented third parties agreement and money lending policies in order to improve risk management and internal control over the Group.

Management assists the Board in the implementation of the Group's policies, procedures and limits within the Board's approved risk appetite by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The review of the adequacy and effectiveness of risk management and internal control systems has been conducted continuously and report to the Board at least twice a year on new or changing risk and risk levels, and new or changing risk mitigation actions agreed to resolve material internal control defects. The review covers all material controls, including financial, operational and compliance controls. The Board also reviews the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting, internal audit and financial reporting functions.

The Company regulates the handling and dissemination of inside information as set out in the Policy on Disclosure of Inside Information to ensure compliance with the disclosure obligations under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance. Director, manager or secretary, or any other persons involved in the management, of the Company who become aware of any inside information should promptly bring it to the attention of the Company Secretary of the Company who will assess the likely impact of any event that may impact the price or trading volume of the shares of the Company and decide whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable.

The Internal Audit Department checks for compliance with statutory or regulatory requirements, internal policies and procedures, and review the work flows for efficiency and effectiveness. It also formulates audit plan periodically, agrees the same with the Audit Committee, and highlights any significant findings and recommendations to the Audit Committee and the Board. The audit plan covers key controls of the major business units on a rotation basis. The Internal Audit Department may also conduct ad-hoc review in light of concerns expressed by management or the Audit Committee from time to time, if any. In addition to the duties of the Audit Committee as mentioned above, the Audit Committee on-going reviews the internal audit functions with particular emphasis on the scope and quality of the internal audits and independence of the internal audit function.

The Board has received a confirmation from management on the effectiveness of the Group's risk management and internal control systems. The Board is satisfied that the risk management and internal control systems are in place for the year under review. There were no significant control failings or material defects that have been identified during the year. Also, no material impact was found which have resulted in unforeseen outcomes or contingencies in the future on the Group's financial performance or condition.

## RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Group.

The statement by the auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 48 to 54 of this Annual Report.

## AUDITOR'S REMUNERATION

The fees paid/payable to the auditor of the Company for the year ended 31 December 2017 in respect of the audit and non-audit services provided to the Company and its subsidiaries amounted to HK$1,750,000 and HK$30,000, respectively. The non-audit services were related to taxation services.

## DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors must keep abreast of their collective responsibilities. Each newly appointed Director receives an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company.

To enhance the Directors of the changes in applicable rules and regulations and the developments in corporate governance, the Company also provides the Directors with updates on the relevant topics. In addition, the Directors are encouraged to participate in continuous professional development activities to develop and refresh their knowledge and skills.

According to the records maintained by the Company, the Directors have received the following training in the year ended 31 December 2017:

| | Type of trainings | |
|---|---|---|
| | Attending Seminars/ Conferences and/or Similar Events | Reading Materials and Updates |
| ***Executive Directors*** | | |
| Ng Hung Sang (*Chairman*) | | ✓ |
| Cheung Choi Ngor (*Vice Chairman*) | | ✓ |
| Ng Yuk Mui Jessica (*Executive Vice Chairman*) | | ✓ |
| Wang Wei Hsin (*Chief Executive Officer*) | | ✓ |
| ***Independent Non-executive Directors*** | | |
| Raymond Arthur William Sears, Q.C. | | ✓ |
| Tse Wong Siu Yin Elizabeth | ✓ | ✓ |
| Tung Woon Cheung Eric | | ✓ |

## DIRECTORS' REMUNERATION

The remuneration payable to executive directors is determined by the Remuneration and Nomination Committee with reference to the prevailing market practice, the Company's remuneration policy, the respective Directors' duties and responsibilities and their contributions to the Group. The Board considers and, where it thinks fit, approves the remuneration of the non-executive directors as recommended by the Remuneration and Nomination Committee based on the abovementioned factors. No Directors shall be involved in the decision of his/her own remuneration.

Remuneration details of the Directors (on individual name basis) for the year ended 31 December 2017 are disclosed in note 8 to the consolidated financial statements on pages from 101 to 102 of this annual report.

## AUDIT COMMITTEE

The Audit Committee consists of all Independent Non-executive Directors, Mr. Tung Woon Cheung Eric (Chairman of the committee), Hon. Raymond Arthur William Sears, Q.C. and Mrs. Tse Wong Siu Yin Elizabeth.

As set out in the terms of reference posted on the websites of Stock Exchange and the Company, the principal duties of the Audit Committee, which are substantially the same as the relevant code provisions in the CG Code, include overseeing the Group's financial reporting system, risk management and internal control system and the relationship with the Company's auditor, and reviewing the Group's financial information, arrangement for employees to raise concerns on financial reporting improprieties and corporate governance functions. The Board has also delegated the responsibility of performing corporate governance duties to the Audit Committee.

The Audit Committee held two meetings and met with the internal and external auditors twice during the year ended 31 December 2017. It has reviewed, among others, the half-yearly and annual results, internal audit plan, internal control report to the audit committee, audit strategy, external auditor's report to the Audit Committee, the independence and terms of engagement of the external auditor and corporate governance report. There were two private sessions between the Audit Committee members and the external auditor without the presence of management in the Audit Committee meetings held in 2017. The attendance records of the members of the Audit Committee at the abovementioned Audit Committee meetings are as follows:

| | **Number of Meetings Attended/Eligible to Attend** |
|---|---|
| Tung Woon Cheung Eric | 2/2 |
| Raymond Arthur William Sears, Q.C. | 2/2 |
| Tse Wong Siu Yin Elizabeth | 2/2 |

## REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee performs both remuneration and nomination functions under the CG Code. It consists of all the Independent Non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth (Chairman of the Committee), Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric.

As set out in the terms of reference posted on the websites of Stock Exchange and the Company, the principal duties of the Remuneration and Nomination Committee, which are substantially the same as the relevant code provisions in the CG Code, include, among others, reviewing the policy and structure for remuneration of Directors and senior management (if any), reviewing remuneration proposals for Directors and senior management (if any), determining the remuneration packages of Executive Directors and senior management (if any), making recommendations to the Board on the remuneration of Non-executive Directors, reviewing the structure, size and diversity of the Board, identifying suitable candidate for directorship and making recommendations to the Board on Director nomination matters.

For new appointment of Director, the Remuneration and Nomination Committee identifies and selects suitable candidates following the board diversity policy as referred to in the section "Board Composition and Board Practices" and taking into account the candidate's his/her independence (with respect to the Independent Non-executive Directors) and capability to devote sufficient time and commitment to the role as well as potential conflict of interests. Once the Remuneration and Nomination Committee has selected a candidate, it seeks the comments on such candidate from the Executive Committee for its consideration and approves the appointment as it thinks fit.

The Remuneration and Nomination Committee met once in the year ended 31 December 2017 to review, consider and, where appropriate, approve/make recommendation to the Board on the remuneration packages of the Directors (based on the skills, knowledge, performance and involvement in the Company's affairs of the relevant Director taking into consideration the Company's performance), the policy and structure for Directors' remuneration, the structure, size and diversity of the Board, the Director nomination policy, the independence of the Independent Non-executive Directors and the retirement and re-election of Directors. The attendance records of the members of the Remuneration and Nomination Committee at the abovementioned Remuneration and Nomination Committee meeting are as follows:

| | **Number of Meetings Attended/Eligible to Attend** |
|---|---|
| Tse Wong Siu Yin Elizabeth | 1/1 |
| Raymond Arthur William Sears, Q.C. | 1/1 |
| Tung Woon Cheung Eric | 1/1 |

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

Information is communicated to the shareholders mainly through the Company's corporate communications (such as interim and annual reports, announcements and circulars), AGMs and other general meetings, as well as disclosure on the website of the Company.

Interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are available on the website of the Company. The Company's website provides shareholders with the corporate information of the Group.

The AGM allows the Directors to meet and communicate with shareholders. The Company ensures that shareholders' views are communicated to the Board. The chairman of the AGM proposes separate resolutions for each issue to be considered. Members of the Audit Committee and the Remuneration and Nomination Committee and the external auditor also attend the AGM to answer questions from shareholders. AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of AGM is distributed to all shareholders at least 20 clear business days prior to the AGM. The accompanying circular sets out the details of each proposed resolution and other relevant information as required under the Listing Rules. Voting results are posted on websites of the Stock Exchange and the Company on the day of the AGM.

## SHAREHOLDERS' RIGHTS

Shareholders are provided with contact details of the Company to enable them to make enquiries with respect to the Company's affairs. Shareholders can also send their enquiries to the Company through these channels or contact Union Registrars Limited, the share registrar of the Company, in case of enquiries about shareholdings.

Shareholder(s) holding at least 5% of the total voting rights of all the shareholders of the Company can make a request to convene a general meeting pursuant to Section 566 of the Companies Ordinance of Hong Kong, Chapter 622 (the "Ordinance"). The request must state the general nature of the business to be dealt with at the meeting, and may be sent to the Company in hard copy form or in electronic form and must be authenticated by the person or persons making it. Besides, Section 580 of the Ordinance provides that (i) shareholder(s) representing at least 2.5% of the total voting rights of all shareholders of the Company or (ii) at least 50 shareholders can request the Company to circulate a statement, which may be sent to the Company in hard copy form or in electronic form, and must be authenticated by the person or persons making it and received by the Company at least 7 days before the general meeting to which it relates.

If a shareholder wishes to nominate a person to stand for election as a Director at general meeting in accordance with Article 120 of the articles of association of the Company, such shareholder must serve (i) a written notice of intention to propose a resolution at the general meeting; and (ii) a notice executed by the nominated candidate of the candidate's willingness to be appointed together with (A) that candidate's information as required to be disclosed under Rule 13.51(2) of the Listing Rules and (B) the candidate's written consent to the publication of his personal data to the company secretary of the Company between the period commencing from the date after the dispatch of the notice of the general meeting appointed for such election and end on the date no later than 7 days prior to the date of such general meeting.

In order to allow the shareholders have sufficient time to receive and consider the proposal, shareholders are encouraged circular containing information of the proposed candidate can be despatched to the shareholders as early as practicable prior to the date of the general meeting.

The attendance record of the Directors at the general meetings held during the year is set out below:

| | **EGM held on 17 January 2017** | **AGM held on 14 June 2017** |
|---|---|---|
| ***Executive Directors*** | | |
| Ng Hung Sang (*Chairman*) | N/A | ✘ |
| Cheung Choi Ngor (*Vice Chairman*) | ✓ | ✓ |
| Ng Yuk Mui Jessica (*Executive Vice Chairman*) | N/A | ✓ |
| Wang Wei Hsin (*Chief Executive Officer*) | N/A | ✓ |
| ***Independent Non-executive Directors*** | | |
| Raymond Arthur William Sears, Q.C. | ✓ | ✓ |
| Tse Wong Siu Yin Elizabeth | ✓ | ✓ |
| Tung Woon Cheung Eric | ✓ | ✓ |

## CONSTITUTIONAL DOCUMENT

The Article of Association of the Company is available on the websites of the Company and the Stock Exchange. No change was made to the constitutional document of the Company during the year ended 31 December 2017.

# Environmental, Social and Governance Report

Subsequent to the release of the Group's first Environmental, Social and Governance Report for the financial period from 1 January 2016 to 31 December 2016, it is the Group's commitment to continuously reviewing and updating its Environmental, Social and Governance ("ESG") strategy and report by reference to the provisions set forth in Appendix 27 (Environmental, Social and Governance Reporting Guide) ("ESG Guide") of the Listing Rules.

During the period under review, the Group continued to focus on four (4) key areas — (a) Environment; (b) Employment and Labour Practices; (c) Operation Practices; and (d) Community Investment, and to strive to balance the impacts of environmental protection and social responsibility in the Group's strategic plans for the purpose of driving sustainable value for the Group's stakeholders and the communities in which the operations of the Group are located. There were no significant changes in the Group's businesses, operation location and share capital structure during the period under review. This ESG Report was prepared by the Group ESG Committee and reviewed by the board of directors.

Risk management is crucial for maintaining the Group's stable daily operation and quick response to the changing environment. With the support of the relevant business unit managers, the Board identifies and assesses the key risks, and formulates strategies and measures to mitigate such relevant risk exposures. A risk register is prepared to facilitate the management of key risks of the Group, including those relating to ESG, which will be reviewed by the Board or any committee delegated by the Board as part of the risk management and internal control process.

The material aspects under the four (4) key areas — 1. Environment; 2. Employment and Labour Practices; 3. Operation Practices; and 4. Community Investment are set out as follows:

## 1. ENVIRONMENT

### 1.1 Emission:

Environmental protection plays a crucial role for a corporation's sustainability. It is the strategy of the Group to keep reducing the environmental impact from its operations, and to promote environmental protection within the Group, its marketplace and the communities in which the Group's operations are located. Notwithstanding the nature of business of the Group does not consume much energy and cause severe air and water pollution, the Group keeps minimizing the environmental impacts from its operations by means of:

***(a) Control of emission of greenhouse gases ("GHG"):***

The Group has encouraged staff to (a) use environmentally-friendly public transportation, e.g. MTR for local travelling; (b) use video/audio conferences for business meetings for reducing the frequency of business travel by air so as to reduce direct and indirect emissions of GHG; and (c) use electronic messages, especially internal communications, for the purpose of reduction of paper consumption which in turn will be helpful for reduction of indirect emission of GHG.

Paper consumption is another main source of indirect GHG emissions. The Group has continuously implemented such guides as "Energy Efficiency of Lightings, Air Conditioning and Office Machines Services Guide" and "Recycle Paper and Toner Cartridge Services Guide" to manage the efficient use of resources in the Group's daily operations. In addition, the Group has implemented administrative measure to reduce paper consumption, e.g. e-leave system (application and approval of leave), e-pay slip (salary payment notification), e-internal communications, e-reports, printing on duplex mode, paperless storage and regular waster paper collection for recycling etc. In addition, the Group has encouraged its customers to use e-statements. For giving greater efforts in reduction of GHG emissions, the Group has arranged an independent recycling paper collector to collect used papers from the offices of the Group at regular intervals.

Emission summary:

| Indicators | 2017 | 2016 | Notes |
|---|---|---|---|
| **Total GHG emissions (tonnes)** | **306.0** | 333.3 | # |
| **Direct emissions (tonnes):** | | | |
| **— Company cars[1]** | **–** | – | |
| **Indirect emissions (tonnes):** | | | |
| **— Electricity** | **223.6** | 239.9 | |
| **— Business travel[2]** | **66.5** | 78.4 | |
| **— Paper consumption** | **15.9** | 15 | |
| **GHG emissions avoided by recycling of used papers (tonnes)** | **4.9** | 4.7 | |

1 It is based on kilometers travelled and liters of gasoline consumed.
2 It is based on the International Civil Aviation Organization Carbon Emissions Calculator.

Notes:

# Total GHG emissions decreased by approximately 8.2% due to reduction in consumption of electricity and business travel.

**(b) *Control of production of hazardous and non-hazardous wastes:***

In view of the nature of the Group's operations, it did not generate any hazardous wastes. Areas are designated in the offices of the Group for disposal of electronic equipment. The Group will arrange an independent third party collector to collect all scrapped electronic equipment for proper treatment. Water consumption during the period under review was approximately 74$m^3$ and the total fee paid was approximately HK$550.00. The management fee of each of the leased premises paid to the respective building management includes charges for water supply and discharge.

Waste summary:

| **Indicators** | **2017** | 2016 | Notes |
|---|---|---|---|
| Electronic equipment (pieces) | – | – | # |

Notes:

# No electronic equipment was disposed of during the period under review

## 1.2 Use of Resources:

(a) Fuel (unleaded petrol) consumption and electricity consumption is respectively the main source of direct and indirect energy consumption. Both fuel and electricity consumptions are the main sources of GHG emissions. The Group issued an e-notice of "Save Our World and Build our Green Office" to all employees for promoting awareness of saving of water, energy and paper at work. In addition, an office of the Group has been using LED energy saving light tubes during the period under review. The results achieved by such improvements are reflected in the energy consumption summary below:

Energy consumption summary:

| **Indicators** | **2017** | 2016 |
|---|---|---|
| Total energy consumption (KWh) | **282.6** | 303.3 |
| Direct energy consumption (unleaded petrol) (KWh)[1] | – | – |
| Indirect emissions (electricity) (KWh) | **282.6** | 303.3 |
| Expenses on energy consumption (HK$'000) | **345.5** | 413.1 |

1 No company vehicle so no consumption of unleaded petrol.

(b) The Group is committed to conserving clean water. "Save Water" labels are placed in such water consumption areas as pantries and lavatories to remind employees not to waste water. As mentioned above, the Group is operating in several leased office premises of which the respective building management is responsible for both water consumption and discharge, and data in relation to volume of water consumed and discharged would not be provided for any occupants. The management fee of each of the leased premises paid to the respective building management includes charges for water supply and discharge.

(c) The Group engages various regulated activities, e.g. dealings in securities and futures, advising securities; margin finance and money lending; leveraged foreign exchange trading; advice on corporate finance; asset and wealth management; property investment; and media business. All businesses of the Group do not involve packaging materials.

### 1.3 Environmental and Natural Resources:

Environmental protection is a continuous process, including management of energy and water consumption, and waste production. During the period under review, such environmental protection measures as using energy saving fluorescent tubes and LED light tubes in office areas; and a notice of "Environmental Initiative and Cost Saving" to all staff to keep office area temperature at 25°C was issued, which would be monitored and reviewed regularly pursuant to the environmental and legal requirements.

## 2. EMPLOYMENT AND LABOUR PRACTICES

### 2.1 Employment:

"People Oriented" is the Group's persistent notion. In conformity with the principle of harmonious sustainable development, the Group continuously invests its available resources in providing a supportive, comfortable and healthy workplace for employees, and in fostering a caring community in the working environment.

The Group recognizes that attracting competent talents is important for its sustainable growth, so it is committed to providing fair and competitive remuneration package in form of salary and fringe benefits, e.g. personal and life insurance, paid leave and education sponsorship etc. apart from those mandatory employment-related benefits. It is the policy that salary of employees will be reviewed on an annual basis in December, and the eligible employees will be subject to performance appraisal evaluation to be carried out by the respective department heads and then endorsed by such employees, and all such evaluations are subject to the final approval by the relevant executive director or to whom that the director delegates. The Group Human Resources Department will provide a guideline of salary range of each category in light of the current market rate to each department head for reference for ensuring that the salary for each category of the Group remains competitive. In addition, the Group is committed to compliance with the code provisions set out in Appendix 14 of the Listing Rules, regarding of remuneration of directors and senior management.

In order to provide a framework and guidance for ensuring (a) fairness in recruitment; (b) maximization of diversity of applicants; and (c) high caliber candidates are attracted and selected by taking into account of equal opportunities, anti-discrimination, non-harassment and prohibition of child and forced labour, such policies as "Recruitment Policy", "Equal Opportunities and Anti-Discrimination Policy" and "Code of Conduct" have been in force.

For (a) providing basic understanding of the Group's background, organization structures and business objectives; (b) safeguarding the agreed employment terms and conditions, e.g. working hours, probation period, rest periods, termination of employment, other fringe benefits; and (c) adherence to the relevant policies, systems and procedures etc., an orientation training will be provided for all newcomers by the Human Resources Department, and the Staff Handbook and the aforesaid policies are available in the Group's intranet folder (paperless for upholding of environmental protection) for reference at any time by the employees.

The Group explicitly opposes any discrimination on the grounds of age, gender, marital status, pregnancy, family status, race, nationality, religion and disability, and from time to time observes the provisions of such relevant laws as Employment Ordinance, Cap. 52, Employees' Compensation Ordinance, Cap. 282, Sex Discrimination Ordinance, Cap. 480 in Hong Kong, Disability Discrimination Ordinance, Cap. 487 and Race Discrimination Ordinance, Cap. 602.

The Group had 235 employees as at 31 December 2017 of which 146 male and 89 female. Indicators of employment type of each gender, employees' age group of each gender, geographical region of employment of each gender and turnover rate of each gender during the years of 2016 and 2017 are as follows:

***(a) Employment type and gender:***

| **Number of employees:** | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Management and Department Head | **29** | **4** | 18 | 4 |
| Managerial | **12** | **10** | 6 | 6 |
| Supervisory | **28** | **11** | 25 | 9 |
| General Staff | **77** | **64** | 72 | 44 |

***(b) Employees' age group and gender:***

| **Number of employees:** | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| 18–below 30 | **14** | **15** | 8 | 10 |
| 30–below 50 | **87** | **56** | 75 | 39 |
| 50 and over | **45** | **18** | 38 | 14 |

(c) ***Geographical region and gender:***

| **Number of employees:** | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Hong Kong | **132** | **79** | 111 | 54 |
| PRC | **11** | **9** | 8 | 8 |
| Others | **3** | **1** | 2 | 1 |

(d) ***Turnover rate:***

2016: The average turnover rate for the year of 2016 was about 1.83%

2017: The average turnover rate for the year of 2017 was about 3.18%

## 2.2 Health and Safety:

The Group is committed to providing employees a safety and healthy working environment by reference to such occupational safety and health publications issued by Occupational Safety and Health Council as Office Lighting, Design of Office Station, Office Stretching Exercises, Work Stress, Work Postures, Correct Use of Display Screen Equipment and OSH Guides for Computer Workstation.

All office premises of the Group are well-equipped with typical safety facilities, e.g. first-aid boxes, fire exits, fire extinguishers, fire detectors and sprinklers and emergency lights. In addition, employees are encouraged to participate to annual fire drill for emergency evacuation organized by the building management.

The Group Human Resources Department oversees the occupational health and safety matters. All occupational health and safety-related accidents must be reported to the Group Human Resources Department which will report all serious injuries and occupational diseases to the Board or any committee delegated by the Board as and when necessary. Staff has been notified that any potential or suspected occupational health and safety-related issues may be notified to the Group Human Resources Department by means of email to the designated email address. The Group Human Resources Department will carry out investigation and remedial actions as and when necessary.

During the period under review, the Group did not have any work-related fatalities. Number of reportable injuries, reportable occupational diseases and lost days due to work-related injury and occupational diseases are as follows:

| **Number of cases and lost days:** | **2017** | 2016 |
|---|---|---|
| Number of reportable injuries[1] | – | – |
| Number of reportable occupational diseases[2] | – | – |
| Number of lost days due to reportable injuries | – | – |
| Number of lost days due to occupational diseases | – | – |

1 Any work-related injury resulting in incapacity, which is required to notify the Commissioner for Labour pursuant to the Employees' Compensation Ordinance in Hong Kong.

2 Any occupational disease resulting in incapacity, which is required to notify the Commissioner for Labour pursuant to the Employees' Compensation Ordinance.

## 2.3 Development and Training:

For sustainable development of the Group and its employees, Employees Training and Development Policy continued playing a key role during the period under review. The Group has arranged in-house training courses, e.g. induction orientation and on-the-job trainings, and other training courses and seminars conducted by third party providers in light of the employees' job requirements and the business objectives of the Group. During the period under review, the Group arranged a well-known training institute to conduct a seminar namely "Project Management for Young Managers" for the selected young managerial staff for providing knowledge and skills in project management.

For compliance with the continuous professional training ("CPT") requirements for both corporations and persons carrying on regulated activities set out by the Securities and Futures Commission ("SFC"), the Group is committed to evaluate its training programs annually and to make commensurate adjustments, if necessary, to cater for the training needs of the relevant employees. In development of the training programs, such factors as the Group's size, organizational structure, risk management system, scope of business activities, regulatory framework and market development are taken into consideration. For ensuring each license representative of the Group remains "fit and proper" at all times, each licence representative of the Group completed at least 5 CPT hours during the period under review for each regulated activity that the employee engaged.

For compliance with Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, Cap. 615, and the Guideline on Anti-Money Laundering and Counter-Terrorist Financing ("AML Guideline") issued by the SFC, the Group provided appropriate Anti-Money Laundering and Counter-Terrorists Financing training to the relevant employees, including but not limited to introduction to the background to money laundering and terrorist financing ("AML/CTF") and the importance placed on AML/CTF by the Group to all new staff during the period under review. Annual CPT training on AML/CTF was conducted on 1 November 2017.

Performance appraisal evaluation is an interactive exercise between an employee and his/her department head, which involves appraising an employee's past performance and identifying the employee's areas for improvement and enhancement for fulfillment of the agreed objectives. The Group encourages and supports employees to improve and enhance their knowledge and skills that are attributable to achievement of the agreed objectives by granting study and examination leave.

Number of employees trained by employment type and gender during the years of 2016 and 2017 are as follows:

| **Number of employees:** | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Management and Department Head | **11** | **2** | 13 | 1 |
| Managerial | **3** | **5** | 5 | 4 |
| Supervisory | **14** | **5** | 20 | 6 |
| General Staff | **50** | **20** | 48 | 18 |

Average training hours completed per employee by employment type and gender during the years of 2016 and 2017 are as follows:

| **Number of training hours per employee:** | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Management and Department Head | **5** | **8** | 6 | 6 |
| Managerial | **8** | **6** | 5 | 6 |
| Supervisory | **8** | **6** | 8 | 8 |
| General Staff | **6** | **6** | 8 | 5 |

## 2.4 Labour Standards:

The Group strictly complies with the Employment Ordinance in respect of employment in Hong Kong. As per the Recruitment Policy, employment of child and forced labour is strictly prohibited. In addition, all such illegal means as retention of identity cards or passports, intimidation, coercion and undue pressure are strictly prohibited. It is the policy that all employees are aged 18 and above. It is a standard procedure in screening stag that all interviewees are required to present their identity cards for inspection for ascertaining their identities, ages and validity of employment status. No employment offer will be made to any candidates whose ages are below 18. In the event that any irregularities in ages, identities and/or validities of employment status is subsequently found, employment with all such concerned candidates will be immediately terminated, and the Group will report such incident to the relevant authorities as soon as possible.

No child labour was hired or subsequently found in both 2016 and 2017.

## 3. OPERATION PRACTICES

### 3.1 Supply Chain Management:

Given the acquisition of media business by the Group during the period under review, of which publication of various financial related magazines is part of the business under the newly acquired business group. The media business group is responsible for fostering all current key suppliers (a) to comply with all applicable laws and regulations in respect of their employment and operations, including occupational health and safety, environmental protection, and statutory maintenance of relevant records of documentation; (b) not to engage any corruption and take any undue advantage to obtain or retain business; (c) to protect intellectual property rights and safeguard customers' personal information; (d) not to engage any child and forced labour; and (e) not to discriminate age, gender, marital status, pregnancy, family status, race, nationality, religion and disability in employment, for the purpose of managing the supply chain in a socially and environmentally responsible manner. In the event of any violation of such business integrity as corruption or extortion, the media business group will take all appropriate actions for safeguarding its interest, including immediate termination of contract with the supplier in default.

Number of key suppliers by geographical regions during the years of 2016 and 2017 is as follows:

| **Number of key suppliers:** | **2017** | 2016 |
|---|---|---|
| Hong Kong | **1** | 1 |

### 3.2 Product Responsibility:

The Group is committed to maintain quality of its regulated activities by compliance with such prevailing guidelines and codes issued by the SFC as "Code of Conduct for Persons Licensed by or Registered with the SFC", "Corporate Finance Adviser Code of Conduct", AML Guidelines, "Fit and Proper Guidelines", "Guidelines on Competence", "Licensing Handbook" and "Guidelines on Continuous Professional Training".

To safeguard and maintain the Group's quality of service in provision of regulated activities, the Group's Compliance Department is responsible for handling all complaints (all other non-regulated service complaints, especially corruption or malpractice in nature, are handled by the Group's Internal Audit Department as more detailed set forth in paragraph 3.3 hereinbelow). Complainants may raise their complaints by means of email, facsimile, letter and telephone. The Group's Compliance Department is responsible for collection of all basic information of the complainant, including names and contact details, and the matter of complaint, and for carrying out investigation after basic review and evaluation and at the same time notifying the relevant department head. The outcome of evaluation (if no investigation is required) or of investigation will notify the complainant on a strict confidential basis.

The engagement of regulated activities, property investment and media publications are not subject to any recall for safety and health reasons, and the Group received 4 complaints from clients, mainly relating to client services. And all such complaints have been resolved.

With respect to the media business, the Group from time to time observes the provisions of Copyright Ordinance, Cap. 528, and respects intellectual property rights. As per the IT Policy, employees are not allowed to install any unauthorized or unlicensed software into their working computers provided by the Group. Use of any materials which are in violation of the relevant law is strictly prohibited.

The Group respects privacy rights of its stakeholders, and a privacy policy statement is published on its website (www.sctrade.com). All personal data collected, processed, used, disclosed and retained are subject to the Personal Data Privacy Policy which is prepared by reference to Personal Data (Privacy) Ordinance, Cap. 486. Personal Information Collection Statement (PICS) will be provided for all candidates pertaining to employment, which sets out the purposes of personal data collection, disclosure, retention and storage. In addition, the Group is obliged to safeguard the personal data of its stakeholders and to use such data for specific purpose, e.g. verifying identity and checking creditability for provision of goods and services.

### 3.3 Anti-corruption:

The Group is committed to conducting its business activities legally and ethically, and zero-tolerance on any form of corruption or malpractice, such as bribery, money laundering, extortion or fraud. Anti-bribery Policy, Anti-Fraud Policy, Compliance Manual and AML Manual are the main tools for safeguarding against corruption and malpractice. In addition, Code of Conduct stipulates no bribes, kickbacks or advantages solicited from or given to any person for any purposes, the way of handling gifts and other benefits valued at more than HK$500, and no violation of any applicable laws and ethical standards. The Internal Audit Department is responsible for reviewing and auditing the business activities.

During the period under review, there were no confirmed incidents in relation to corruption, and no suppliers' contracts were terminated or not renewed due to corruption.

In addition, the Group encourages its stakeholders to report its employees' misconduct by reference to its Whistleblowing Policy and Procedures which are set out on the corporate website (www.sctrade.com). Any complainant may raise his/her complaints against inappropriate and unlawful behavior or malpractice of any Group's employees (including its contractors and consultants) on confidential base, directly to the Group Internal Audit Department, without the fear of incrimination. The Group Internal Audit Department will review and evaluate the complaints, and then determine the mode of investigation. If the alleged misconduct, malpractice or irregularity is confirmed, a report prepared by the Group Internal Audit Department will then be circulated to the relevant department head and the Group Human Resources Department for the purpose of consideration and determination of any remedial and disciplinary actions to be taken. A summary of complaints received, results of such complaints and the actions taken will be made available to the Board on an annual basis.

## 4. COMMUNITY INVESTMENT

As a responsible corporate citizen, the Group uses its expertise and resources to support the communities in which it operates in such manner as helping people in need and organizing charitable events and donating funds raised by such events to local charities etc. The Group participated into "Jessica Run" organized by the Group's fellow subsidiary for raising funds for under-privilege. In addition, the Group encourages staff to participate organ donation organized by Department for Health.

The Group is a supporter for developing a healthy and green community, so it will not only continuously dedicates its efforts to protect the environment by controlling emissions of GHG, consumption of energy and water and waste production etc. but also participates in different events to contribute positivity to the communities in which it operates.

## Summary of compliance with the ESG Guide

| Subject Areas | Aspects | General Disclosure and KPIs | Disclosure in this Report |
|---|---|---|---|
| A. Environmental | A1: Emissions | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the Group<br>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | Pages 34 to 35 |
| | | KPI A1.1 and A1.2 | Page 35 |
| | | KPI A1.3, A1.4, A1.5 and A1.6 | Pages 35 to 36 |
| | A2: Use of Resources | Policies on the efficient use of resources, including energy, water and other raw materials. | Page 36 |
| | | KPI A2.1, A2.2, A2.3 and A2.4 | Page 36 |
| | | KPI A2.5 | Page 37 |
| | A3: The Environment and Natural Resources | Policies on minimizing the Group's significant impact on the environment and natural resources. | Page 37 |
| | | KPI A3.1 | Page 37 |

| Subject Areas | Aspects | General Disclosure and KPIs | Disclosure in this Report |
|---|---|---|---|
| B. Social — Employment and Labour Practices | B1: Employment | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the Group<br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Pages 37 to 38 |
| | | KPI B1.1 | Pages 38 to 39 |
| | | KPI B1.2 | Page 39 |
| | B2: Health and Safety | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the Group<br>relating to providing a safe working environment and protecting from occupational hazards. | Page 39 |
| | | KPI B2.1, B2.2 and B2.3 | Page 40 |
| | B3: Development and Training | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Pages 40 to 41 |
| | | KPI B3.1 and B3.2 | Page 41 |
| | B4: Labour Standard | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the Group<br>relating to preventing child and forced labour. | Page 41 |
| | | KPI B4.1 and B4.2 | Page 41 |

| Subject Areas | Aspects | General Disclosure and KPIs | Disclosure in this Report |
|---|---|---|---|
| B. Social — Operating Practices | B5: Supply Chain Management | Policies on managing environmental and social risks of the supply chain. | Page 42 |
| | | KPI B5.1 and B5.2 | Page 42 |
| | B6: Product Responsibility | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the Group<br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | Pages 42 to 43 |
| | | KPI B6.1, B6.2, B6.3, B6.4 and B6.5 | Page 43 |
| | B7: Anti-corruption | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the Group<br>relating to bribery, extortion, fraud and money laundering | Page 43 |
| | | KPI B7.1 and B7.2 | Page 43 |
| B. Social — Community | B8: Community Investment | Policies on community engagement to understand the needs of the communities where the Group operates and to ensure its activities taken into consideration the communities' interests. | Page 44 |
| | | KPI B8.1 and 8.2 | Page 44 |

# Independent Auditor's Report

**To the members of South China Financial Holdings Limited**
(Incorporated in Hong Kong with limited liability)

## OPINION

We have audited the consolidated financial statements of South China Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 158, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of 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 2017, 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 Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Impairment assessment of loans receivable and trade receivables** | |
| As at 31 December 2017, gross loans receivable and related impairment amounted to HK$412.5 million and HK$24.3 million, respectively; while gross trade receivables and related impairment amounted to HK$148.0 million and HK$0.7 million, respectively. The assessment of impairment of loans receivable and trade receivables involves significant management's judgements and estimates on the amount of losses incurred at the reporting date.<br><br>The Group's methodology and assumptions used for estimating the amount of future cash flows for loans receivable normally encompassed the nature and value of collateral held and anticipated receipts; and where applicable the Group performed credit assessment based on the specific circumstances and market conditions which involved significant assumptions.<br><br>The trade receivables included receivable balances arising from securities, forex and futures contracts trading, which were significant in size. The Group carried out an impairment assessment for each balance individually, considering the ageing of the receivables, creditability of the counterparty and other specific circumstances and market conditions.<br><br>The disclosures about impairment of loans receivable and trade receivables are included in notes 3, 18 and 22 to the financial statements. | We obtained an understanding of the Group's methodology and assumptions used for estimating the impairment of loans receivable and trade receivables. Our procedures to assess the Group's impairment included the following:<br><br>• For loans receivable with pledged collateral, we considered the control procedures performed by the Group over monitoring and valuation of collateral and determined whether there was any shortfall by comparing the loan outstanding with the value of collateral.<br><br>• For other unsecured loans and trade receivables, we reviewed the impairment assessment performed by the Group, including the ageing analysis, subsequent settlement, as well as considered the credit standing and historical repayment pattern of the counterparties when assessing the appropriateness of the impairment. |

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Valuation of investment properties** | |
| The Group owns investment properties in Hong Kong which were valued at HK$480.0 million as at 31 December 2017. Significant judgement is required to estimate the fair value of the investment properties, to reflect the market conditions at the end of the reporting period. Management engaged an independent professionally qualified valuer to estimate the value of investment properties at the end of the reporting period.<br><br>The disclosures about valuation of investment properties are included in notes 3 and 13 to the financial statements. | We evaluated the objectivity, independence and competence of the valuer. We also involved our internal valuation specialist to assist us in assessing the methodology and assumptions adopted in the valuation for estimating the fair value of the investment properties and performed benchmarking of the value of investment properties held by the Group to other comparable properties. |
| **Purchase price allocation for a business combination** | |
| On 18 January 2017, the Group acquired 100% equity interest in Media Bonus Limited and Golden Ways Limited (the "Financial Media Group") for an aggregate consideration of HK$22.0 million. As at the date of acquisition, the aggregate fair value of the identifiable net assets of the Financial Media Group amounted to HK$7.9 million, with goodwill and intangible assets of HK$14.1 million and HK$5.9 million, respectively, recognised from the acquisition.<br><br>The Group engaged an independent external valuer to perform the purchase price allocation on the fair values of the identifiable assets acquired and liabilities assumed. The purchase price allocation is significant to our audit due to (i) significant judgement involved in the identification of assets and liabilities assumed; and (ii) the determination of the fair values of the identifiable assets acquired and liabilities assumed, including identification of intangible assets, are dependent on a range of estimates including estimated future cash flows, discount rates, royalty rates and economic useful life.<br><br>Details of the business combination of the Financial Media Group are disclosed in note 35 to the financial statements. | With the assistance from our internal valuation specialist, we discussed the rationale of the identification of intangible assets with management and the external valuer. We also evaluated the valuation methodologies and assumptions used in the purchase price allocation by (i) assessing the valuation methodologies adopted for the purpose of determining the fair values of the identifiable assets acquired and liabilities assumed; and (ii) assessing the reasonableness of the key assumptions used such as estimated future cash flows, discount rates, royalty rates and economic useful life by comparison with external information on other comparable companies.<br><br>In addition, we considered the independence, objectivity and competence of the external valuer engaged by management. We also assessed the adequacy of disclosures in connection with the business combination. |

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Impairment assessment of goodwill and intangible assets** | |
| As at 31 December 2017, goodwill and intangible assets after impairment amounted to HK$13.7 million and HK$4.2 million, respectively. During the year, impairment of HK$0.4 million and HK$2.3 million was made against goodwill and intangible assets, respectively.<br><br>Impairment assessment is performed by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which goodwill and intangible assets relates. The recoverable amounts of the cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets.<br><br>The impairment assessment is significant to our audit due to significant estimates involved in the estimation of the value in use of the cash-generating units to which goodwill and intangible assets is allocated, including, amongst others, expected future cash flows, terminal growth rate and discount rates.<br><br>The Group's accounting policies, disclosures of estimation uncertainty and impairment assessment of goodwill and intangible assets are included in notes 2.4, 3, 14 and 15 to the financial statements. | We assessed the key assumptions used in management's cash flow projections for impairment assessment of goodwill and intangible assets, including, amongst others, budgeted revenue, terminal growth rate and discount rates, taking into consideration the historical results, market conditions and trends.<br><br>In addition, we involved our internal valuation specialist to assist us in evaluating the terminal growth rate and discount rates adopted in the value in use calculation using cash flow projections. We also assessed the adequacy of disclosures in connection with the impairment assessment of goodwill and intangible assets. |

## Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises 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 of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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.

## Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

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.

- 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.

## Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

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

From the matters communicated with 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 Leung Chi Ying.

**Ernst & Young**
*Certified Public Accountants*
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
29 March 2018

# Consolidated Statement of Profit or Loss

Year ended 31 December 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **254,335** | 121,366 |
| Other income | | **3,521** | 1,582 |
| Fair value gain on investment properties | | **40,000** | 42,500 |
| Fair value gain/(loss) on financial assets at fair value through profit or loss | | **10,985** | (66,667) |
| Impairment of goodwill | | **(351)** | – |
| Impairment of intangible assets | | **(2,265)** | – |
| Reversal of impairment/(impairment) of loans and trade receivables, net | | **(3,503)** | 2,404 |
| Other operating expenses | | **(239,181)** | (148,261) |
| **Profit/(loss) from operating activities** | | **63,541** | (47,076) |
| Finance costs | 7 | **(10,124)** | (8,791) |
| PROFIT/(LOSS) BEFORE TAX | 6 | **53,417** | (55,867) |
| Income tax expense | 10 | **(878)** | (836) |
| **PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **52,539** | (56,703) |
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | 11 | | |
| Basic and diluted | | **HK0.35 cents** | (HK0.53 cents) |

# Consolidated Statement of Financial Position

31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 12 | **3,132** | 2,770 |
| Investment properties | 13 | **480,000** | 440,000 |
| Intangible assets | 15 | **4,242** | 1,111 |
| Investments in associates | 17 | **–** | – |
| Available-for-sale investments | 19 | **42,135** | 27,058 |
| Other assets | 16 | **17,675** | 7,236 |
| Goodwill | 14 | **13,714** | – |
| Long term loans receivable | 18 | **9,981** | 1,390 |
| Long term prepayment and deposits | 23 | **1,588** | 1,297 |
| Total non-current assets | | **572,467** | 480,862 |
| **CURRENT ASSETS** | | | |
| Financial assets at fair value through profit or loss | 21 | **625,183** | 414,346 |
| Loans receivable | 18 | **378,195** | 321,718 |
| Trade receivables | 22 | **147,293** | 235,145 |
| Other receivables, prepayments and deposits | 23 | **47,638** | 35,074 |
| Derivative financial instruments | 24 | **615** | 1,019 |
| Tax recoverable | | **227** | – |
| Pledged time deposits | 25 | **500** | 500 |
| Cash held on behalf of clients | 26 | **597,368** | 479,424 |
| Cash and bank balances | 25 | **241,298** | 355,406 |
| Total current assets | | **2,038,317** | 1,842,632 |
| **CURRENT LIABILITIES** | | | |
| Client deposits | 27 | **719,728** | 530,863 |
| Trade payables | 28 | **53,823** | 29,616 |
| Other payables and accruals | 29 | **23,853** | 17,823 |
| Derivative financial instruments | 24 | **289** | 49,521 |
| Interest-bearing bank borrowings | 30 | **430,620** | 418,519 |
| Tax payable | | **2,820** | 4,234 |
| Total current liabilities | | **1,231,133** | 1,050,576 |
| **NET CURRENT ASSETS** | | **807,184** | 792,056 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,379,651** | 1,272,918 |

31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 30 | **181,057** | 146,137 |
| Deposits received | | **1,260** | 2,175 |
| Deferred tax liabilities | 20 | **30,638** | 30,146 |
| Total non-current liabilities | | **212,955** | 178,458 |
| Net assets | | **1,166,696** | 1,094,460 |
| **EQUITY** | | | |
| Share capital | 31 | **1,085,474** | 1,086,680 |
| Reserves | 33 | **81,222** | 7,780 |
| Total equity | | **1,166,696** | 1,094,460 |

**Ng Yuk Mui Jessica**
*Director*

**Cheung Choi Ngor**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2017

| | Notes | Share capital HK$'000 | Property revaluation reserve# HK$'000 | Available-for-sale investment revaluation reserve HK$'000 | Share option reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2016 | | 597,685 | 120,145 | 13,647 | 1,938 | 1,668 | (64,083) | 671,000 |
| Loss for the year | | – | – | – | – | – | (56,703) | (56,703) |
| Other comprehensive loss for the year | | – | – | (6,200) | – | (4,054) | – | (10,254) |
| Total comprehensive loss for the year | | – | – | (6,200) | – | (4,054) | (56,703) | (66,957) |
| Issue of shares | 31 | 497,780 | – | – | – | – | – | 497,780 |
| Share issue expenses | 31 | (8,785) | – | – | – | – | – | (8,785) |
| Equity-settled share option arrangements | 32 | – | – | – | 1,422 | – | – | 1,422 |
| Transfer of share option reserve upon the forfeiture of share options | | – | – | – | (727) | – | 727 | – |
| **At 31 December 2016 and 1 January 2017** | | **1,086,680** | **120,145*** | **7,447*** | **2,633*** | **(2,386)*** | **(120,059)*** | **1,094,460** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **52,539** | **52,539** |
| Other comprehensive income for the year | | **–** | **–** | **15,077** | **–** | **5,249** | **–** | **20,326** |
| Total comprehensive income for the year | | **–** | **–** | **15,077** | **–** | **5,249** | **52,539** | **72,865** |
| Share repurchased | 31 | **(1,206)** | **–** | **–** | **–** | **–** | **–** | **(1,206)** |
| Equity-settled share option arrangements | 32 | **–** | **–** | **–** | **577** | **–** | **–** | **577** |
| Transfer of share option reserve upon the forfeiture of share options | | **–** | **–** | **–** | **(429)** | **–** | **429** | **–** |
| At 31 December 2017 | | **1,085,474** | **120,145*** | **22,524*** | **2,781*** | **2,863*** | **(67,091)*** | **1,166,696** |

# The property revaluation reserve arose from a change in use from owner-occupied properties to investment properties carried at fair value on 30 June 2012.

* These reserve accounts comprise the consolidated reserves of HK$81,222,000 (2016: HK$7,780,000) in the consolidated statement of financial position.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

| | Note | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | | **52,539** | (56,703) |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX** | | | |
| To be reclassified to profit or loss in subsequent periods | 34 | **20,326** | (10,254) |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **72,865** | (66,957) |

# Consolidated Statement of Cash Flows

Year ended 31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | **53,417** | (55,867) |
| Adjustments for: | | | |
| Finance costs | | **10,124** | 8,791 |
| Dividend income from listed investments | 5 | **(9,824)** | (6,566) |
| Fair value gain on investment properties | | **(40,000)** | (42,500) |
| Fair value loss/(gain) on financial assets at fair value through profit or loss | | **(10,985)** | 66,667 |
| Fair value loss on derivative financial instruments not qualifying as hedges | | **–** | 48,502 |
| Impairment/(reversal of impairment) of loans and trade receivables, net | 6 | **3,503** | (2,404) |
| Depreciation | 6 | **1,568** | 1,823 |
| Amortisation of intangible assets | 6 | **626** | 31 |
| Impairment of intangible assets | 6 | **2,265** | – |
| Impairment of goodwill | 6 | **351** | – |
| Equity-settled share option expense | 32 | **577** | 1,422 |
| | | **11,622** | 19,899 |
| Increase in financial assets at fair value through profit or loss | | **(199,957)** | (276,108) |
| Movements in derivative financial instruments | | **(48,947)** | – |
| Increase in loans receivable | | **(67,944)** | (35,983) |
| Decrease/(increase) in trade receivables | | **91,565** | (114,275) |
| Increase in other receivables, prepayments and deposits | | **(10,059)** | (3,075) |
| Decrease/(increase) in cash held on behalf of clients | | **(117,944)** | 82,235 |
| Increase in amounts due from related companies | | **(1,597)** | (730) |
| Increase/(decrease) in client deposits | | **188,865** | (82,528) |
| Increase in trade payables | | **23,712** | 2,523 |
| Increase in other payables and accruals | | **2,887** | 514 |
| Increase/(decrease) in amounts due to related companies | | **(137)** | 358 |
| Cash used in operations | | **(127,934)** | (407,170) |
| Interest paid | | **(10,124)** | (8,791) |
| Hong Kong profits tax paid | | **(1,686)** | (120) |
| Overseas taxes paid | | **(342)** | (393) |
| Net cash flows used in operating activities | | **(140,086)** | (416,474) |

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Net cash flows used in operating activities | | **(140,086)** | (416,474) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Dividend income received from listed investments | | **9,824** | 6,566 |
| Acquisition of subsidiaries | 35 | **(22,008)** | – |
| Purchases of items of property, plant and equipment | 12 | **(1,456)** | (1,159) |
| Additions to intangible assets | 15 | **(87)** | (306) |
| Increase in other assets | | **(10,439)** | (867) |
| Net cash flows from/(used in) investing activities | | **(24,166)** | 4,234 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | | **4,170,689** | 8,293,907 |
| Repayment of bank loans | | **(4,138,387)** | (8,219,791) |
| Issue of shares | 31 | **–** | 497,780 |
| Share issue expenses | | **–** | (8,785) |
| Repurchase of shares | 31 | **(1,206)** | – |
| Net cash flows from financing activities | | **31,096** | 563,111 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(133,156)** | 150,871 |
| Cash and cash equivalents at beginning of year | | **297,486** | 149,877 |
| Effect of foreign exchange rate changes, net | | **4,329** | (3,262) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **168,659** | 297,486 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents as stated in the statement of financial position | 25 | **241,298** | 355,406 |
| Pledged time deposits with original maturity of less than three months when acquired | 25 | **500** | 500 |
| Bank overdrafts | 30 | **(73,139)** | (58,420) |
| Cash and cash equivalents as stated in the statement of cash flows | | **168,659** | 297,486 |

# Notes to Financial Statements

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION

South China Financial Holdings Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- securities, commodities, bullion and forex broking and trading
- margin financing and money lending
- provision of corporate advisory and underwriting services
- asset and wealth management
- property investment
- media publications and financial public relation services
- investment holding

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Capital Publishing Limited** | Hong Kong | HK$2 | 100 | Media publication and financial public relation services |
| Capital CEO Limited** | Hong Kong | HK$2 | 100 | Media publication and financial public relation services |
| Capital Entrepreneur Limited** | Hong Kong | HK$1 | 100 | Media publication and financial public relation services |
| Golden Ways Limited** | Hong Kong | HK$1 | 100 | Media publication and financial public relation services |
| Polyluck Trading Limited# | Hong Kong | HK$2 | 100 | Property investment |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| South China Bullion Company Limited | Hong Kong | HK$30,000,000 | 100 | Bullion dealing |
| South China Capital Limited | Hong Kong | HK$25,000,000 | 100 | Provision of corporate advisory services |
| South China Forex Limited | Hong Kong | HK$50,000,000 | 100 | Forex dealing |
| South China Commodities Limited | Hong Kong | HK$56,000,000 | 100 | Commodities broking |
| South China Finance Company Limited | Hong Kong | HK$1,000,000 | 100 | Provision of loan financing |
| South China Finance and Management Limited | Hong Kong | HK$2 | 100 | Share dealing and provision of management services |
| South China Finance (Nominees) Limited | Hong Kong | HK$2 | 100 | Provision of nominee services |
| South China Properties Credits Limited | Hong Kong | HK$1 | 100 | Money lending |
| South China Investment Management Limited | Hong Kong | HK$10,000,001 | 100 | Asset management |
| South China Precious Metal Limited | Hong Kong | HK$2 | 100 | Futures trading |
| South China Research Limited | Hong Kong | HK$600,000 | 100 | Research publication |
| South China Securities Limited | Hong Kong | HK$130,000,000 | 100 | Securities broking, margin financing and provision of underwriting services |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Kingwise Secretarial Services Limited | Hong Kong | HK$2 | 100 | Securities and futures trading |
| South China Finance Lease Holdings Limited | Hong Kong | HK$1 | 100 | Investment holding |
| South China Wealth Management Limited | Hong Kong | HK$4,000,000 | 100 | Insurance broking |
| South China Securities (UK) Limited* | United Kingdom | GBP200,000 | 100 | Securities broking |
| 藍華投資咨詢(上海)有限公司*^# | The People's Republic of China ("PRC")/ Mainland China | US$100,000 | 100 | Provision of corporate advisory services and investment holding |
| Nanjing Southchina Leasing Co., Limited*^# | PRC/Mainland China | RMB100,000,000 | 100 | Provision of loan financing |

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

** Acquired during the year ended 31 December 2017. Further details of this acquisition are included in notes 35 and 40(b) to the financial statements.

# Indirectly held by the Company.

^ Registered as wholly-foreign-owned enterprises under PRC law.

Except for the indirectly held subsidiaries listed above, all principal subsidiaries are directly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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 Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (that is, existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 2.1 BASIS OF PREPARATION *(Continued)*

### Basis of consolidation *(Continued)*

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope HKFRS 12* |

The adoption of the above revised standards has had no significant financial effect on these financial statements. Amendments to HKAS 7 require an entity to provide disclosures that enabler users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 36 to financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| HKFRS 9 | *Financial Instruments*[1] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provision and policy options finally adopted.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior period, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

### (a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### (b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group currently expects the provision for impairment might increase upon the initial adoption of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group's principal activities consist of securities, commodities, bullion and forex broking and trading, margin financing and money lending, provision of corporate advisory and underwriting services, asset and wealth management, property investment, media publications and financial public relation services and investment holding. The Group does not expect the adoption of HKFRS 15 will have a significant impact on the Group's financial performance and financial position.

However, the presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group and is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 38(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$9,660,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2014-2016 Cycle*, issued in March 2017, sets out amendments to HKFRS 1, HKFRS 12 and HKAS 28. Except for the amendments to HKFRS 12 which have been adopted by the Group for the current year's financial statements, the Group expects to adopt the amendments from 1 January 2018. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments to HKFRS 1 and HKAS 28 are as follows:

- HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*: Deletes the short-term exemptions for first-time adopters because the reliefs provided in the exemptions are no longer applicable.

- HKAS 28 *Investments in Associates and Joint Ventures*: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. These amendments should be applied retrospectively.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

*Annual Improvements to HKFRSs 2015-2017 Cycle*, issued in February 2018, sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- HKFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- HKAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- HKAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations and goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

The Group measures its investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

| | | |
|---|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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); and

(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 parent of the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold improvements | Over the lease terms |
| Furniture and equipment | 10% to 25% |
| Motor vehicles | 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

***Trademarks, customer relationships and subscription databases***

Purchased trademarks, customer relationships and subscription databases are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 13 years.

***Trading rights***

Trading rights, representing eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Futures Exchange Limited (the "Futures Exchange"), have indefinite useful lives and are tested for impairment annually either individually or at the cash-generating unit level. Such trading rights are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continued to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**(i)** ***Group as a lessee***

Rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease term.

**(ii)** ***Group as a lessor***

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out its investment properties under operating leases, and rentals receivable are credited to the statement of profit or loss on the straight-line basis over the lease terms.

The amounts due from the lessees under finance leases are recorded in the consolidated statement of financial position as "Loans receivable". The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

### Investments and other financial assets

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive or negative net changes in fair value presented in the statement of profit or loss. These net fair value changes do not include any dividends earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other operating expenses.

***Available-for-sale financial investments***

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss as "Impairment of available-for-sale investments". Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

***Available-for-sale financial investments*** (Continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (that is, removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Derecognition of financial assets *(Continued)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets *(Continued)*

***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities and fair value through profit or loss or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities *(Continued)*

***Financial liabilities at fair value through profit or loss*** *(Continued)*

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

***Loans and borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

***Financial guarantee contracts***

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair vale, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the 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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) commission and brokerage income, accrued on all broking transactions on a trade date basis;

(b) profit or loss on the trading of securities, forex, bullion and futures contracts, on a trade date basis;

(c) service and handling fee income, when the underlying services have been provided;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(f) dividend income, when the shareholders' right to receive payment has been established;

(g) advertising income, when the advertisements have been published; and

(h) circulation income, when the magazines have been delivered.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits

***Paid leave carried forward***

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual has to be made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

***Pension scheme***

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits *(Continued)*

***Share-based payments***

The Company operates a share options scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In respect of share options, the cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a trinomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirements are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits *(Continued)*

***Share-based payments*** (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies *(Continued)*

The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (that is, translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Impairment of trade and loans receivables

The Group reviews its loan portfolios and trade receivables to assess whether there is any objective evidence that a receivable is impaired at least on a biannual basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is any shortfall by comparing the loan outstanding with value of collateral, as well as taking into account ageing analysis, subsequent settlement and historical repayment pattern of a debtor. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the Group. The methods and assumptions are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Impairment of trade and loans receivables *(Continued)*

The aggregate carrying amount of trade and loans receivables at 31 December 2017 was HK$535,469,000 (2016: HK$558,253,000). More details are given in notes 18 and 22 to the financial statements.

### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK$13,714,000 (2016: Nil). Further details are given in note 14 to the financial statements.

### Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

### Estimation of fair value of investment properties

Investment properties are carried in the statement of financial position at their fair value. The fair value was based on valuation on these properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the gain or loss recognised in the statement of profit or loss.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services. The Group has eight reportable operating segments as follows:

(a) the broking segment engages in securities, commodities and futures contracts broking;

(b) the trading and investment segment engages in securities, forex, bullion and futures contracts trading and investment holding;

(c) the margin financing and money lending segment engages in the provision of margin and personal loan financing and finance lease operations;

(d) the corporate advisory and underwriting segment engages in the provision of corporate advisory and underwriting services;

(e) the asset and wealth management segment engages in insurance broking and asset management;

(f) the property investment segment;

(g) the media publications and financial public relation services engages in publishing and distribution of magazines, media advertising and marketing services ("Media Services"); and

(h) the other business segment engages in the provision of clearing and custodian services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is measured consistently with the Group's profit/(loss) before tax except that finance costs relating to the Group's treasury function, head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment transactions are conducted with reference to the prices charged to third parties at the then prevailing market prices.

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

### Year ended 31 December 2017

| | Broking HK$'000 | Trading and investment HK$'000 | Margin financing and money lending HK$'000 | Corporate advisory and under-writing HK$'000 | Asset and wealth management HK$'000 | Property investment HK$'000 | Media publications and financial public relation services HK$'000 | Other business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | | |
| Revenue from external customers | 52,707 | 114,713 | 28,069 | 26,124 | 3,288 | 10,606 | 17,609 | 1,219 | 254,335 |
| **Segment results:** | (25,414) | 105,840 | 9,330 | (5,399) | (24,952) | 49,857 | (33,247) | 630 | 76,645 |
| Reconciliation: | | | | | | | | | |
| Corporate and other unallocated expense, net# | | | | | | | | | (13,104) |
| Finance costs | | | | | | | | | (10,124) |
| Profit before tax | | | | | | | | | 53,417 |
| **Segment assets:** | 812,667 | 721,251 | 460,299 | 14,967 | 5,324 | 483,272 | 22,520 | 1,613 | 2,521,913 |
| Reconciliation: | | | | | | | | | |
| Corporate and other unallocated assets | | | | | | | | | 88,871 |
| Total assets | | | | | | | | | 2,610,784 |
| **Segment liabilities:** | (774,225) | (134,464) | (212,149) | (1,544) | (1,733) | (3,757) | (4,984) | (3,150) | (1,136,006) |
| Reconciliation: | | | | | | | | | |
| Corporate and other unallocated liabilities | | | | | | | | | (308,082) |
| Total liabilities | | | | | | | | | (1,444,088) |
| **Other segment information:** | | | | | | | | | |
| Fair value gain on financial assets at fair value through profit or loss | – | (15,234) | – | – | – | – | – | – | (15,234) |
| Fair value gain on investment properties | – | – | – | – | – | (40,000) | – | – | (40,000) |
| Impairment of loans and trade receivables, net | 275 | – | 3,228 | – | – | – | – | – | 3,503 |
| Impairment of goodwill | – | – | – | – | – | – | 351 | – | 351 |
| Impairment of intangible assets | – | – | – | – | – | – | 2,265 | – | 2,265 |
| Depreciation and amortisation | 616 | 68 | 155 | 248 | 468 | – | 639 | – | 2,194 |
| Capital expenditure* | 386 | 43 | 87 | 725 | 189 | – | 20,037 | – | 21,467 |

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

**Year ended 31 December 2016**

| | Broking HK$'000 | Trading and investment HK$'000 | Margin financing and money lending HK$'000 | Corporate advisory and under-writing HK$'000 | Asset and wealth management HK$'000 | Property investment HK$'000 | Other business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | |
| Revenue from external customers | 30,324 | 36,437 | 22,138 | 21,284 | 968 | 9,401 | 814 | 121,366 |
| **Segment results:** | (65,072) | (43,075) | 17,672 | 7,747 | (4,089) | 50,515 | (35) | (36,337) |
| Reconciliation: | | | | | | | | |
| Corporate and other unallocated expense, net# | | | | | | | | (10,739) |
| Finance costs | | | | | | | | (8,791) |
| Loss before tax | | | | | | | | (55,867) |
| **Segment assets:** | 689,699 | 569,935 | 368,275 | 14,010 | 2,131 | 441,190 | 2,003 | 2,087,243 |
| Reconciliation: | | | | | | | | |
| Corporate and other unallocated assets | | | | | | | | 236,251 |
| Total assets | | | | | | | | 2,323,494 |
| **Segment liabilities:** | (561,167) | (159,177) | (179,678) | (558) | (430) | (3,007) | (3,933) | (907,950) |
| Reconciliation: | | | | | | | | |
| Corporate and other unallocated liabilities | | | | | | | | (321,084) |
| Total liabilities | | | | | | | | (1,229,034) |
| **Other segment information:** | | | | | | | | |
| Fair value loss on financial assets at fair value through profit or loss | – | 62,017 | – | – | – | – | – | 62,017 |
| Fair value gain on investment properties | – | – | – | – | – | (42,500) | – | (42,500) |
| Impairment/(reversal of impairment) of loans and trade receivables, net | (47) | – | (2,380) | – | 23 | – | – | (2,404) |
| Depreciation and amortisation | 1,333 | 140 | 120 | 138 | 70 | 17 | – | 1,818 |
| Capital expenditure* | 799 | 83 | 93 | 133 | 41 | 10 | – | 1,159 |

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

* Capital expenditure consists of additions to property, plant and equipment, goodwill and intangible assets including those arising from the acquisition of subsidiaries.

# Corporate and other unallocated expenses include fair value loss on financial assets at fair value through profit or loss designated for the Group's Employees' Share Award Scheme amounting to HK$4,249,000 (2016: HK$4,650,000).

### Geographical information

***Non-current assets***

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Hong Kong | **529,832** | 453,715 |
| Other jurisdictions | **500** | 89 |
| | **530,332** | 453,804 |

The non-current assets information above is based on the locations of the assets and excludes available-for-sale investments.

## 5. REVENUE

Revenue represents commission and brokerage income from securities, forex, bullion and futures contracts and insurance broking; net profit on the trading of securities, forex, bullion and futures contracts; interest income; handling fee income; corporate advisory fees; commission income from share underwriting and placing; dividend income; gross rental income; and income from media publications and financial public relation services.

An analysis of revenue is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Revenue** | | |
| Commission and brokerage income | **53,386** | 27,610 |
| Profit on the trading of securities, forex, bullion and futures contracts, net | **104,217** | 28,875 |
| Interest income from loans and trade receivables | **24,901** | 20,072 |
| Interest income from forex and bullion contracts trading | **550** | 624 |
| Interest income from banks and financial institutions | **3,113** | 1,905 |
| Handling fee income | **3,891** | 4,539 |
| Rendering of services | **26,238** | 21,774 |
| Dividend income from listed investments | **9,824** | 6,566 |
| Gross rental income | **10,606** | 9,401 |
| Media publications and financial public relation services* | **17,609** | – |
| | **254,335** | 121,366 |

* Including advertising income, service income and circulation income.

## 6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

| | Notes | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| Cost of services provided | | **47,715** | 21,993 |
| Cost of media publications and financial public relation services | | **21,193** | – |
| Depreciation | 12 | **1,568** | 1,823 |
| Amortisation of intangible assets | 15 | **626** | 31 |
| Auditor's remuneration | | **1,750** | 1,397 |
| Minimum lease payments under operating leases | | **16,025** | 14,143 |
| Employee benefit expense (including directors' remuneration (note 8)): | | | |
| Wages, salaries and benefits in kind | | **115,242** | 72,534 |
| Pension scheme contributions, net | | **2,954** | 2,146 |
| Equity-settled share option expense | | **577** | 1,422 |
| | | **118,773** | 76,102 |
| Interest expense for margin financing and money lending operations: | | | |
| Bank loans and overdrafts | | **3,944** | 3,202 |
| Impairment of goodwill | 14 | **351** | – |
| Impairment of intangible assets | 15 | **2,265** | – |
| Foreign exchange differences, net | | **(1,766)** | 767 |
| Impairment/(reversal of impairment) of loans receivable, net | 18 | **3,228** | (2,380) |
| Impairment/(reversal of impairment) of trade receivables, net | 22 | **275** | (24) |
| Direct operating expenses arising from rental-earning investment properties | | **1,528** | 1,531 |

## 7. FINANCE COSTS

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Interest on bank loans and overdrafts | **10,124** | 8,791 |

## 8. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S REMUNERATION

Directors' and senior management's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | Group | |
|---|---|---|
| | 2017<br>HK$'000 | 2016<br>HK$'000 |
| Fees | **478** | 470 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **7,320** | 3,840 |
| Pension scheme contributions | **132** | 90 |
| | **7,452** | 3,930 |
| | **7,930** | 4,400 |

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Hon. Raymond Arthur William Sears Q.C. | **240** | 240 |
| Mr. Tung Woon Cheung Eric | **100** | 100 |
| Mrs. Tse Wong Siu Yin Elizabeth | **100** | 100 |
| | **440** | 440 |

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

## 8. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S REMUNERATION *(Continued)*

### (b) Executive directors

| | Fees HK$'000 | Salaries allowances and benefits in kind HK$'000 | Pension scheme contributions HK$'000 |
|---|---|---|---|
| **2017** | | | |
| Executive directors: | | | |
| Mr. Ng Hung Sang | **10** | **1,920** | **96** |
| Ms. Ng Yuk Mui, Jessica | **10** | **2,400** | **18** |
| Ms. Cheung Choi Ngor | **10** | **–** | **–** |
| Dr. Wang Wei Hsin* | **8** | **3,000** | **18** |
| | **38** | **7,320** | **132** |
| 2016 | | | |
| Executive directors: | | | |
| Mr. Ng Hung Sang | 10 | 1,440 | 72 |
| Ms. Ng Yuk Mui, Jessica | 10 | 2,400 | 18 |
| Ms. Cheung Choi Ngor | 10 | – | – |
| | 30 | 3,840 | 90 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

* Dr. Wang Wei Hsin has been appointed as an executive director of the Company with effect from 28 March 2017.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include three (2016: two) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining two (2016: three) non-director highest paid employees for the year are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **3,750** | 7,699 |
| Pension scheme contributions | **36** | 48 |
| | **3,786** | 7,747 |

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2017** | 2016 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$2,500,001 or above | **–** | 2 |
| | **2** | 3 |

## 10. INCOME TAX

No provision for the Hong Kong profits tax has been made as the Group either had no estimated assessable profit or had available tax losses carried forward to offset the assessable profits arising in Hong Kong during the year (2016: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Current — Elsewhere | | |
| Charge for the year | **283** | 268 |
| Underprovision in prior years | **103** | 163 |
| Deferred (note 20) | **492** | 405 |
| Total tax charge for the year | **878** | 836 |

## 10. INCOME TAX *(Continued)*

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory tax rate to the effective tax rate, are as follows:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Profit/(loss) before tax | **53,417** | | (55,867) | |
| Tax at the statutory tax rate | **8,814** | **16.5** | (9,218) | 16.5 |
| Higher tax rates on profit/(loss) arising elsewhere | **171** | **0.3** | (596) | 1.1 |
| Adjustments in respect of current tax of previous periods | **103** | **0.2** | 163 | (0.3) |
| Income not subject to tax | **(10,982)** | **(20.6)** | (8,468) | 15.2 |
| Expenses not deductible for tax | **3,764** | **7.0** | 10,482 | (18.8) |
| Tax losses not recognised | **8,782** | **16.4** | 13,170 | (23.6) |
| Tax losses utilised from previous periods | **(10,185)** | **(19.1)** | (5,103) | 9.1 |
| Others | **411** | **0.9** | 406 | (0.7) |
| Tax charge at the Group's effective rate | **878** | **1.6** | 836 | (1.5) |

## 11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit/(loss) for the year attributable to equity holders of the Company of approximately HK$52,539,000 (2016: loss of HK$56,703,000) and the weighted average number of 15,071,700,349 (2016: 10,795,610,887) ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2017 in respect of a dilution as the impact of the share options outstanding during the year had no dilutive effect on the basic earnings per share amount presented.

No adjustment had been made to the basic loss per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding during that year had an anti-dilutive effect on the basic loss per share amount presented.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| At 31 December 2016 and 1 January 2017: | | | | |
| Cost | 16,478 | 43,085 | 3,316 | 62,879 |
| Accumulated depreciation | (15,141) | (41,652) | (3,316) | (60,109) |
| Net carrying amount | 1,337 | 1,433 | – | 2,770 |
| At 1 January 2017, net of accumulated depreciation | 1,337 | 1,433 | – | 2,770 |
| Additions | 728 | 728 | – | 1,456 |
| Acquisition of subsidiaries (note 35) | – | 11 | – | 11 |
| Depreciation provided during the year | (407) | (1,161) | – | (1,568) |
| Exchange realignment | 16 | 447 | – | 463 |
| At 31 December 2017, net of accumulated depreciation | 1,674 | 1,458 | – | 3,132 |
| At 31 December 2017: | | | | |
| Cost | 17,620 | 46,687 | 3,316 | 67,623 |
| Accumulated depreciation | (15,946) | (45,229) | (3,316) | (64,491) |
| Net carrying amount | 1,674 | 1,458 | – | 3,132 |

## 12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Leasehold improvements HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| At 1 January 2016: | | | | |
| Cost | 16,272 | 42,206 | 3,316 | 61,794 |
| Accumulated depreciation | (14,812) | (40,224) | (3,316) | (58,352) |
| Net carrying amount | 1,460 | 1,982 | – | 3,442 |
| At 1 January 2016, net of accumulated depreciation | 1,460 | 1,982 | – | 3,442 |
| Additions | 206 | 953 | – | 1,159 |
| Depreciation provided during the year | (329) | (1,494) | – | (1,823) |
| Exchange realignment | – | (8) | – | (8) |
| At 31 December 2016, net of accumulated depreciation | 1,337 | 1,433 | – | 2,770 |
| At 31 December 2016: | | | | |
| Cost | 16,478 | 43,085 | 3,316 | 62,879 |
| Accumulated depreciation | (15,141) | (41,652) | (3,316) | (60,109) |
| Net carrying amount | 1,337 | 1,433 | – | 2,770 |

## 13. INVESTMENT PROPERTIES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Carrying amount as at 1 January | **440,000** | 397,500 |
| Net gain from a fair value adjustment | **40,000** | 42,500 |
| Carrying amount at 31 December | **480,000** | 440,000 |

The Group's investment properties consist of commercial office premises in Hong Kong. The directors of the Company have determined that the investment properties consist of one class of asset, that is, commercial, based on the nature, characteristics and risks of these properties. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by Ravia Global Appraisal Advisory Limited, independent professionally qualified valuers, at HK$480,000,000. Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's chief executive officer and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31 December 2017, the Group's investment properties with a carrying value of HK$480,000,000 (2016: HK$440,000,000) were pledged to secure general banking facilities granted to the Group (note 30).

Details of the Group's investment properties are as follows.

| Location | Existing use |
|---|---|
| 26th Floor, Tower one,<br>Lippo Centre, 89 Queensway,<br>Admiralty, Hong Kong | Office building |

## 13. INVESTMENT PROPERTIES *(Continued)*

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | Fair value measurement as at 31 December using significant unobservable inputs (Level 3) | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| Recurring fair value measurement for: | | |
| Commercial properties | **480,000** | 440,000 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

The fair value of investment properties is determined using the market comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis. Below is a summary of the significant inputs to the valuation of investment properties:

| | **2017** | 2016 |
|---|---|---|
| Price per square foot | **HK$32,684** | HK$29,961 |

A significant increase/decrease in the price per square foot would result in a significant increase/decrease in the fair value of the investment properties.

## 14. GOODWILL

| | HK$'000 |
|---|---|
| Cost at 1 January 2017, net of accumulated impairment | – |
| Acquisition of subsidiaries (note 35) | 14,065 |
| Impairment during the year (note 6) | (351) |
| Net carrying amount at 31 December 2017 | 13,714 |
| At 31 December 2017: | |
| Cost | 14,065 |
| Accumulated impairment | (351) |
| Net carrying amount | 13,714 |

### Impairment testing of goodwill and intangible assets

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGU") for impairment testing:

- Weekly publication CGU; and
- Monthly publication CGU.

***Weekly publication CGU***

The recoverable amount of the weekly publication CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19% (2016: Nil). The growth rate used to extrapolate the cash flows of the weekly magazine unit beyond the five-year period is 3% (2016: Nil). This growth rate is consistent with the average growth rate of the industry.

In light of intensified competition and unexpected employee attrition which resulted in dismal performance of the weekly magazine, it was concluded that the value in use of the weekly publication CGU was lower than its carrying amount. As a result of this analysis, management had recognised a full impairment against goodwill and intangible assets with a carrying amount of HK$351,000 and HK$2,265,000 as at 31 December 2017. The impairment loss was recorded in the statement of profit or loss for the year ended 31 December 2017.

## 14. GOODWILL *(Continued)*

### Impairment testing of goodwill and intangible assets *(Continued)*

***Monthly publication CGU***

The recoverable amount of the monthly publication CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19% (2016: Nil). The growth rate used to extrapolate the cash flows of the weekly magazine unit beyond the five-year period is 3% (2016: Nil). This growth rate is consistent with the average growth rate of the industry.

The carrying amounts of goodwill and intangible assets, net of impairment, allocated to each of the cash-generating units are as follows:

| | Monthly publication CGU HK$'000 | Weekly publication CGU HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 31 December 2017** | | | |
| Carrying amount of goodwill | **13,714** | **–** | **13,714** |
| Carrying amount of intangible assets | **3,084** | **–** | **3,084** |

Assumptions were used in the value in use calculation of the weekly and monthly publication CGUs for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Discount rates* — The discount rates used are before tax and reflect specific risks relating to the relevant units.

*Inflation* — The basis used to determine the value assigned to inflation is the forecast price indices during the budget year for Hong Kong from where the consumer price are sourced.

*Growth rate* — The growth rate used is with reference to the long term average growth rates for the relevant markets and expected market development.

The values assigned to the key assumptions on market development of media and public relations industries, discount rates and inflation are consistent with external information sources.

## 15. INTANGIBLE ASSETS

| | Trademarks HK$'000 | Trading rights HK$'000 (note) | Customer relationships HK$'000 | Subscription databases HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| Cost at 31 December 2016 and 1 January 2017, net of accumulated amortisation and impairment | 275 | 836 | – | – | 1,111 |
| Additions | 87 | – | – | – | 87 |
| Acquisition of subsidiaries (note 35) | 5,454 | – | 400 | 81 | 5,935 |
| Amortisation provided during the year | (506) | – | (106) | (14) | (626) |
| Impairment during the year (note 6) | (2,265) | – | – | – | (2,265) |
| At 31 December 2017 | 3,045 | 836 | 294 | 67 | 4,242 |
| At 31 December 2017: | | | | | |
| Cost | 5,847 | 836 | 400 | 81 | 7,164 |
| Accumulated amortisation and impairment | (2,802) | – | (106) | (14) | (2,922) |
| Net carrying amount | 3,045 | 836 | 294 | 67 | 4,242 |

## 15. INTANGIBLE ASSETS *(Continued)*

| | Trademarks HK$'000 | Trading rights HK$'000 (note) | Total HK$'000 |
|---|---|---|---|
| **31 December 2016:** | | | |
| Cost at 1 January 2016, net of accumulated amortisation and impairment | – | 836 | 836 |
| Additions | 306 | – | 306 |
| Amortisation provided during the year | (31) | – | (31) |
| At 31 December 2016 | 275 | 836 | 1,111 |
| At 31 December 2016: | | | |
| Cost | 306 | 1,619 | 1,925 |
| Accumulated amortisation and impairment | (31) | (783) | (814) |
| Net carrying amount | 275 | 836 | 1,111 |

Note: The trading rights have no expiry dates and, in the opinion of the directors, have indefinite useful lives.

Pursuant to the restructuring of the Stock Exchange and the Futures Exchange effective on 6 March 2000, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

The carrying costs of the previously held shares in the Stock Exchange and the Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of the respective estimated fair values on 6 March 2000.

## 16. OTHER ASSETS

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Membership in Chinese Gold and Silver Exchange | **1,280** | 1,280 |
| Statutory deposits in respect of securities and commodities dealings | **16,395** | 5,956 |
| | **17,675** | 7,236 |

Other assets are non-interest-bearing and have no fixed terms of repayment.

## 17. INVESTMENTS IN ASSOCIATES

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Share of net assets | **1,804** | 1,804 |
| Provision for impairment# | **(1,804)** | (1,804) |
| | **–** | – |

# In prior years, full provisions were recognised for investments in associates with aggregate carrying amounts of HK$1,804,000 because the recoverable amounts were expected to be zero.

## 17. INVESTMENTS IN ASSOCIATES *(Continued)*

Particulars of the associates are as follows:

| Name | Registered capital | Place of incorporation/ registration and business | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| 嘉田文化發展(天津)有限公司 | RMB20,000,000 | PRC/Mainland China | 45 | Media and entertainment |
| 上海華威創富股權投資管理有限公司 | RMB20,000,000 | PRC/Mainland China | 50 | Provision of fund management services |

The above companies are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above associates are indirectly held by the Company and have been accounted for using the equity method in these financial statements.

## 18. LOANS RECEIVABLE

The Group's loans receivable mainly arose from the margin financing, finance lease and money lending operations during the year.

Loans receivable bear interest at rates with credit periods mutually agreed between the contracting parties. Each customer has a credit limit. The Group maintains strict control over its outstanding loans receivable, and a credit control department has been established to monitor potential credit risk. Margin loans receivable are secured by the pledge of customers' securities as collateral. Overdue balances are reviewed regularly by senior management and are handled closely by the credit control department. The Group's loans receivable relate to a large number of diversified customers and there is no significant concentration of credit risk.

## 18. LOANS RECEIVABLE *(Continued)*

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Loans receivable | 412,524 | 344,228 |
| Impairment | (24,348) | (21,120) |
| | 388,176 | 323,108 |
| Portion classified as current assets | (378,195) | (321,718) |
| Portion classified as non-current assets | 9,981 | 1,390 |
| Market value of collateral at 31 December | 1,185,151 | 914,319 |

At the end of the reporting period, certain listed equity securities provided by clients of approximately HK$265,863,000 (2016: HK$210,926,000) were pledged as collateral to banks to secure banking facilities granted to the Group (note 30).

The loans receivable at the end of the reporting period are analysed by the remaining period to the contractual maturity date as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Repayable: | | |
| On demand | 375,283 | 309,513 |
| Within 3 months | 869 | 132 |
| 3 months to 1 year | 2,043 | 12,073 |
| 1 to 5 years | 9,981 | 1,390 |
| | 388,176 | 323,108 |

## 18. LOANS RECEIVABLE *(Continued)*

Movements in the provision for impairment of loans receivable are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| At 1 January | **21,120** | 23,500 |
| Impairment losses recognised (note 6) | **3,276** | 39 |
| Impairment losses reversed (note 6) | **(48)** | (2,419) |
| At 31 December | **24,348** | 21,120 |

Included in the above impairment of loans receivable is a provision for individually impaired loans receivable of HK$24,348,000 (2016: HK$21,120,000) with a carrying amount before provision of HK$26,040,000 (2016: HK$24,634,000). The individually impaired loans receivable relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group holds certain listed equity securities of clients as collateral over these individually impaired loans receivable.

The ageing analysis of the loans receivable that are neither individually nor collectively considered to be impaired is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired | **386,484** | 319,594 |

Loans receivable that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

## 18. LOANS RECEIVABLE *(Continued)*

### Finance lease receivable

Included in loans receivable were receivable in respect of assets leased under a finance lease as set out below:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amount receivable under a finance lease: | | | | |
| Within one year | **–** | 11,477 | **–** | 11,058 |
| Less: Unearned finance income | **–** | (419) | | |
| Present value of minimum lease payment receivable | **–** | 11,058 | | |

In the prior year, the Group entered into a finance lease arrangement with a customer in respect of items of equipment, with term of one year.

## 19. AVAILABLE-FOR-SALE INVESTMENTS

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Listed equity investments in Hong Kong, at fair value | **39,690** | 24,850 |
| Club debentures, at fair value | **2,445** | 2,208 |
| | **42,135** | 27,058 |

During the year, the net gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$15,077,000 (2016: net loss of HK$6,200,000) (note 34).

As at 31 December 2017, the Group's listed equity investments with a carrying value of HK$39,690,000 (2016: HK$24,850,000) were pledged as security for the Group's bank borrowings, as further detailed in note 30 to the financial statements.

The above investments were designated as available-for-sale financial assets. They have no fixed maturity dates or coupon rates. The fair values of these investments are based on quoted market prices.

## 20. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

| | Losses available for offsetting against future taxable profits HK$'000 | Depreciation allowance in excess of related depreciation HK$'000 | Fair value adjustments arising from transfer of owner-occupied properties to investment properties HK$'000 | Fair value adjustments arising from acquisition of subsidiaries HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| At 1 January 2017 | **(8,408)** | **14,754** | **23,800** | **–** | **30,146** |
| Acquisition of subsidiaries (note 35) | **(979)** | **–** | **–** | **979** | **–** |
| Deferred tax charged/(credited) to profit or loss during the year (note 10) | **761** | **201** | **–** | **(470)** | **492** |
| At 31 December 2017 | **(8,626)** | **14,955** | **23,800** | **509** | **30,638** |
| 2016 | | | | | |
| At 1 January 2016 | (8,613) | 14,554 | 23,800 | – | 29,741 |
| Deferred tax charged to profit or loss during the year (note 10) | 205 | 200 | – | – | 405 |
| At 31 December 2016 | (8,408) | 14,754 | 23,800 | – | 30,146 |

## 20. DEFERRED TAX *(Continued)*

### Deferred tax liabilities *(Continued)*

Deferred tax assets have not been recognised in respect of the following items:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Tax losses | **886,753** | 523,321 |
| Deductible temporary differences | **198** | 226 |
| | **886,951** | 523,547 |

The above tax losses of the Group included tax losses arising in Hong Kong of HK$869,199,000 (2016: HK$511,578,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$17,554,000 (2016: HK$11,743,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. These subsidiaries have recorded accumulated losses since 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Listed equity investments, at market value | **625,183** | 414,346 |

The financial assets at the end of the reporting period were classified as:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Held for trading | **609,685** | 394,596 |
| Designated upon initial recognition (note) | **15,498** | 19,750 |
| | **625,183** | 414,346 |

Note:

On 10 June 2015, the board approved the establishment of the Company's Employees' Share Award Scheme (the "Share Award Scheme"). Pursuant to the rules of the Share Award Scheme, the Company has set up a trust (the "Trust") to hold the shares purchased by the Group pursuant to the terms of the Share Award Scheme before transferring to employees upon vesting.

In 2015, the Group purchased certain ordinary shares of South China Holdings Company Limited, a company listed on the Stock Exchange, which is also a connected party of the Company, at a total consideration of HK$11,800,000. The Group designated these shares as financial assets at fair value through profit or loss upon initial recognition, as they are managed and their performance is evaluated on a fair value basis, which will be awarded to employees of the Group under the Share Award Scheme.

During the year, the Group awarded 8,000 shares of South China Holdings Company Limited of approximately HK$2,000 (2016: Nil) to an employee of the Group under the Share Award Scheme.

As of 31 December 2017, listed securities of approximately HK$463,489,000 (2016: HK$387,083,000) were pledged to banks to secure banking facilities granted to the Group (note 30).

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$591,454,000 (2016: HK$452,410,000).

## 22. TRADE RECEIVABLES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Trade receivables | **147,970** | 235,599 |
| Impairment | **(677)** | (454) |
| | **147,293** | 235,145 |

The Group's trade receivables arose from securities, forex, bullion and commodities dealings, insurance broking, the provision of corporate advisory and underwriting services and Media Services during the year.

The Group allows a credit period up to the respective settlement dates of securities, forex, bullion and commodities transactions (normally two business days after the respective trade dates for Hong Kong stocks) or a credit period mutually agreed between the contracting parties. The credit period for Media Services is generally one month, extending up to four months for major customers. The Group maintains strict control over its outstanding receivables and a credit control department has been established to monitor the potential credit risk. Overdue balances are reviewed regularly by senior management and are handled closely by the credit control department. The Group's trade receivables relate to a large number of diversified customers, and there is no significant concentration of credit risk. Overdue trade receivables bear interest by reference to the prime rate except that overdue receivables in respect of Media Services are non-interest-bearing.

An ageing analysis of the Group's trade receivables at the end of the reporting period, based on the settlement due date and net of provision for impairment, is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Current to 90 days | **144,798** | 235,145 |
| Over 90 days | **2,495** | – |
| | **147,293** | 235,145 |

## 22. TRADE RECEIVABLES *(Continued)*

Movements in the provision for impairment of trade receivables are as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| At 1 January | **454** | 478 |
| Impairment losses recognised (note 6) | **295** | 146 |
| Impairment losses reversed (note 6) | **(20)** | (170) |
| Amount written off as uncollectible | **(52)** | – |
| At 31 December | **677** | 454 |

Included in the provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$677,000 (2016: HK$454,000) with a carrying amount of HK$1,211,000 (2016: HK$1,016,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments. The Group holds certain listed equity securities of clients as collateral over these individually impaired trade receivables.

The ageing analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired | **140,928** | 224,335 |
| Less than 1 month past due | **1,374** | 1,076 |
| 1 to 3 months past due | **1,962** | 3,195 |
| 3 months to 1 year past due | **2,346** | 5,977 |
| Over 1 year past due | **149** | – |
| | **146,759** | 234,583 |

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 23. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Prepayments | 17,732 | 17,182 |
| Deposits | 18,377 | 13,312 |
| Other receivables | 13,117 | 5,877 |
| | 49,226 | 36,371 |
| Portion classified as current assets | (47,638) | (35,074) |
| Portion classified as non-current assets | 1,588 | 1,297 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Particulars of amounts due from related companies included in other receivables, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

| Name | At 31 December 2017 HK$'000 | Maximum amount outstanding during the year HK$'000 | At 31 December 2016 and 1 January 2017 HK$'000 | Maximum amount outstanding during the year HK$'000 | At 1 January 2016 HK$'000 |
|---|---|---|---|---|---|
| South China Asset Management Limited ("SCA")# | 559 | 963 | 963 | 963 | – |
| South China Financial Credits Limited ("SCFCL")# | 374 | 386 | 349 | 383 | – |
| South China Strategic Limited ("SCSL")* | 1,399 | 1,540 | – | 582 | 582 |
| South China Media Limited ("SCML")^ | 261 | 261 | – | – | – |
| South China Media Management Limited ("SCMML")^ | 225 | 225 | – | – | – |
| ZYX Holdings No.1 Limited ("ZYX")^ | 91 | 91 | – | – | – |
| | 2,909 | | 1,312 | | 582 |

\# SCA and SCFCL are subsidiaries of South China Assets Holdings Limited, a director of which is also a director of the Company.

* SCSL is a subsidiary of South China Holdings Company Limited, a director of which is also a director of the Company.

^ A director of SCML, SCMML and ZYX is also a director of the Company.

The amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 |
| Bullion contracts | **–** | **–** | 25 | – |
| Foreign exchange contracts | **615** | **289** | 994 | 49,521 |
| | **615** | **289** | 1,019 | 49,521 |

The Group has entered into various bullion and leveraged foreign exchange contracts for trading and investment purpose. These contracts are not designated for hedge purpose and are measured at fair value through profit and loss.

## 25. CASH AND BANK BALANCES AND PLEDGED TIME DEPOSITS

| | 2017 | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash and bank balances | **241,298** | 355,406 |
| Time deposits | **500** | 500 |
| | **241,798** | 355,906 |
| Less: Pledged time deposits: | | |
| Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for securities dealings | **(500)** | (500) |
| Cash and bank balances | **241,298** | 355,406 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$66,649,000 (2016: HK$44,395,000). The RMB held in Mainland China is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. Bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 26. CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold securities, futures and forex clients' monies arising from its normal course of business. The Group has classified the clients' monies as "Cash held on behalf of clients" under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that the Group is liable for any loss or misappropriation of the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

## 27. CLIENT DEPOSITS

The Group's client deposits arose from securities, forex, bullion and commodities dealings during the year.

The client deposits are unsecured, bear interest at the bank deposit savings rate or rates that are mutually agreed and are repayable on demand.

Included in client deposits as at 31 December 2017 are deposits from directors, the directors' close family members and companies in which certain directors have beneficial interests totalling HK$40,091,000 (2016: HK$25,061,000), which are subject to similar terms offered by the Group to its major clients.

## 28. TRADE PAYABLES

The Group's trade payables arose from securities, forex, bullion, commodities dealings and Media Services during the year.

An ageing analysis of the Group's trade payables at the end of the reporting period, based on the settlement due date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **53,539** | 29,616 |
| 1 to 2 months | **71** | – |
| 2 to 3 months | **33** | – |
| Over 3 months | **180** | – |
| | **53,823** | 29,616 |

The trade payables are non-interest-bearing and repayable on the settlement day of the relevant trades or upon demand from customers.

In respect of Media Services, the credit period granted by the creditors ranges from 0 to 90 days and the trade payables are non-interest-bearing.

## 29. OTHER PAYABLES AND ACCRUALS

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Other payables | **14,755** | 14,228 |
| Accruals | **9,098** | 3,595 |
| | **23,853** | 17,823 |

Other payables are non-interest-bearing and have an average term of two months.

Particulars of amounts due to related companies included in other payables are as follows:

| **Name** | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| South China Strategic Limited ("SCSL")* | **–** | 358 |
| Jessica Limited ("Jessica")# | **214** | – |
| Car Plus Limited ("Car Plus")# | **7** | – |
| | **221** | 358 |

* SCSL is a subsidiary of South China Holdings Company Limited, a director of which is also a director of the Company.
\# A director of Jessica and Car Plus is also a director of the Company.

The amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

## 30. INTEREST-BEARING BANK BORROWINGS

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | HK$'000 | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank overdrafts – secured | HIBOR + 2.5% | On demand | 73,139 | HIBOR + 2.5% | On demand | 57,467 |
| Bank overdrafts – unsecured | | | – | Prime rate | On demand | 953 |
| Bank loans – secured | HIBOR + 1.45% to HIBOR + 2.75% | On demand | 338,000 | HIBOR + 1.1% to HIBOR + 2.55% | On demand | 331,000 |
| | HIBOR + 2.5% | 2018 | 19,481 | HIBOR + 2.5% | 2017 | 29,099 |
| | | | 430,620 | | | 418,519 |
| **Non-current** | | | | | | |
| Bank loans – secured | HIBOR + 2.5% | 2019-2023 | 181,057 | HIBOR + 2.5% | 2018-2023 | 146,137 |
| | | | 611,677 | | | 564,656 |

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans and overdrafts repayable: | | |
| Within one year or on demand | 430,620 | 418,519 |
| In the second year | 28,211 | 29,721 |
| In the third to fifth years, inclusive | 139,286 | 80,588 |
| Beyond five years | 13,560 | 35,828 |
| | 611,677 | 564,656 |

## 30. INTEREST-BEARING BANK BORROWINGS *(Continued)*

Notes:

(i) HIBOR represents the Hong Kong Interbank Offered Rate.

(ii) The Group's overdraft facilities amounting to HK$185,000,000 (2016: HK$181,000,000), of which HK$73,139,000 (2016: HK$58,420,000) had been utilised at the end of the reporting period. Certain bank overdraft was secured by the pledge of certain of the Group's listed equity investments amounting to HK$146,736,000 (2016: HK$90,738,000) (note 21).

(iii) Certain of the Group's bank loans are secured by the Group's:

(a) investment properties situated in Hong Kong, which had a fair value at the end of the reporting period of approximately HK$480,000,000 (2016: HK$440,000,000) (note 13);

(b) time deposit amounting to HK$500,000 (2016: HK$500,000) (note 25); and

(c) Listed equity investments belonging to the Group and clients totalling approximately HK$622,306,000 (2016: HK$532,121,000) were pledged to banks to secure bank loans granted to a subsidiary of the Group at the end of the reporting period (notes 18, 19 and 21).

(iv) All borrowings are denominated in Hong Kong dollars.

## 31. SHARE CAPITAL

### Shares

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Issued and fully paid: | | |
| 15,063,853,500 (2016: 15,084,253,500) ordinary shares | **1,085,474** | 1,086,680 |

## 31. SHARE CAPITAL *(Continued)*

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital HK$'000 |
|---|---|---|
| At 1 January 2016 | 7,542,126,750 | 597,685 |
| Rights issue (note (a)) | 7,542,126,750 | 497,780 |
| | 15,084,253,500 | 1,095,465 |
| Share issue expenses | – | (8,785) |
| At 31 December 2016 and 1 January 2017 | 15,084,253,500 | 1,086,680 |
| Share repurchased (note (b)) | (20,400,000) | (1,206) |
| At 31 December 2017 | 15,063,853,500 | 1,085,474 |

Notes:

(a) A rights issue of one rights share for every one existing shares held by members on the register of members on 8 July 2016 was made, at an issue price of HK$0.066 per rights share, resulting in the issue of 7,542,126,750 shares for a total cash consideration, before rights share issue expenses, of HK$497,780,366.

(b) In the first half of 2017, the Company repurchased a total of 20,400,000 ordinary shares (2016: Nil) on The Stock Exchange at an aggregate consideration of approximately HK$1,206,000 and surrendered such shares for cancellation (the "Repurchases"). These repurchased shares were cancelled prior to 30 June 2017. The Company subsequently filed with the Companies Registry the relevant returns in respect of the Repurchases for registration. On 27 November 2017, the Registrar of Companies informed the Company that the returns were not accepted for registration as the Repurchases did not comply with section 257(3) of the Companies Ordinance. On 8 January 2018, the Company filed with the Court of First Instance of Hong Kong an appeal against the decision of the Registrar of Companies in refusing the returns for registration, and alternatively an application for a rectification order to rectify the Company's information maintained by the Companies Registry. The hearing of the appeal and court application is scheduled to take place at the Court of First Instance in August 2018.

The maximum fine for a company which is found to have committed an offence under section 257(3) of the Companies Ordinance is an amount up to HK$1,250,000 on conviction on indictment, or on summary conviction up to HK$150,000. As at the approval date of these financial statements, the Company has not received any indictment or notice of prosecution in respect of the above non-compliance with the Companies Ordinance. The Company has been advised that whether a prosecution, if any, would proceed by way of the summary or the indictable procedure would depend on the prosecutor's evaluation of the severity and complexity of the case and the level of penalty likely to be imposed, and an indictment would not normally be initiated except for relatively more serious cases. As advised, the Company understands that the Companies Registry rarely initiates prosecution of offences under the Companies Ordinance by way of an indictment.

## 32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which became effective on 11 June 2012. Under the Scheme, the directors of the Company may grant options to eligible persons to subscribe for the Company's shares subject to the terms and conditions stipulated therein. Unless otherwise cancelled or amended, the Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective.

The directors and employees of the Company and its subsidiaries are entitled to participate in the share option schemes operated by the Company. Details of the Scheme are as follows:

### (1) Purpose of the Scheme

In order to provide incentives or rewards to the participants for their contribution to the Group and to enable the Group to attract and retain employees with relevant qualifications and experience to work for the Group and any entity in which any member of the Group holds any equity interest (the "Invested Entity"), the shareholders of the Company approved the adoption of the Scheme at the annual general meeting held on 5 June 2012.

### (2) Participants of the Scheme

According to the Scheme, the board may, at its discretion, grant share options to any person in any of the following classes of participants:

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

(ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;

(v) any business partner, agent, consultant, contractor or representatives of any member of the Group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;

## 32. SHARE OPTION SCHEMES *(Continued)*

### (2) Participants of the Scheme *(Continued)*

(vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder;

(ix) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute to the development and growth of any member of the Group (including any discretionary object of a participant which is a discretionary trust); and

(x) any company wholly owned by one or more persons belonging to any of the above classes of participants.

### (3) Total number of shares available for issue under the Scheme

The maximum number of shares in respect of which share options may be granted under the Scheme and any other share option scheme of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the 2012 Share Option Scheme, that is, a total of 502,833,450. Options lapsed in accordance with the terms of the Scheme or any other share option scheme of the Company under which such options are granted shall not be counted for the purpose of calculating whether the abovementioned scheme mandate limit has been exceeded.

As at 31 December 2017, the total number of ordinary shares available for issue pursuant to the grant of share options under the 2012 Share Option Scheme was 502,833,450, representing approximately 3.34% of the ordinary shares in issue as at 31 December 2017 and the date of this Annual Report.

### (4) Maximum entitlement of each participant

No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant to such participant would exceed in aggregate 1% (or such other percentage as may be permitted under the Listing Rules and all other applicable law and regulations) of the shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the Listing Rules) abstaining from voting.

## 32. SHARE OPTION SCHEMES *(Continued)*

### (4) Maximum entitlement of each participant *(Continued)*

Any grant of share option to a connected person (as defined in the Listing Rules) or his associates (as defined in the Listing Rules) must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director who is the Grantee of the Option).

Where a grant of share options is to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive director of the Company or any of their respective associates (as defined in the Listing Rules) and the proposed grant of share options, when aggregated with the share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person(s) in the past twelve (12) months period up to and including the date of such grant, would result in the shares issued and to be issued upon exercise of all the share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person(s) representing in aggregate over 0.1% of the total issued share capital of the Company for the time being (or such other amount or percentage or on such other date as the relevant provisions of the Listing Rules may specify) and having an aggregate value, based on the closing price of the share at the date of each grant, in excess of HK$5 million (or such other amount or on such other price or date as the relevant provisions of the Listing Rules may specify), then the proposed grant of share options must be subject to the approval of the shareholders of the Company on a poll in a general meeting where all connected persons of the Company must abstain from voting (except where such connected person(s) intends to vote against the proposed grant of share options and his intention to do so has been stated in the circular).

### (5) Period within which the shares must be taken up under an option

The board may at its absolute discretion determine the period during which a share option may be exercised. Such period should expire no later than 10 years from the date of grant. The board may also impose restrictions on the exercise of a share option during the period a share option may be exercised.

### (6) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the 2012 Share Option Scheme that an option must be held for any minimum period before it can be exercised. However, the terms of the 2012 Share Option Scheme provide that the board has the discretion to impose a minimum period at the time of grant of any particular option.

## 32. SHARE OPTION SCHEMES *(Continued)*

### (7) Amount payable upon acceptance of the option and the period within which payment must be made

An amount of HK$1 for each lot of share options granted is payable upon acceptance of the options within 28 days from the date of offer of the options.

### (8) Basis of determining the exercise price of the option

The exercise price is determined by the board, and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the Company's shares.

### (9) Remaining life of the Scheme

Subject to early termination of the Scheme pursuant to the terms thereof, the Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective on 11 June 2012.

The following share options were outstanding under the Scheme during the year:

| | **2017** | | 2016 | | |
|---|---|---|---|---|---|
| | **Weighted average exercise price per share HK$** | **Number of options '000** | Weighted average exercise price per share HK$ | Adjusted Weighted average exercise price per share# HK$ | Number of options '000 |
| At 1 January | **0.195** | **36,256** | 0.202 | 0.195 | 60,000 |
| Lapsed during the year | **0.195** | **(5,179)** | 0.202 | 0.195 | (25,359) |
| Adjustment as a result of the rights issue | | **–** | | – | 1,615 |
| At 31 December | | **31,077** | | | 36,256 |

# As a result of rights issue, an adjustment has been made, among others, to the number of share options granted to employees and exercise price per share.

## 32. SHARE OPTION SCHEMES *(Continued)*

### (9) Remaining life of the Scheme *(Continued)*

Particulars of the outstanding share options granted under the Scheme and the movements of such share options during the year are as follows:

| | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name or category of participant | Outstanding as at 1 January 2017 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 December 2017 | Number of ordinary shares issuable upon the exercise of the outstanding share options (note a) | Exercise price per share HK$ (notes b and c) | Date of grant of share options | Exercise periods of share options |
| Employees | 15,538,462 | – | – | (5,179,488) | 10,358,974 | 10,358,974 | 0.195 | 09/06/2015 | 09/06/2016–08/06/2018 |
| | 10,358,975 | – | – | – | 10,358,975 | 10,358,975 | 0.195 | 09/06/2015 | 09/06/2017–08/06/2019 |
| | 10,358,975 | – | – | – | 10,358,975 | 10,358,975 | 0.195 | 09/06/2015 | 09/06/2018–08/06/2020 |
| | 36,256,412 | – | – | (5,179,488) | 31,076,924 | | | | |

## 32. SHARE OPTION SCHEMES *(Continued)*

### (9) Remaining life of the Scheme *(Continued)*

| Name or category of participant | Number of share options: Outstanding as at 1 January 2016 | Granted during the year | Exercised during the year | Lapsed during the year before adjustment | Adjustment as a result of the rights issue (note c) | Lapsed during the year after adjustment | Outstanding as at 31 December 2016 | Number of ordinary shares issuable upon the exercise of the outstanding share options (note a) | Exercise price per share HK$ (notes b and c) | Date of grant of share options | Exercise periods of share options |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Employees | 20,000,000 | – | – | (5,000,000) | 538,462 | — | 15,538,462 | 15,538,462 | 0.195 | 09/06/2015 | 09/06/2016-08/06/2018 |
| | 20,000,000 | – | – | (5,000,000) | 538,462 | (5,179,487) | 10,358,975 | 10,358,975 | 0.195 | 09/06/2015 | 09/06/2017-08/06/2019 |
| | 20,000,000 | – | – | (5,000,000) | 538,462 | (5,179,487) | 10,358,975 | 10,358,975 | 0.195 | 09/06/2015 | 09/06/2018-08/06/2020 |
| | 60,000,000 | – | – | (15,000,000) | 1,615,386 | (10,358,974) | 36,256,412 | | | | |

Notes:

(a) Representing 0.2% of the total issued voting shares in the Company as at 31 December 2016 and 2017.

(b) The share price immediately preceding the grant date of share options on 9 June 2015 was HK$0.2.

(c) As a result of rights issue, an adjustment has been made, among others, to the number of share options granted to employees and exercise price per share.

## 32. SHARE OPTION SCHEMES *(Continued)*

### (9) Remaining life of the Scheme *(Continued)*

On 9 June 2015, the Company granted 60,000,000 share options to certain employees. The fair value of these share options granted was HK$5,875,000, of which the Group recognised a share option expense of HK$577,000 (2016: HK$1,422,000) during the year ended 31 December 2017.

The fair value of equity-settled share options granted on 9 June 2015 was estimated as at the date of grant using a trinomial model, taking into account the terms and conditions upon which such share options were granted. The following table lists the inputs to the model used:

| | |
|---|---|
| Share price (at grant date) | HK$0.194 |
| Exercise price# | HK$0.202 |
| Expected volatility | 76.09% to 85.61% |
| Expected dividend yield | Nil |
| Contractual option life | 3 to 5 years |
| Risk-free interest rate | 0.813% to 1.286% |
| Early exercise multiple | 2.2 |
| Exit rate | 43.216% |

# HK$0.195 after adjusting for the effect of the Company's right issue in 2016.

The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The values of the share options calculated using the trinomial model are subject to certain fundamental limitations due to the inherent limitations of the model itself and the subjective nature of and uncertainty relating to the assumptions adopted for the inputs to the model in respect of expected future performance. Any change in the assumptions and, hence, inputs to the model may materially affect the estimation of fair value of a share option.

At the end of the reporting period, the Company had 31,076,924 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 31,076,924 additional ordinary shares in the Company and give rise to proceeds receivables of HK$6,060,000 (before issue expenses).

## 33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 58 of the financial statements.

## 34. OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Available-for-sale investments: | | |
| Changes in fair value of available-for-sale financial assets | **15,077** | (6,200) |
| Exchange differences on translation of foreign operations | **5,249** | (4,054) |
| Other comprehensive income/(loss) for the year | **20,326** | (10,254) |

## 35. BUSINESS COMBINATION

On 18 January 2017, the Group acquired 100% equity interest in Media Bonus Limited and Golden Ways Limited from Win Gain Investments Limited and Surge Fast Assets Limited, respectively, which were wholly-owned by a director who is also a director of the Company, for an aggregate cash consideration of HK$22,039,000, comprising the cash consideration of HK$20,000,000 and a cash adjustment to consideration of HK$2,039,000 that was paid pursuant to the adjustment to consideration clause contemplated in the relevant sales and purchase agreement, of which HK$18,224,000 was paid for the acquisition of Media Bonus Limited and HK$3,815,000 for the acquisition of Golden Ways Limited, respectively. Media Bonus Limited and its subsidiaries, and Golden Ways Limited are engaged in the financial media business, event management, marketing services and other related business. The acquisition was in line with the Group's overall mission as a distinctive "one-stop services" financial institution and was expected to create synergy to the financial public relation business and current businesses of the Group by offering value-added marketing communication solutions to existing and potential customers with the renowned media platform.

## 35. BUSINESS COMBINATION *(Continued)*

The fair values of the identifiable assets and liabilities of the media publications and financial public relation services business as at the date of acquisition were as follows:

| | | Fair value recognised on acquisition | | |
|---|---|---|---|---|
| | | **Media Bonus Limited** | **Golden Ways Limited** | **Total** |
| | Notes | HK$'000 | HK$'000 | HK$'000 |
| Property, plant and equipment | 12 | 11 | – | 11 |
| Intangible assets | 15 | 3,481 | 2,454 | 5,935 |
| Trade receivables | | 2,393 | 1,202 | 3,595 |
| Other receivables | | 894 | 368 | 1,262 |
| Cash and bank balances | | 26 | 5 | 31 |
| Deferred tax assets | 20 | 574 | 405 | 979 |
| Trade payables | | (387) | (108) | (495) |
| Other payables and accruals | | (1,908) | (457) | (2,365) |
| Deferred tax liabilities | 20 | (574) | (405) | (979) |
| Total identifiable net assets at fair value | | 4,510 | 3,464 | 7,974 |
| Goodwill on acquisition | 14 | 13,714 | 351 | 14,065 |
| Satisfied by cash | | 18,224 | 3,815 | 22,039 |

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$3,595,000 and HK$1,262,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$3,595,000 and HK$1,262,000, respectively.

The Group incurred transaction costs of HK$1,074,000 for this acquisition. These transaction costs have been expensed and are included in other operating expenses in the consolidated statement of profit or loss.

None of the goodwill recognised is expected to be deductible for tax purposes.

## 35. BUSINESS COMBINATION *(Continued)*

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | (22,039) |
| Cash and bank balance acquired | 31 |
| Net outflow of cash and cash equivalents included in cash flows of investing activities | (22,008) |
| Transaction costs of the acquisition included in cash flows from operating activities | (1,074) |
| | (23,082) |

Since the acquisition, the media publications and financial public relation services business contributed HK$17,609,000 to the Group's revenue and loss of HK$33,247,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$255,669,000 and HK$53,754,000, respectively.

## 36. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Change in liabilities arising from financing activities

| | **Interest-bearing bank borrowings less bank overdrafts HK$'000** |
|---|---|
| At 1 January 2017 | **506,236** |
| Changes from financing cash flows | **32,302** |
| At 31 December 2017 | **538,538** |

## 37. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and overdrafts are included in note 30 to the financial statements.

## 38. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms of two to three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within one year | **10,297** | 7,908 |
| In the second to fifth years, inclusive | **3,694** | 5,995 |
| | **13,991** | 13,903 |

### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from two to six years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within one year | **5,322** | 5,520 |
| In the second to fifth years, inclusive | **4,338** | 4,290 |
| After five years | **–** | 209 |
| | **9,660** | 10,019 |

## 39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the end of the reporting period:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Capital contributions to a subsidiary | **11,995** | 11,116 |
| Capital contributions to an associate | **8,397** | 7,781 |
| | **20,392** | 18,897 |

## 40. CONNECTED AND RELATED PARTY TRANSACTIONS

**(a)** In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties, directors and/or companies in which certain directors have beneficial interests, during the year:

| | Notes | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| Commission and brokerage income* | (i) | **1,410** | 548 |
| Interest income arising from margin financing* | (ii) | **47** | 10 |
| Rental and building management fee expense* | (iii) | **10,959** | 8,739 |
| Colour separation expense* | (iv) | **430** | – |
| Advertising and promotion expense* | (v) | **2,500** | 2,219 |
| Underwriting fee | (vi) | **–** | 6,867 |

* The related party transactions also constitute exempted connected transactions as defined in Chapter 14A of the Listing Rules.

## 40. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

**(a)** *(Continued)*

Notes:

(i) Commission and brokerage income relating to the Group's securities broking business and the rate was determined by reference to commission and brokerage fees charged to third parties.

(ii) Interest income related to the Group's margin financing business and the amount was calculated based on the Hong Kong dollar prime rate per annum which is similar to the rate offered to the Group's major clients.

(iii) Rental and building management expenses relating to the leasing of the Group's office premises were charged on a cost reimbursement basis.

(iv) Colour separation expenses relating to the Group's media publications business were charged on terms mutually agreed between the relevant parties.

(v) Advertising and promotion expenses were charged on terms mutually agreed between the relevant parties.

(vi) Underwriting fee relating to the Group's rights issue was charged by a related company at 2% of the transaction value of underwritten shares.

**(b)** Other transactions with related/connected parties:

On 18 January 2017, the Group completed the acquisition of the entire equity interest in Golden Ways Limited and Media Bonus Limited for a consideration of HK$22,039,000. Further details of the acquisition are contained in Company's circular dated 29 December 2016 and note 35 to the financial statements.

On 14 July 2017, the Group entered into a sale and purchase agreement with (i) Nicemate Investments Limited, (ii) Jessica Publications (BVI) Limited, (iii) Win Gain Investments Limited and (iv) Ace Market Investments Limited to acquire the entire equity interest in (i) Perfect Riches Limited, (ii) Super Bellax Ltd., (iii) Great Ready Assets Limited and (iv) Jade Fountain Limited, which are principally engaged in the publication of the magazines, event management, marketing services and other related business, for an aggregate cash consideration of HK$15.0 million, subject to adjustment ("Media Group Acquisition"). Further details of the Media Group Acquisition are contained in the Company's circular dated 9 March 2018.

**(c)** Compensation of key and senior management personnel of the Group:

The executive directors are the key and senior management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

**(d)** Outstanding balances with related parties:

Details of the Group's balances with affiliates at the end of the reporting period are included in notes 23, 27 and 29 to the financial statements.

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### 2017

***Financial assets***

| | Financial assets at fair value through profit or loss — | | | | |
|---|---|---|---|---|---|
| | Designated upon initial recognition HK$'000 | Held for trading HK$'000 | Available-for-sale investments HK$'000 | Loans and receivables HK$'000 | Total HK$'000 |
| Other assets | – | – | – | 17,675 | 17,675 |
| Available-for-sale investments | – | – | 42,135 | – | 42,135 |
| Loans receivable | – | – | – | 388,176 | 388,176 |
| Trade receivables | – | – | – | 147,293 | 147,293 |
| Derivative financial instruments | – | 615 | – | – | 615 |
| Financial assets at fair value through profit or loss | 15,498 | 609,685 | – | – | 625,183 |
| Financial assets included in other receivables, prepayments and deposits (note 23) | – | – | – | 31,494 | 31,494 |
| Pledged time deposits | – | – | – | 500 | 500 |
| Cash held on behalf of clients | – | – | – | 597,368 | 597,368 |
| Cash and bank balances | – | – | – | 241,298 | 241,298 |
| | 15,498 | 610,300 | 42,135 | 1,423,804 | 2,091,737 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### 2017 *(Continued)*

***Financial liabilities***

| | Financial liabilities at fair value through profit or loss — held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
|---|---|---|---|
| Client deposits | – | 719,728 | 719,728 |
| Trade payables | – | 53,823 | 53,823 |
| Derivative financial instruments | 289 | – | 289 |
| Financial liabilities included in other payables and accruals | – | 19,512 | 19,512 |
| Deposits received | – | 1,260 | 1,260 |
| Interest-bearing bank borrowings | – | 611,677 | 611,677 |
| | 289 | 1,406,000 | 1,406,289 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### 2016

***Financial assets***

| | Financial assets at fair value through profit or loss — | | | | |
|---|---|---|---|---|---|
| | Designated upon initial recognition HK$'000 | Held for trading HK$'000 | Available-for-sale investments HK$'000 | Loans and receivables HK$'000 | Total HK$'000 |
| Other assets | – | – | – | 7,236 | 7,236 |
| Available-for-sale investments | – | – | 27,058 | – | 27,058 |
| Loans receivable | – | – | – | 323,108 | 323,108 |
| Trade receivables | – | – | – | 235,145 | 235,145 |
| Derivative financial instruments | – | 1,019 | – | – | 1,019 |
| Financial assets at fair value through profit or loss | 19,750 | 394,596 | – | – | 414,346 |
| Financial assets included in other receivables, prepayments and deposits (note 23) | – | – | – | 19,189 | 19,189 |
| Pledged time deposits | – | – | – | 500 | 500 |
| Cash held on behalf of clients | – | – | – | 479,424 | 479,424 |
| Cash and bank balances | – | – | – | 355,406 | 355,406 |
| | 19,750 | 395,615 | 27,058 | 1,420,008 | 1,862,431 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### 2016 *(Continued)*

***Financial liabilities***

| | Financial liabilities at fair value through profit or loss — held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
|---|---|---|---|
| Client deposits | – | 530,863 | 530,863 |
| Trade payables | – | 29,616 | 29,616 |
| Derivative financial instruments | 49,521 | – | 49,521 |
| Financial liabilities included in other payables and accruals | – | 13,565 | 13,565 |
| Deposits received | – | 2,175 | 2,175 |
| Interest-bearing bank borrowings | – | 564,656 | 564,656 |
| | 49,521 | 1,140,875 | 1,190,396 |

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, cash held on behalf of clients, pledged time deposits, other assets, the current portion of loans receivable, trade receivables, financial assets included in other receivables, prepayments and deposits, clients deposits, trade payables, financial liabilities included in other payables, accruals and deposits received and balances with subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of loans receivable, interest-bearing bank borrowings, deposits and a subordinated loan to a subsidiary have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale investments in which represented club debentures have been estimated based on market transaction prices. The fair values of derivative financial instruments are measured based on quoted market prices.

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

**As at 31 December 2017**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) HK$'000** | **Significant observable inputs (Level 2) HK$'000** | **Significant unobservable inputs (Level 3) HK$'000** | **Total HK$'000** |
| Available-for-sale investments: | | | | |
| Equity investments | **39,690** | **–** | **–** | **39,690** |
| Debt investments | **–** | **2,445** | **–** | **2,445** |
| Derivative financial instruments | **–** | **615** | **–** | **615** |
| Financial assets at fair value through profit or loss | **625,183** | **–** | **–** | **625,183** |
| | **664,873** | **3,060** | **–** | **667,933** |

As at 31 December 2016

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Available-for-sale investments: | | | | |
| Equity investments | 24,850 | – | – | 24,850 |
| Debt investments | – | 2,208 | – | 2,208 |
| Derivative financial instruments | – | 1,019 | – | 1,019 |
| Financial assets at fair value through profit or loss | 414,346 | – | – | 414,346 |
| | 439,196 | 3,227 | – | 442,423 |

## 42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

### Fair value hierarchy *(Continued)*

Liabilities measured at fair value:

| | **Fair value measurement using significant observable inputs (Level 2)** HK$'000 |
|---|---|
| As at 31 December 2017 | |
| Derivative financial instruments | 289 |
| As at 31 December 2016 | |
| Derivative financial instruments | 49,521 |

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, cash and short term deposits, and listed equity investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as loans receivable, trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's net debt obligations with floating interest rates. The majority of the bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the prime rate. As the prime rate in Hong Kong basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Interest rate risk *(Continued)*

The following table demonstrates the sensitivity to a reasonably possible change in the Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate net borrowings).

| | Change in basis points | Change in profit/(loss) before tax HK$'000 |
|---|---|---|
| **2017** | | |
| Hong Kong dollar | **50** | **3,058** |
| **2016** | | |
| Hong Kong dollar | 50 | 2,823 |

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The Group's concentration of credit risk is mainly in Hong Kong by geographical location. The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

Further quantitative data in respect of the Group's exposure to credit risk arising from loans and trade receivables are disclosed in notes 18 and 22 to the financial statements, respectively.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., loans and trade receivables) and projected cash flows from operations.

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

The Group's borrowings from banks during the year are mainly for the provision of financing and loans to customers for their purchases and continuous holding of securities. The maturity of bank borrowings of the Group usually ranges from overnight to one month, and they are either rolled over or repaid by the Group's own funding. In addition, for those clients who are unable to settle their settlement obligations or margin deficits, the Group may dispose of the securities collateral pledged by the customers to the Group. The Group always ensures that the securities collateral pledged by customers are able to be realised in the market within a reasonable period of time.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
| Client deposits | 719,728 | – | – | – | – | 719,728 |
| Interest-bearing bank borrowings | 345,245 | 66,761 | 26,068 | 209,045 | 13,727 | 660,846 |
| Trade payables | – | 53,643 | 180 | – | – | 53,823 |
| Derivative financial instruments | 289 | – | – | – | – | 289 |
| Financial liabilities included in other payables and accruals | – | 19,512 | – | – | – | 19,512 |
| Deposits received | – | – | – | 1,260 | – | 1,260 |
| | 1,065,262 | 139,916 | 26,248 | 210,305 | 13,727 | 1,455,458 |

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Less than 3 months | 3 to less than 12 months | 1 to 5 years | Over 5 years | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Client deposits | 530,863 | – | – | – | – | 530,863 |
| Interest-bearing bank borrowings | 389,420 | 8,592 | 25,671 | 121,614 | 36,792 | 582,089 |
| Trade payables | – | 29,616 | – | – | – | 29,616 |
| Derivative financial instruments | 49,521 | – | – | – | – | 49,521 |
| Financial liabilities included in other payables and accruals | – | 13,565 | – | – | – | 13,565 |
| Deposits received | – | – | – | 2,175 | – | 2,175 |
| | 969,804 | 51,773 | 25,671 | 123,789 | 36,792 | 1,207,829 |

### Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as financial assets at fair value through profit or loss (note 21) and available-for-sale investments (note 19) at the end of the reporting period. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting period.

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Equity price risk *(Continued)*

The following table demonstrates the sensitivity to every 10% change in the fair value of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

| | Carrying amount of equity investments HK$'000 | Change in profit/(loss) before tax HK$'000 | Change in equity* HK$'000 |
|---|---|---|---|
| **2017** | | | |
| Investments listed in: | | | |
| Hong Kong — Available-for-sale | **39,690** | **–** | **3,969** |
| — Held-for-trading | **609,685** | **60,969** | **–** |
| — Designated upon initial recognition | **15,498** | **1,550** | **–** |
| **2016** | | | |
| Investments listed in: | | | |
| Hong Kong — Available-for-sale | 24,850 | – | 2,485 |
| — Held-for-trading | 392,773 | 39,277 | – |
| — Designated upon initial recognition | 19,750 | 1,975 | – |
| Investments listed in: | | | |
| China — Held-for-trading | 1,823 | 182 | – |

* Excluding accumulated losses

## 43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. The Group has established a compliance department which is operated by experienced compliance officers and is monitored by management. The principal roles of the legal and compliance department are to monitor the daily financial status and to review internal control of the Group regularly to ensure the Company's regulated subsidiaries are in compliance with related regulations. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt is interest-bearing bank borrowings less cash and bank balances. Capital represents total equity. The gearing ratios at the end of the reporting periods were as follows:

| | **2017** | 2016 |
|---|---|---|
| | **HK$000** | HK$000 |
| Interest-bearing bank borrowings | **611,677** | 564,656 |
| Less: Cash and bank balances | **(241,298)** | (355,406) |
| Net debt | **370,379** | 209,250 |
| Capital | **1,166,696** | 1,094,460 |
| Capital and net debt | **1,537,075** | 1,303,710 |
| Gearing ratio | **24.1%** | 16.1% |

## 44. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables represent details of financial instruments subject to offsetting:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Assets | Gross amounts of recognised financial assets HK$'000 | Gross amounts of recognised financial liabilities set off in the statement of financial position HK$'000 | Net amounts of financial assets presented in the statement of financial position HK$'000 | Financial instruments HK$'000 | Cash collateral pledged HK$'000 | Net amount HK$'000 |
| Trade receivables | 213,545 | (66,252) | 147,293 | – | – | 147,293 |
| Loans receivable | 404,305 | (16,129) | 388,176 | – | – | 388,176 |
| Derivative financial instruments | 615 | – | 615 | – | 615 | – |
| | 618,465 | (82,381) | 536,084 | – | 615 | 535,469 |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Liabilities | Gross amounts of recognised financial liabilities HK$'000 | Gross amounts of recognised financial assets set off in the statement of financial position HK$'000 | Net amounts of financial liabilities presented in the statement of financial position HK$'000 | Financial instruments HK$'000 | Cash collateral pledged HK$'000 | Net amount HK$'000 |
| Trade payables | 136,204 | (82,381) | 53,823 | – | – | 53,823 |
| Derivative financial instruments | 289 | – | 289 | – | 289 | – |
| | 136,493 | (82,381) | 54,112 | – | 289 | 53,823 |

## 44. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| **Assets** | Gross amounts of recognised financial assets HK$'000 | Gross amounts of recognised financial liabilities set off in the statement of financial position HK$'000 | Net amounts of financial assets presented in the statement of financial position HK$'000 | Financial instruments HK$'000 | Cash collateral pledged HK$'000 | Net amount HK$'000 |
| Trade receivables | 283,766 | (48,621) | 235,145 | – | – | 235,145 |
| Loans receivable | 344,064 | (20,956) | 323,108 | – | – | 323,108 |
| Derivative financial instruments | 1,193 | (174) | 1,019 | – | 1,019 | – |
| | 629,023 | (69,751) | 559,272 | – | 1,019 | 558,253 |

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| **Liabilities** | Gross amounts of recognised financial liabilities HK$'000 | Gross amounts of recognised financial assets set off in the statement of financial position HK$'000 | Net amounts of financial liabilities presented in the statement of financial position HK$'000 | Financial instruments HK$'000 | Cash collateral pledged HK$'000 | Net amount HK$'000 |
| Trade payables | 99,193 | (69,577) | 29,616 | – | – | 29,616 |
| Derivative financial instruments | 49,695 | (174) | 49,521 | – | 49,521 | – |
| | 148,888 | (69,751) | 79,137 | – | 49,521 | 29,616 |

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in subsidiaries | | **697,004** | 289,098 |
| Subordinated loan to a subsidiary | (a) | **100,000** | 100,000 |
| Intangible assets | | **322** | 275 |
| Total non-current assets | | **797,326** | 389,373 |
| **CURRENT ASSETS** | | | |
| Other receivables, prepayments and deposits | | **16,054** | 11,126 |
| Cash and bank balances | | **39,042** | 189,365 |
| Total current assets | | **55,096** | 200,491 |
| **CURRENT LIABILITIES** | | | |
| Other payables | | **383** | 743 |
| **NET CURRENT ASSETS** | | **54,713** | 199,748 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **852,039** | 589,121 |
| **NON-CURRENT LIABILITIES** | | | |
| Amounts due to subsidiaries | | **9,669** | 689 |
| Net assets | | **842,370** | 588,432 |
| **EQUITY** | | | |
| Share capital | | **1,085,474** | 1,086,680 |
| Reserves | (b) | **(243,104)** | (498,248) |
| Total equity | | **842,370** | 588,432 |

**Ng Yuk Mui Jessica**
*Director*

**Cheung Choi Nor**
*Director*

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The Company's subordinated loan to a subsidiary, South China Securities Limited, is unsecured, bears interest at a rate of 2% below the Hong Kong dollar prime rate (2016: 2% below the Hong Kong dollar prime rate) per annum, and is repayable on a date as agreed between the Company and the subsidiary, subject to the overriding provision of the subordinated loan agreement that, if the subsidiary becomes insolvent or unable to meet the liquid capital requirements set out in the Hong Kong Securities and Futures (Financial Resources) Rules, the repayment of the loan will be subordinated to the prior repayment of all other creditors of the subsidiary. In the opinion of the directors, the balance is not repayable within one year.

(b) A summary of the Company's reserves is as follows:

| | Share option reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2016 | 1,938 | (168,432) | (166,494) |
| Total comprehensive loss for the year | – | (333,176) | (333,176) |
| Equity-settled share option arrangements | 1,422 | – | 1,422 |
| Transfer of share options reserve upon the forfeiture of share options | (727) | 727 | – |
| At 31 December 2016 and at 1 January 2017 | **2,633** | **(500,881)** | **(498,248)** |
| Total comprehensive profit for the year | **–** | **254,567** | **254,567** |
| Equity-settled share option arrangements | **577** | **–** | **577** |
| Transfer of share options reserve upon the forfeiture of share options | **(429)** | **429** | **–** |
| At 31 December 2017 | **2,781** | **(245,885)** | **(243,104)** |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to accumulated losses should the related options are exercised or expire or lapse.

## 46. EVENT AFTER THE REPORTING PERIOD

On 28 March 2018, the Media Group Acquisition was approved by independent shareholders of the Company at an extraordinary general meeting. Further details of the Media Group Acquisition are contained in Company's circular dated 9 March 2018 and disclosed in note 40(b) to the financial statements.

Because the above acquisition was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

# Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **254,335** | 121,366 | 148,460 | 105,744 | 104,989 |
| Profit/(loss) before tax | **53,417** | (55,867) | (9,265) | (72,331) | 1,141 |
| Tax | **(878)** | (836) | (5,613) | (573) | 62 |
| Profit/(loss) for the year | **52,539** | (56,703) | (14,878) | (72,904) | 1,203 |
| Attributable to: | | | | | |
| Equity holders of the Company | **52,539** | (56,703) | (14,842) | (72,893) | 1,218 |
| Non-controlling interests | **–** | – | (36) | (11) | (15) |
| | **52,539** | (56,703) | (14,878) | (72,904) | 1,203 |

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| Earnings/(loss) per share (HK cents): | | | | | |
| Basic | **0.35** | (0.53) | (0.21) | (1.21) | 0.02 |
| Diluted | **0.35** | (0.53) | (0.21) | (1.21) | 0.02 |
| Dividend per share (HK cents) | **–** | – | – | – | – |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **2,610,784** | 2,323,494 | 1,796,596 | 1,784,283 | 1,660,285 |
| TOTAL LIABILITIES | **(1,444,088)** | (1,229,034) | (1,125,596) | (1,350,406) | (1,157,722) |
| NON-CONTROLLING INTERESTS | **–** | – | – | (543) | (554) |
| | **1,166,696** | 1,094,460 | 671,000 | 433,334 | 502,009 |