

# SUNWAH KINGSWAY 新華滙富

Sunwah Kingsway Capital Holdings Limited  
新華滙富金融控股有限公司

Incorporated in Bermuda with limited liability

Stock Code: 00188



## A Better, Brighter Future Ahead



Interim Report

# 2016/17



## CONTENTS

Corporate Information	1
Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Statement of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Management Discussion and Analysis	23
Independent Review Report	32

Sunwah Kingsway is committed to the core values of integrity, teamwork, respect, responsibility and the pursuit of excellence.

*We believe that successful companies are built on these core values, the same ones that align and guide our thinking and actions in every area of our business. Our established core values have served our Group well and will continue to guide our growth into the future.*

# Corporate Information

## GENERAL INFORMATION

### CHAIRMAN

Jonathan Koon Shum Choi

### EXECUTIVE DIRECTOR

Michael Koon Ming Choi (*Chief Executive Officer*)

### NON-EXECUTIVE DIRECTORS

Janice Wing Kum Kwan

Lee G. Lam

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Robert Tsai To Sze

Elizabeth Law

Huanfei Guan

## LEGAL ADVISORS TO THE COMPANY

*As to Hong Kong Law:*

MinterEllison

Level 25, One Pacific Place,

88 Queensway, Hong Kong

*As to Bermuda Law:*

Conyers Dill & Pearman

2901 One Exchange Square,

8 Connaught Place, Central, Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu

35th Floor, One Pacific Place,

88 Queensway, Hong Kong

## REGISTERED OFFICE

Clarendon House,

2 Church Street,

Hamilton HM 11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, Tower One, Lippo Centre

89 Queensway, Hong Kong

## COMPANY SECRETARY

Vincent Wai Shun Lai

## AUTHORISED REPRESENTATIVES

Michael Koon Ming Choi

Vincent Wai Shun Lai

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited

The Belvedere Building

69 Pitts Bay Road

Pembroke HM08, Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Room 1712-1716, 17th Floor,

Hopewell Centre, 183 Queen's Road East,

Hong Kong

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

Industrial and Commercial Bank of China (Asia) Limited

## COMPOSITION OF BOARD COMMITTEES

### AUDIT COMMITTEE

Robert Tsai To Sze (*Chairman*)

Elizabeth Law

Huanfei Guan

### NOMINATION COMMITTEE

Elizabeth Law (*Chairman*)

Jonathan Koon Shum Choi

Robert Tsai To Sze

Huanfei Guan

### COMPENSATION COMMITTEE

Elizabeth Law (*Chairman*)

Jonathan Koon Shum Choi

Robert Tsai To Sze

Huanfei Guan

### CORPORATE GOVERNANCE COMMITTEE

Lee G. Lam (*Chairman*)

Janice Wing Kum Kwan

Huanfei Guan

# Condensed Consolidated Income Statement

	Notes	Six months ended 31 December	
		2016	2015
		Unaudited HK\$'000	Unaudited HK\$'000
<b>Revenue</b>			
Commission and fee income		35,160	43,519
Interest and dividend income		15,625	9,362
Rental income		1,960	672
		<b>52,745</b>	<b>53,553</b>
<b>Net loss on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value</b>		<b>(913)</b>	<b>(20,940)</b>
<b>Other income and gains or losses</b>		<b>(1,724)</b>	<b>(1,275)</b>
	3	<b>50,108</b>	<b>31,338</b>
<b>Operating expenses</b>			
Commission expenses		(2,839)	(5,848)
General and administrative expenses		(58,758)	(56,157)
Finance costs		(317)	(713)
		<b>(11,806)</b>	<b>(31,380)</b>
Fair value changes on investment properties		(1,447)	53
Impairment loss for loans to an associate		(1,700)	–
Impairment loss for other receivable		(78)	(96)
Fair value changes on non-controlling interests in consolidated investment fund		(235)	839
Share of (loss)/profit of associates	3	(68)	851
		<b>(15,334)</b>	<b>(29,733)</b>
<b>Loss before tax</b>	4	<b>(15,334)</b>	<b>(29,733)</b>
Income tax expenses	5	(239)	(35)
		<b>(15,573)</b>	<b>(29,768)</b>
<b>Attributable to:</b>			
Owners of the Company		(15,583)	(29,628)
Non-controlling interests		10	(140)
		<b>(15,573)</b>	<b>(29,768)</b>
<b>Loss for the period</b>		<b>(15,573)</b>	<b>(29,768)</b>
<b>Basic loss per share</b>	7	<b>(0.3) HK cent</b>	(0.5) HK cent
<b>Diluted loss per share</b>	7	<b>(0.3) HK cent</b>	(0.5) HK cent

# Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 December	
	2016	2015
	Unaudited HK\$'000	Unaudited HK\$'000
<b>Loss for the period</b>	<b>(15,573)</b>	<b>(29,768)</b>
<b>Other comprehensive income/(expenses):</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Surplus on revaluation of land and buildings held for own use (net of tax)	543	6,247
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of financial statements of overseas subsidiaries	623	1,591
Fair value changes on available-for-sale investments	–	(7,554)
	<b>623</b>	<b>(5,963)</b>
<b>Other comprehensive income for the period</b>	<b>1,166</b>	<b>284</b>
<b>Total comprehensive expenses for the period</b>	<b>(14,407)</b>	<b>(29,484)</b>
<b>Total comprehensive (expenses)/income attributable to:</b>		
Owners of the Company	(14,417)	(29,344)
Non-controlling interests	10	(140)
<b>Total comprehensive expenses for the period</b>	<b>(14,407)</b>	<b>(29,484)</b>

# Condensed Consolidated Statement of Financial Position

	<i>Notes</i>	<b>31 December 2016 Unaudited HK\$'000</b>	30 June 2016 Audited (restated) HK\$'000
<b>Non-current assets</b>			
Investment properties		89,854	91,301
Properties and equipment		317,449	323,251
Intangible assets		2,051	2,051
Interests in associates		14,014	14,082
Available-for-sale investments	8	35,995	35,995
Financial assets at fair value through profit or loss	11	19,500	–
Other receivable	9	32,295	32,373
Other financial assets		7,789	9,289
		<b>518,947</b>	<b>508,342</b>
<b>Current assets</b>			
Investment in an unlisted bond		–	10,000
Loans to associates	10	3,003	2,296
Financial assets at fair value through profit or loss	11	239,731	168,875
Accounts, loans and other receivables	12	253,215	317,269
Pledged bank balances	17	–	3,274
Bank balances and cash – trust accounts	13	508,771	498,434
Cash and cash equivalents		180,111	150,372
		<b>1,184,831</b>	<b>1,150,520</b>
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	14	8,043	13,681
Net assets attributable to holders of non-controlling interests in consolidated investment fund	15	19,785	15,671
Accruals, accounts and other payables	16	636,937	620,010
Bank loans and overdraft	17	75,000	17,100
Current taxation		1,461	1,459
		<b>741,226</b>	<b>667,921</b>
<b>Net current assets</b>		<b>443,605</b>	<b>482,599</b>
<b>Total assets less current liabilities</b>		<b>962,552</b>	<b>990,941</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		21,350	21,529
<b>NET ASSETS</b>		<b>941,202</b>	<b>969,412</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		552,130	552,130
Reserves		388,944	417,164
<b>Equity attributable to owners of the Company</b>		<b>941,074</b>	<b>969,294</b>
<b>Non-controlling interests</b>		<b>128</b>	<b>118</b>
<b>TOTAL EQUITY</b>		<b>941,202</b>	<b>969,412</b>

# Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Properties revaluation reserve HK\$'000	Investments revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2016	552,130	352,909	39,800	63,392	(1,728)	122,537	-	(159,746)	969,294	118	969,412
(Loss)/profit for the period	-	-	-	-	-	-	-	(15,583)	(15,583)	10	(15,573)
Exchange differences arising on translation of financial statements of overseas subsidiaries	-	-	-	-	623	-	-	-	623	-	623
Surplus on revaluation of land and buildings held for own use	-	-	-	-	-	543	-	-	543	-	543
Total comprehensive income/(expenses) for the period	-	-	-	-	623	543	-	(15,583)	(14,417)	10	(14,407)
2016 final dividend paid (note 6)	-	-	-	-	-	-	-	(13,803)	(13,803)	-	(13,803)
At 31 December 2016	552,130	352,909	39,800	63,392	(1,105)	123,080	-	(189,132)	941,074	128	941,202
At 1 July 2015	523,130	280,467	39,800	63,392	(3,569)	110,740	963	(62,227)	952,696	504	953,200
Loss for the period	-	-	-	-	-	-	-	(29,628)	(29,628)	(140)	(29,768)
Exchange differences arising on translation of financial statements of overseas subsidiaries	-	-	-	-	1,591	-	-	-	1,591	-	1,591
Surplus on revaluation of land and buildings held for own use	-	-	-	-	-	6,247	-	-	6,247	-	6,247
Fair value changes on available-for-sale investments	-	-	-	-	-	-	(7,554)	-	(7,554)	-	(7,554)
Total comprehensive income/(expenses) for the period	-	-	-	-	1,591	6,247	(7,554)	(29,628)	(29,344)	(140)	(29,484)
2015 final dividend paid (note 6)	-	-	-	-	-	-	-	(16,564)	(16,564)	-	(16,564)
Issue of share	29,000	72,500	-	-	-	-	-	-	101,500	-	101,500
Share issue expenses	-	(58)	-	-	-	-	-	-	(58)	-	(58)
At 31 December 2015	552,130	352,909	39,800	63,392	(1,978)	116,987	(6,591)	(108,419)	1,008,230	364	1,008,594



# Condensed Consolidated Statement of Cash Flows

	Six months ended 31 December	
	2016	2015
	Unaudited	Unaudited (restated)
	HK\$'000	HK\$'000
<b>Operating activities</b>		
Operating loss before changes in working capital	(20,470)	(32,477)
Increase in financial assets at fair value through profit or loss	(70,856)	(107,432)
Decrease in accounts, loans and other receivables	74,341	70,935
Increase in bank balances and cash – trust accounts	(10,337)	(54,099)
Increase/(decrease) in accruals, accounts and other payables	16,911	(30,891)
(Decrease)/increase in financial liabilities at fair value through profit or loss	(5,638)	11,806
Other operating cash flows	1,500	2,255
Cash used in operations	(14,549)	(139,903)
Interest received	12,073	7,068
Dividend received	3,265	3,001
Interest paid	(300)	(845)
Net cash generated from/(used in) operating activities	489	(130,679)
<b>Investing activities</b>		
Payment for purchase of properties and equipment	–	(75)
Return of capital from an associate	–	3,098
Payment for purchase of an unlisted bond	–	(10,000)
Payment for purchase of financial asset at fair value through profit or loss	(19,500)	–
Pledged bank balances released	3,274	–
Net investments by the holders of non-controlling interests in consolidated fund	3,879	–
Loan to an associate	(2,500)	–
Net cash used in investing activities	(14,847)	(6,977)
<b>Financing activities</b>		
Dividends paid to owners of the Company	(13,803)	(16,564)
Proceeds from bank loans	75,000	–
Repayment of bank loans	(10,000)	(35,000)
Net proceeds from issue of equity shares	–	23,896
Net cash generated from/(used in) financing activities	51,197	(27,668)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>36,839</b>	<b>(165,324)</b>
<b>Cash and cash equivalents at 1 July 2016/2015</b>	<b>143,272</b>	<b>369,515</b>
<b>Cash and cash equivalents at 31 December 2016/2015</b>	<b>180,111</b>	<b>204,191</b>
Represented by:		
Bank balances and cash	180,111	204,191



# Notes to Condensed Consolidated Financial Statements

## 1 Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard 34, Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

## 2 Significant Accounting Policies

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties, land and buildings held for own use and financial assets/liabilities at fair value through profit or loss that are measured at revalued amounts or fair values, as appropriate.

Except as described in note 23, the accounting policies and methods of computation used in these unaudited condensed consolidated financial statements for the six months ended 31 December 2016 are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2016.

In the current interim period, the Group has applied, for the first time, a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period. The application of the amendments to HKFRSs in the current interim period has had no material impact on the amounts reported and disclosures set out in these condensed consolidated financial statements.

## 3 Segment information

The Group has separately disclosed “Properties investment” from “Proprietary investment” in the 2016 annual financial statement and in this interim report. The Group has managed this “Proprietary investment” segment as a whole. Segment liabilities are not presented as they are not regularly reviewed by the chief operating decision maker. The directors consider that this change result in a more effective management of segment assets. The comparative figures for Proprietary investment segment and Properties investment segment were restated.

## Notes to Condensed Consolidated Financial Statements

## 3 Segment information (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

	Six months ended 31 December 2016						Consolidated HK\$'000
	Proprietary investment	Properties investment	Corporate finance Brokerage and capital markets		Asset management	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	4,836	1,960	23,526	21,221	-	1,202	52,745
Inter-segment revenue	1	-	727	-	615	10,329	11,672
Segment revenue	4,837	1,960	24,253	21,221	615	11,531	64,417
Net (loss)/gain on disposal of financial assets/ liabilities at fair value through profit or loss and remeasurement to fair value	(3,677)	-	2,764	-	-	-	(913)
Other income and gains or losses	(105)	-	(209)	-	(3)	(1,407)	(1,724)
Eliminations	(1)	-	(727)	-	(615)	(10,329)	(11,672)
Total income/(loss)	1,054	1,960	26,081	21,221	(3)	(205)	50,108
Segment results	(5,300)	(1,075)	(875)	1,381	(642)	(8,520)	(15,031)
Share of (loss)/profit of associates	-	-	(93)	25	-	-	(68)
Fair value changes on non-controlling interests in consolidated investment fund	(235)	-	-	-	-	-	(235)
Loss before tax							(15,334)

  

	Six months ended 31 December 2015						Consolidated HK\$'000
	Proprietary investment (restated)	Properties investment (restated)	Corporate finance Brokerage and capital markets		Asset management	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	3,928	672	25,067	23,576	-	310	53,553
Inter-segment revenue	2	-	764	2,030	89	9,597	12,482
Segment revenue	3,930	672	25,831	25,606	89	9,907	66,035
Net (loss)/gain on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value	(21,686)	-	746	-	-	-	(20,940)
Other income and gains or losses	(167)	-	(385)	-	-	(723)	(1,275)
Eliminations	(2)	-	(764)	(2,030)	(89)	(9,597)	(12,482)
Total income/(loss)	(17,925)	672	25,428	23,576	-	(413)	31,338
Segment results	(23,725)	416	(600)	1,872	(732)	(8,654)	(31,423)
Share of profits of associates	13	-	838	-	-	-	851
Fair value changes on non-controlling interests in consolidated investment fund	839	-	-	-	-	-	839
Loss before tax							(29,733)

## Notes to Condensed Consolidated Financial Statements

### 3 Segment information (Continued)

The following is an analysis of the Group's assets by operating segment:

	<b>31 December</b>	30 June
	<b>2016</b>	2016
		(restated)
	<b>HK\$'000</b>	HK\$'000
Proprietary investment	<b>303,991</b>	210,942
Properties investment	<b>96,080</b>	97,772
Brokerage	<b>888,789</b>	948,355
Corporate finance and capital markets	<b>9,401</b>	11,750
Asset management	<b>5,382</b>	5,377
Others	<b>400,135</b>	384,666
<b>Total assets</b>	<b>1,703,778</b>	1,658,862

### 4 Loss before tax

Loss before tax is arrived at after crediting/(charging):

	<b>Six months ended 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Net (loss)/gain on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value		
– equity securities	(5,550)	(25,791)
– debt securities	1,325	(582)
– derivatives and others	3,312	5,433
Dividends from listed equity securities	2,125	1,928
Interest income from		
– bank deposits	571	939
– margin and cash clients	3,308	1,788
– debt securities	2,622	1,955
– loans	3,854	2,735
– others	3,145	17
Staff costs	(37,917)	(33,771)
Operating lease charges – land and buildings	(1,433)	(1,360)
Depreciation	(5,928)	(5,891)
Interest expenses on		
– unsecured bank loans wholly repayable within one month and overdrafts	(29)	–
– secured bank loans wholly repayable within one year	(288)	(711)
– others	–	(2)
Impairment loss for accounts receivable	–	(24)
Exchange loss (net)	(2,113)	(2,109)

## Notes to Condensed Consolidated Financial Statements

**5 Income tax in the condensed consolidated income statement**

	<b>Six months ended 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Current tax		
– PRC	2	–
Deferred tax	237	35
	<b>239</b>	35

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the current and prior periods. No tax is payable on the profits of certain subsidiaries arising in Hong Kong for the period since the estimated assessable profits of these subsidiaries of the Group of HK\$6.3 million (31 December 2015: HK\$5 million) are wholly absorbed by tax losses brought forward. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25%.

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK\$445 million and HK\$9 million for Hong Kong Profit Tax and PRC Enterprise Income Tax respectively (30 June 2016: HK\$433 million and HK\$8 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses from subsidiaries incorporated in Hong Kong will not expire under current tax regulation while tax losses from PRC subsidiaries are subject to expiry periods of five years from the years in which the tax losses arose under the current tax legislation.

**6 Dividends**

Dividends recognised as distributions during the period

	<b>Six months ended 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Final dividend in respect of the previous financial year, declared and paid of 0.25 HK cent per share (2015: 0.3 HK cent per share)	<b>13,803</b>	16,564

Subsequent to the end of the interim reporting period, at a meeting held on 13 February 2017, the directors declared an interim dividend of 0.2 HK cent per share (31 December 2015: 0.2 HK cent per share) with an aggregate amount of HK\$11,043,000 (31 December 2015: HK\$11,043,000) based on the number of shares in issue at 13 February 2017.

**7 Loss per share**

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following:

	<b>Six months ended 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
<b>Loss</b>		
Loss for the purposes of basic and diluted loss per share (Loss attributable to owners of the Company for the period)	<b>(15,583)</b>	(29,628)
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic and diluted loss per share	<b>5,521,304,882</b>	5,500,815,752

## 8 Available-for-sale investments

	<i>Notes</i>	<b>31 December 2016 HK\$'000</b>	30 June 2016 HK\$'000
Unlisted investments:			
– Partnership shares at cost	<i>(a)</i>	<b>7,995</b>	7,995
– Shares at cost	<i>(b)</i>	<b>28,000</b>	28,000
		<b>35,995</b>	35,995

### Notes:

- (a) The limited partnership shares are stated at cost because their fair value cannot be measured reliably as the variability in the range of reasonable fair value estimates is significant.
- (b) The Group purchased an unlisted convertible note of HK\$28,000,000 and converted the note into shares during the last year. The investee engages in the development and sales of automobiles. The shares are stated at cost because their fair value cannot be measured reliably as the variability in the range of reasonable fair value estimates is significant.

## 9 Other receivable

During the year ended 30 June 2011, the Group deposited an amount of HK\$40,000,000 (the “Escrow Funds”), into an escrow account maintained by an international law firm in Hong Kong pursuant to the terms of an escrow agreement dated 28 March 2011. As has been widely reported, a partner of the law firm with which the funds were deposited was arrested by the Hong Kong Police and charged with theft and forgery with respect to monies held in the law firm’s escrow account. In August 2013, it was reported that the partner pleaded guilty to fraud and money laundering and was sentenced to jail for 12 years.

The law firm has not returned the Escrow Funds despite a demand for payment by the Group. The Group has commenced legal proceedings against the law firm and its partners for recovery of the Escrow Funds. The parties to the litigation have agreed to non-binding mediation and are in the process of setting a date for mediation. The Group’s legal counsel has reviewed the documentary evidence in respect of the escrow agreement, has analysed the legal duties and obligations of the law firm arising from the terms of the escrow agreement and has analysed the legal and professional duties and obligations of the law firm arising from the receipt of the Escrow Funds (which were client monies and held in trust). The Group’s legal counsel is of the opinion that the Group has good prospects on succeeding on its claim to recover the Escrow Funds and that it is very likely that any judgement obtained would be satisfied. However, there might be a reduction in the ultimate recovery of the Escrow Funds by the amount of the service fees paid to the Group and legal fees and expenses for the lawsuit which might not be entirely recovered.

The management of the Group currently considers that the Escrow Funds excluding the fees paid to the Group and the legal fees and expenses for the lawsuit would be recovered eventually, taking into account the nature of the escrow agreement and the opinion of Group’s legal counsel as set forth above. Moreover, in the event of the Group might not recover the Escrow Funds in full, the management will take all possible courses of action in order to recover the remaining amount from the assets of the partners of the law firm if necessary. As the timing of recovering this amount is expected to be more than twelve months, the Group has discounted the Escrow Funds by using the effective interest method.

## Notes to Condensed Consolidated Financial Statements

**10 Loans to associates**

As at 31 December 2016, the Group granted to an associate a pro-rata shareholders' loan of British Pound 100,000, which was equivalent to HK\$953,000 (30 June 2016: British Pound 100,000, which was equivalent to HK\$1,046,000) and loans of HK\$3,750,000 (30 June 2016: HK\$1,250,000). The loans are unsecured, interest-bearing at 2%-8% per annum and are repayable within one year (30 June 2016: repayable within one year). Impairment loss of HK\$1,700,000 was provided for the loan to an associate during the period (30 June 2016: HK\$nil).

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

	<b>31 December 2016 HK\$'000</b>	30 June 2016 HK\$'000
Held for trading investments include:		
Listed equity securities, at quoted price		
– in Hong Kong	<b>171,608</b>	120,343
– outside Hong Kong	<b>2,816</b>	4,345
Listed debt securities, at quoted price (Note)		
– in Hong Kong	<b>33,615</b>	22,105
– outside Hong Kong	<b>31,692</b>	22,032
Financial asset designated at fair value through profit or loss		
Investment loan	<b>19,500</b>	–
	<b>259,231</b>	168,875
Represented by:		
Non-Current	<b>19,500</b>	–
Current	<b>239,731</b>	168,875
	<b>259,231</b>	168,875

*Note:*

The Group held listed debt securities with fair value of HK\$65,307,000 as at 31 December 2016 (30 June 2016: HK\$44,137,000) which will be due in 2017 to 2021 (30 June 2016: 2017 to 2023).

**12 Accounts, loans and other receivables**

	<i>Notes</i>	<b>31 December 2016 HK\$'000</b>	30 June 2016 (restated) HK\$'000
<b>Accounts and loans receivables</b>			
Amounts due from brokers and clearing houses	<i>(a)</i>	<b>77,554</b>	74,631
Amounts due from margin clients	<i>(b)</i>	<b>40,299</b>	77,566
Amounts due from cash clients	<i>(c)</i>	<b>77,534</b>	121,135
Fixed-rate loans receivable	<i>(d)</i>	<b>56,953</b>	33,065
Other accounts receivable	<i>(e)</i>	<b>2,629</b>	7,917
		<b>254,969</b>	314,314
Less: Impairment losses		<b>(8,058)</b>	(8,058)
		<b>246,911</b>	306,256
Prepayments, deposits and other receivables		<b>6,304</b>	11,013
		<b>253,215</b>	317,269

## 12 Accounts, loans and other receivables (Continued)

### Notes:

- (a) Amounts due from brokers and clearing houses are required to be settled on the settlement day determined under the relevant market practices or exchange rules.

The amount due from a broker of HK\$13,262,000 (30 June 2016: HK\$20,849,000) was pledged as securities for the stock borrowing transactions.

- (b) Margin clients of the brokerage division are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the value of securities accepted by the Group. At 31 December 2016, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK\$233 million (30 June 2016: HK\$390 million). The amounts due from margin clients are repayable on demand and bear interest at commercial rates.
- (c) There are no credit terms granted to cash clients of the brokerage division except for re-financing of IPO subscriptions. They are required to settle their securities trading balances on the settlement day determined under the relevant market practices or exchange rules. A receivable of HK\$18 million is due from a cash client related to the net balance of a 130% short selling deposit on a suspended security listed on the Main Board of the Stock Exchange.
- (d) The credit terms for loans granted by the Group's brokerage division are set by management with reference to the financial background and the value and nature of collateral pledged by the borrowers. The fixed-rate loans receivable are secured by personal/corporate guarantee, property located in Hong Kong and/or by unlisted securities. The contractual maturity date of the fixed-rate loan receivables is within one year.
- (e) The balance included an amount of HK\$90,000 (30 June 2016: HK\$270,000) receivable from an associate arising from normal business transactions. The Group normally allows credit periods of up to 30 days to customers, except for certain creditworthy customers with long term relationship and stable repayment pattern, where the terms are extended to a longer period.

The ageing analysis of accounts and loans receivables net of impairment losses based on invoice/advanced/trade date/contractual maturity date is as follows:

	<b>31 December</b>	30 June
	<b>2016</b>	2016
		(restated)
	<b>HK\$'000</b>	HK\$'000
Current and within one month	<b>244,694</b>	301,937
More than one month and within three months	<b>1,721</b>	1,101
More than three months	<b>496</b>	3,218
	<b>246,911</b>	306,256



## Notes to Condensed Consolidated Financial Statements

**13 Bank Balances and cash – trust accounts**

The Group maintains segregated clients' accounts with licensed banks to hold clients' monies arising from normal course of business in connection with the Group's brokerage activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules (Chapter 571) of the laws of Hong Kong under the Securities and Futures Ordinance. The Group has recognised the corresponding clients' accounts payable to respective clients.

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

	<b>31 December</b>	30 June
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
Financial liabilities at FVTPL arising from short selling activities	<b>7,357</b>	13,681
Listed derivatives, at quoted price		
– in Hong Kong	<b>686</b>	–
	<b>8,043</b>	13,681

**15 Net assets attributable to holders of non-controlling interests in consolidated investment fund**

Net assets attributable to holders of non-controlling interests in the consolidated investment fund consist of net assets attributable to holders of non-controlling interests in consolidated investment fund which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to holders of non-controlling interests in investment fund cannot be predicted with accuracy since these represent the interest of non-controlling shareholders in consolidated investment fund that are subject to the actions of non-controlling investors.

## Notes to Condensed Consolidated Financial Statements

**16 Accruals, accounts and other payables**

	<b>31 December</b>	30 June
	<b>2016</b>	2016
		(restated)
	<b>HK\$'000</b>	HK\$'000
<b>Accounts payable (current and within one month)</b>		
Amounts due to brokers and clearing houses	<b>23,215</b>	18,744
Clients' accounts payable	<b>582,876</b>	573,300
Others	<b>4,746</b>	2,495
	<b>610,837</b>	594,539
Other creditors, accruals and other provisions	<b>26,100</b>	25,471
	<b>636,937</b>	620,010

The settlement terms of payable to brokers, clearing houses and securities trading clients from the ordinary course of business of broking in securities range from one to three days after the trade date of those transactions. Deposits exceeding the margin requirement received from clients for their trading of commodities and futures contracts were payable on demand.

**17 Bank loans and overdraft**

	<b>31 December</b>	30 June
	<b>2016</b>	2016
		(restated)
	<b>HK\$'000</b>	HK\$'000
Bank overdraft, unsecured	–	7,100
Secured bank loans ( <i>Note</i> )	<b>75,000</b>	10,000
	<b>75,000</b>	17,100

*Note:*

The bank loans were repayable within two months (30 June 2016: one month), secured by the Group's land and building held for own use located in Hong Kong with fair value of approximately HK\$297 million (30 June 2016: listed debt securities with fair value of approximately HK\$38 million and bank balances of approximately HK\$3 million held in a security account with a bank) and bear interest at 1.3% above HIBOR (30 June 2016: 0.5% above the bank's cost of funding).

Some of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the facilities drawn would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2016 and 30 June 2016, none of the covenants relating to the facilities drawn had been breached.

## Notes to Condensed Consolidated Financial Statements

**18 Commitments****(A) CAPITAL COMMITMENTS**

	<b>31 December</b>	30 June
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided – equipment	<b>281</b>	–
Approved but not contracted for – equipment	<b>376</b>	32
	<b>657</b>	32

**(B) COMMITMENTS UNDER OPERATING LEASES AS LESSEE**

As at 31 December 2016 and 30 June 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and office equipment which fall due as follows:

	<b>31 December</b>		30 June	
	<b>2016</b>		2016	
	<b>Rental</b>	<b>Hired</b>	Rental	Hired
	<b>premises</b>	<b>equipment</b>	premises	equipment
	<b>HK\$'000</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000
Within one year	<b>2,640</b>	<b>188</b>	2,880	377
Later than 1 year and not later than 5 years	<b>3,696</b>	–	4,896	–
	<b>6,336</b>	<b>188</b>	7,776	377

Leases are negotiated and rentals are fixed for lease terms of 2 to 5 years. The Group does not have an option to purchase the leased assets at the expiry of the leased period.

## 18 Commitments (Continued)

### (C) COMMITMENTS UNDER OPERATING LEASES AS LESSOR

As at 31 December 2016 and 30 June 2016, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of office premises which fall due as follows:

	<b>31 December</b>	30 June
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>5,319</b>	2,904
Later than 1 year and not later than 5 years	<b>4,231</b>	3,872
	<b>9,550</b>	6,776

Leases are negotiated and rental are fixed for lease terms of 2 to 3 years. The Group does not provide an option to the lessees to purchase the leased assets at the expiry of the leased period.

### (D) OTHER COMMITMENTS

The Group did not have any other commitments as at 31 December 2016 (30 June 2016: approximately \$2.1 million).

## 19 Joint venture agreement

On 1 December 2016, the Group entered into a joint venture agreement with several joint venture partners to establish a joint venture company in Chongqing, the PRC. Subject to final approvals of the China Securities Regulatory Commission ("CSRC"), it is contemplated that the joint venture company will become a full-licensed securities company principally engaged in the provision of regulated securities brokerage services, securities underwriting and sponsor services, proprietary trading, securities and asset management and any other business approved by the CSRC in the PRC. Pursuant to the joint venture agreement, the Group will make a capital contribution of RMB330 million (equivalent to approximately HK\$372 million) into the joint venture Company, representing a 22% equity interest in the joint venture company. The transaction will be fully financed by the Group's internal resources and/or borrowings from financial institutions and/or alternative debt or equity financing. The Group will convene a special general meeting for the Company's shareholders to consider and approve the joint venture agreement and the transactions in February 2017.

## Notes to Condensed Consolidated Financial Statements

**20 Related party and connected party transactions**

The following is a summary of significant related party and connected party (as defined in the Listing Rules) transactions which were carried out in the normal course of the Group's business:

	Notes	Six months ended 31 December	
		2016 HK\$'000	2015 HK\$'000
Brokerage commission earned on securities, options, futures and commodities dealing	(a)		
– Group's directors and their close family members		91	327
Common office expenses recharged	(b)		
– a fellow subsidiary		–	686
Consultancy and management fees earned	(c)		
– a fellow subsidiary		420	270
– an associate		540	–
Rental income from investment property	(d)		
– a company controlled by Group's directors' close family member		1,331	444

Notes:

- (a) Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.
- (b) The allocation of office overheads and services fee is primarily based on the percentage of floor area occupied by each company.
- (c) The fees mainly comprised a fixed monthly charge as agreed between the parties involved.
- (d) The rental income are determined with reference to the market rent and on normal commercial terms.

**21 Financial instruments**

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, price risk, foreign exchange risk and interest rate risk. These risks are limited by the Group's financial management policies and practices described below.

## 21 Financial instruments (Continued)

### (A) CREDIT RISK

Credit risk arises from a number of areas. These include the possibility that a counterparty in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading and other activities undertaken by the Group.

The Group's Finance and Credit Committees are responsible for establishing the credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Hong Kong Securities and Futures Commission. Day-to-day credit management is performed by the Operations Department with reference to the aforementioned criteria including creditworthiness, collateral pledged and risk concentration of the counterparties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds the preset limit.

### (B) LIQUIDITY RISK

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the Chief Financial Officer and the Financial Controller monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with statutory requirements such as the Hong Kong Securities and Futures (Financial Resources) Rules applying to various licensed subsidiaries.

### (C) PRICE RISK

The Group is exposed to price changes arising from investments classified as financial assets or financial liabilities at fair value through profit or loss measure at fair value.

The Group's listed equity investments, listed equity derivatives and listed debt securities investments are mainly listed on the Stock Exchange of Hong Kong and the Singapore Exchange Securities Trading Limited respectively. Decisions to buy or sell trading securities are rested with assigned investment managers and governed by specific investment guidelines. The Board has set up the Risk Management Committee ("RMC") for the purposes of independently monitoring the positions of the Group's proprietary trading activities involving equities and derivatives. In addition to the RMC, the Group's exposures are closely monitored by the Finance Department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

## Notes to Condensed Consolidated Financial Statements

### 21 Financial instruments (Continued)

#### (D) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates. Foreign exchange risk is monitored by the Finance Department and senior management on a daily basis. Certain financial assets are measured daily on a “mark-to-market” basis as appropriate. Other financial assets and liabilities are revalued regularly using the market exchange rates. Overall positions are reported monthly to senior management for review.

The Group’s foreign exchange risk primarily arises from currency exposures originating from certain financial assets and liabilities. Principal brokerage and lending operations are mainly carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposures to foreign exchange fluctuations on accounts and loans receivables.

#### (E) INTEREST RATE RISK

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group’s interest rate risk exposure arises mainly from bank balances, margin financing, bank loans and other lending activities undertaken. The short-term bank loans are mainly utilised for re-financing customers’ borrowings which the Group has the legal capacity to quickly recall the margin loans or re-price the loans to an appropriate level. Interest rates paid by the Group are managed by the Finance Department with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

### 22 Fair value measurements of financial instruments

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

Some of the Group’s financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.



## 22 Fair value measurements of financial instruments (Continued)

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2016	30 June 2016		
	HK\$'000	HK\$'000		
<u>Financial assets</u>				
Listed equity securities	174,424	124,738	Level 1	Quoted price in an active market
Listed debt securities	65,307	44,137	Level 1	Quoted price in an active market
Investment loan	19,500	–	Level 2	Recent transaction price
<u>Financial liabilities</u>				
Listed equity securities	7,357	13,681	Level 1	Quoted price in an active market
Listed derivatives	686	–	Level 1	Quoted price in an active market

There were no transfers between Levels 1 and 2 in the current and prior periods.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair value.

### *Fair value measurement and valuation process*

The management is responsible in determining the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of the financial instruments, the Group uses market-observable data to the extent it is available.

## Notes to Condensed Consolidated Financial Statements

**23 Restatement of comparatives**

In prior years, clients' monies held in segregated bank accounts, segregated clearing house accounts and respective clients' payables were not dealt with in the consolidated financial statements. During the six months ended 31 December 2016, the directors of the Company have considered the Group's client assets held on behalf of clients should be recognised and presented in the consolidated statement of financial position with corresponding accounts payable on a gross basis. The change results in a more appropriate presentation of the financial position of the Group which is in conformity with industry and market practice. Accordingly, the comparatives in the consolidated statements of financial position were restated as illustrated below:

	As previously reported HK\$'000	Adjustment HK\$'000	Restated HK\$'000
<b>Consolidated statement of financial position as at 30 June 2016</b>			
<b>Current assets</b>			
Accounts, loans and other receivables	305,121	12,148	317,269
Bank balances and cash – trust accounts	–	498,434	498,434
<b>Current liabilities</b>			
Accruals, accounts and other payables	109,428	510,582	620,010
<b>Consolidated statement of financial position as at 1 July 2015</b>			
<b>Current assets</b>			
Accounts, loans and other receivables	284,791	20,127	304,918
Bank balances and cash – trust accounts	–	831,246	831,246
<b>Current liabilities</b>			
Accruals, accounts and other payables	234,555	851,373	1,085,928

Other comparative figures have been reclassified to conform to the current interim period presentation.

# Management Discussion and Analysis

## The Market

In 2016, the PRC and Hong Kong financial markets were affected by the devaluation of the RMB and the uncertain economic outlook. The Hong Kong financial market was supported by the gradual recovery of the commodities markets and the confirmation in August of the launch of Shenzhen Hong Kong Stock Connect later in the year. The Hang Seng Index reached a recent high at 24,100 on 9 September 2016. However, the expected interest rate hikes in the US, economy slowdown in the Mainland and political and economic uncertainties in Europe still weighed on sentiment of the global financial markets. The matured economies outperformed the emerging economies due to the strength of the US currency which led to the outflow of funds from most emerging markets.

The Hang Seng Index closed at 22,001 at the end of December 2016, compared with 20,794 at the end of June 2016 and 21,914 at the end of December 2015. The average monthly turnover on the Main Board and GEM Board during the six months ended 31 December 2016 (“the first half year of FY2017”) was approximately HK\$1,371 billion, dropped by 25% as compared with HK\$1,821 billion for the first half year of FY2016. Funds raised from IPOs on the Main Board in the first half year FY2017 increased by 13% to HK\$148 billion, as compared with HK\$131 billion for the first half year of FY2016, mainly boosted by the listing of Postal Savings Bank of China Co., Ltd. at end of September that accounted for approximately 40% of the funds raised from IPOs during the period.

## Financial Highlights

The Group recorded a loss of HK\$16 million for the first half year of FY2017, as compared to a loss of HK\$30 million for the first half year of FY2016. After taking into account the other comprehensive income for the period, the Group recorded a total comprehensive expense of HK\$14 million, as compared to a total comprehensive expense of HK\$29 million for the first half year of FY2016.

Commission and fee income from our financial intermediary business was HK\$35 million for the first half year of FY2017, as compared with HK\$44 million for the first half year of FY2016. Interest and dividend income was HK\$16 million for the first half year of FY2017, an increase of 67% as compared with HK\$9 million for the first half year of FY2016. Rental income from investment properties was HK\$2 million for the first half year of FY2017, as compared with HK\$1 million for the first half year of FY2016. The Group recorded a net loss on the disposal of financial assets/liabilities and the remeasurement to fair value of HK\$1 million for the first half year of FY2017, as compared with HK\$21 million for the first half year of FY2016. General and administrative expenses amounted to HK\$59 million for the first half year of FY2017, slightly increased from HK\$56 million for the first half year of FY2016. Staff costs increased by HK\$4 million, mainly caused by the variable compensation related to the completion of the Company’s capital raising project during the period.

As explained in the notes to the financial statements, the Group has deposited HK\$40 million into an escrow account of a law firm but the law firm failed to return the deposit to the Group. The Group’s legal counsel is of the opinion that the Group has good prospects of succeeding on its claim against the law firm and that it is very likely that any judgement obtained would be satisfied. However, there might be a reduction in the ultimate recovery of the Escrow Funds by the amount of the service fees paid to the Group and legal fees and expenses for the lawsuit which might not be entirely recovered.

## Management Discussion and Analysis

### Business Development

On 1 December 2016, the Group entered into a joint venture agreement with several joint venture partners to establish a joint venture company in Chongqing, the PRC. Subject to final approvals of the China Securities Regulatory Commission (“CSRC”), it is contemplated that the joint venture company will become a full-licensed securities company principally engaged in the provision of regulated securities brokerage services, securities underwriting and sponsor services, proprietary trading, securities and asset management and any other business approved by the CSRC in the PRC. Pursuant to the joint venture agreement, the Group will make a capital contribution of RMB330 million (equivalent to approximately HK\$372 million) into the joint venture Company, representing a 22% equity interest in the joint venture company. The transaction will be fully financed by the Group’s internal resources and/or borrowings from financial institutions and/or alternative debt or equity financing. The Group will convene a special general meeting for the Company’s shareholders to consider and approve the joint venture agreement and the transactions in February 2017.

The Group set up a representative office in Vietnam during the first half year of FY2017 to address the increased global investment interest in Vietnam. The representative office will identify both local and international enterprises in Vietnam for our client services teams to provide various advisory services in Hong Kong.

### Brokerage

Total revenue of the division was HK\$24 million for the first half year of FY2017, as compared with HK\$26 million for the first half year of FY2016. The average daily market turnover decreased by 23% to HK\$66 billion for the first half year of FY2017, compared with HK\$86 billion for the first half year of FY2016. Hence, our brokerage commission income decreased by HK\$6 million to HK\$12 million for the first half year of FY2017, as compared with HK\$18 million for the first half year of FY2016. As a result of the increase in the average loans outstanding amount, interest income from brokerage and loan financing clients increased by HK\$2 million to HK\$7 million for the first half year, as compared with HK\$5 million for the first half year of FY2016.

The Company placed new shares to an independent third party placee on 13 July 2015. The placee paid the remaining balance of the placing proceeds of HK\$73 million to the placing agent, a subsidiary of the Group, in July 2016 and paid interest expense of HK\$3 million for the late settlement of the proceeds during the period.

### Corporate Finance and Capital Markets

Total revenue of the division was HK\$21 million for the first half year of FY2017, as compared with HK\$26 million for the first half year of FY2016. The division, acting as the sponsor, completed the listing of Crosstec Group Holdings Limited in September 2016. The division also acted as compliance advisor of several listed companies and completed a number of financial advisory projects in this period. As a result, advisory fee income increased by HK\$3 million to HK\$16 million for the first half year of FY2017, as compared with HK\$13 million for the first half year of FY2016. Capital market remained lacklustre in our target client segment and the underwriting and placement fee decreased to HK\$5 million for the first half year of FY2017 from HK\$10 million for the first half year of FY2016.

### Asset Management

Total revenue of the division was HK\$1 million for the first half year of FY2017. The division is now approaching several private equity funds and high net worth clients to provide assets management services to generate more revenue.

## Proprietary Investment

Total revenue of the division was HK\$5 million for the first half year of FY2017, as compared with HK\$4 million for the first half year of FY2016. After including net loss on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value, total income was HK\$1 million for the first half year of FY2017, as compared with total loss of HK\$18 million for the first half year of FY2016. As at 31 December 2016, the carrying value of the unlisted investments, listed securities and listed debt securities was HK\$36 million, HK\$194 million and HK\$65 million respectively (30 June 2016: HK\$36 million, HK\$125 million and HK\$44 million). The Group continued to diversify its investment portfolio by invested in different investment products managed by external and internal investment managers. The Hang Seng Index rebounded and reached a recent high of 24,100 on 9 September 2016 from 20,794 on 30 June 2016 and closed at 22,000 on 31 December 2016. Under such volatile market conditions, our investment portfolio recorded a trading loss of HK\$4 million for the first half year of FY2017. The investment portfolio received interest and dividend income of HK\$5 million which compensated the trading loss recorded.

## Properties Investment

Total revenue of the division was HK\$2 million for the first half year of FY2017, as compared with HK\$1 million for the first half year of FY2016. The rental income received from these properties provided stable cash inflow for the division. Total Hong Kong retail sales value declined and overall prime street rents have dropped, therefore the fair value of our retail shop located at Kwun Tong decreased by HK\$1 million to HK\$60 million for the first half year of FY2017. The fair value of our office property located at Beijing was HK\$27 million. Fair value decreased by an immaterial amount as a result of the devaluation in the RMB.

## Outlook

Despite of the uncertainties following the inauguration of the new President of the United States, most capital markets performed well during January 2017. However, the markets are still concerned about the political uncertainties arising from upcoming elections in France and Germany and the pace of interest rate hikes in the United States. There are also increased concerns on the international trade relationships following the signing of an executive order by the new President of the United States to withdraw from the Trans-Pacific Partnership. As an international financial centre, the Hong Kong market is going to be affected by any unexpected developments in these international events.

## Liquidity And Financial Resources

Total assets as at the end of December 2016 were HK\$1,704 million, of which approximately 70% were current in nature. Net current assets were HK\$444 million, accounting for approximately 47% of the net assets of the Group as at end of December 2016. The Group had cash and cash equivalents of HK\$180 million as at end of December 2016, which was mainly denominated in Hong Kong dollars.

The Group generally finances its daily operations from internal resources. Total secured borrowings of HK\$75 million as at the end of December 2016 was used to finance the investment portfolio of the Group. The bank borrowings were secured by the office property with carrying value of HK\$297 million and corporate guarantee of HK\$150 million provided by the Company. The bank loans were denominated in Hong Kong dollars and charged at floating interest rate. The Group's gearing ratio, calculated as a percentage of total borrowings over shareholder's equity, was approximately 8% as at the end of December 2016.

The Group had no material contingent liabilities as at the end of December 2016. The Company provided corporate guarantees of HK\$364 million for banking facilities granted to its subsidiaries.

## Management Discussion and Analysis

### Foreign Exchange Exposure

The Group's assets are mainly in Hong Kong and the PRC and most of the monetary assets and liabilities of the Group are denominated in HK\$. As part of our investment monitoring, financial assets denominated in foreign currencies, including equity and debt investments, are monitored on a daily basis together with the changes in market value of these investments. Financial instruments may be used as part of the overall investment strategy if deemed necessary by the investment managers. The Group purchased properties in the PRC for its own use and for investment purpose and debt securities denominated in RMB for proprietary trading. Taking into account all relevant macroeconomic factors and the size of assets held, the Group believes that there is no need to hedge these assets denominated in RMB. Management will monitor the situation closely and introduce suitable hedging measures if there are any material adverse changes. The Group does not have other material exposure to fluctuation in exchange rates and no hedging instruments are used.

### Risk Management

The Group's business, financial conditions and results of operations may be affected by risks and uncertainties pertaining to the Group's business. The factors explained below could cause the Group's financial conditions or results of operations to differ materially from expected or historical results. Please refer to the note "Financial instruments" on page 18 for a more detailed discussion of specific risks. There may be other risks in addition to those mentioned in the Interim Report that are unknown to the Group, or which may not be material now but could be material in the future.

The Group's results are affected by trends in the industry in which it operates, particularly, investment, brokerage, corporate finance and capital markets. Income from these operations is dependent upon the interest rates, conditions in global investment and money markets and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's financial conditions and results of operations.

The Group operates in highly competitive and rapidly changeable markets. New market entrants, the intensification of price competition by existing competitors, product innovation or technical advancement could adversely affect the Group's financial conditions and results of operations. When the price of securities (listed or unlisted) decreases, it will adversely affect the value of our investment portfolio.

## Risk Management (Continued)

The introduction of new legislation and rules by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Hong Kong Securities and Futures Commission and other regulatory bodies in Hong Kong and overseas may induce change in market conditions that may adversely affect the operating results of the Company.

## Risk Management Policies and Procedures

The Group has established policies and procedures for risk management which are reviewed regularly by the management to ensure the proper monitoring and control of all major risks arising from the Group’s activities at all times. The Group’s Legal and Compliance Department, together with the Finance and Accounts Department and other control committees also perform regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group to ensure compliance with policies and procedures.

## Employees

As at 31 December 2016, the number of full time employees of the Group was 102 (30 June 2016: 97). Remuneration and bonus are based on performance and are reviewed annually in conjunction with the annual employee performance appraisal. It also takes into consideration the results of the division to which the employee belongs and the Group as a whole. The Group provides a full induction program and in-house training courses to all staff – particularly professionals registered with relevant regulatory bodies who must meet their mandatory continued professional training requirements. A share option scheme is available to directors, employees and consultants of the Group.

## Interim Dividend

The Board of Directors has declared an interim dividend of 0.2 HK cent per ordinary share for the six months ended 31 December 2016 (six months ended 31 December 2015: 0.2 HK cent). The dividend will be payable on Thursday, 20 April 2017 to shareholders whose names appear on the Register of Members at the close of business on Thursday, 23 March 2017.

## Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 21 March 2017 to Thursday, 23 March 2017, both days inclusive, during which period no transfers of shares will be registered. To determine entitlement to the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrars, Computershare Hong Kong Investor Services Limited (at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong), for registration not later than 4:00p.m. on Monday, 20 March 2017.



## Management Discussion and Analysis

## Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 31 December 2016, the interests and/or short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV the Hong Kong Securities and Futures Ordinance ("SFO")), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company were as follows:

### (I) INTEREST IN LONG POSITIONS OF ORDINARY SHARES OF THE COMPANY

Name of director	Type of interest	Number of ordinary shares in the Company	% of total issued shares
Dr Jonathan Koon Shum Choi*	Corporate	2,391,447,327	43.31%
Dr Jonathan Koon Shum Choi	Personal	667,880,473	12.10%
Mr Michael Koon Ming Choi	Personal	19,270,203	0.35%

\* Dr Jonathan Koon Shum Choi is deemed to be interested in 2,391,447,327 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section "Substantial shareholders' interests and short positions in the shares and underlying shares of the Company" shown on page 30.

### (II) INTEREST IN LONG POSITIONS OF COMMON SHARES OF SUNWAH INTERNATIONAL LIMITED ("SIL"), THE ULTIMATE HOLDING COMPANY OF THE COMPANY

Name of director	Personal interest	Corporate interest	Total number of common shares	% of total issued shares
Dr Jonathan Koon Shum Choi*	10,653,096	74,371,646 (Note 1)	85,024,742	91.3%
Mr Michael Koon Ming Choi	118,937	23,405,487 (Note 2)	23,524,424	25.3%

\* By virtue of his interest in SIL, Dr Jonathan Koon Shum Choi is deemed to be interested in the shares of the subsidiaries (including the Company as disclosed in section (I) above) of SIL under the SFO.

Notes:

- (1) Of these, 36,966,159 shares are held by Sun Wah Capital Limited, 14,000,000 shares are held by Scarlet Red Limited and the remaining 23,405,487 shares are held by Perfect Dream Holdings Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited, Scarlet Red Limited and Perfect Dream Holdings Limited, respectively.
- (2) The 23,405,487 shares are held by Perfect Dream Holdings Limited, Mr Michael Koon Ming Choi is deemed to be interested in these shares as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Perfect Dream Holdings Limited.

## Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)

### (III) INTEREST IN UNSECURED DEBENTURES ISSUED BY SIL

Name of director	Type of interest	Principal amount of debentures
Dr Jonathan Koon Shum Choi*	Corporate	C\$4,500,000
Mr Michael Koon Ming Choi**	Corporate	C\$1,500,000

\* The debentures are held by Sun Wah Capital Limited. Dr Jonathan Koon Shum Choi is deemed to be interested in these debentures as he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Sun Wah Capital Limited.

\*\* The debentures are held by Ideal Performance Limited, a company wholly owned by Mr Michael Koon Ming Choi who is deemed to be interested in these debentures.

*Note:*

The debentures bear an interest at the rate of 8% per annum payable semi-annually and matured on 19 September 2017.

Save as disclosed above, none of the directors and chief executive of the Company or any of their spouses or children under 18 years of age has interests or short positions in the shares, underlying shares or debentures of the Company and associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Save as disclosed above, as at 31 December 2016, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or any of their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

Save as disclosed above, at no time during the period was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any other body corporate.

## Management Discussion and Analysis

### Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 December 2016, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

	Name of shareholder	Country of incorporation	Number of ordinary shares in the Company		% of total issued shares	Note
			Direct interest	Deemed interest		
(1)	World Developments Limited	British Virgin Islands	2,391,447,327	–	43.31%	(a)
(2)	Innovation Assets Limited	British Virgin Islands	–	2,391,447,327	43.31%	(a)
(3)	SIL	Bermuda	–	2,391,447,327	43.31%	(a)
(4)	Sun Wah Capital Limited	British Virgin Islands	–	2,391,447,327	43.31%	(a)
(5)	廣州匯垠發展投資合夥企業	PRC	290,000,000	–	5.25%	

Note:

- (a) These shares represent the same interest and are therefore duplicated amongst World Developments Limited, Innovation Assets Limited, SIL and Sun Wah Capital Limited. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by SIL. Sun Wah Capital Limited beneficially owns approximately 40% of the issued share capital of SIL and therefore is deemed (by virtue of the SFO) to be interested in these 2,391,447,327 shares. Dr Jonathan Koon Shum Choi, beneficially owns or has control of more than one-third of the issued share capital of SIL and Sun Wah Capital Limited and therefore is deemed (by virtue of the SFO) to be interested in these 2,391,447,327 shares. Ms Janice Wing Kum Kwan, the spouse of Dr Choi, is deemed (by virtue of the SFO) to be interested in these 2,391,447,327 shares.

Save as disclosed above, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified by any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

### Corporate Governance Code

The Company has applied the principles and has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the six months ended 31 December 2016 except for a deviation which is summarised below:

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election and, pursuant to code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Non-executive Directors of the Company are not all appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting (AGM) of the Company. Pursuant to the Bye-laws of the Company, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Board considers that the non-executive directors appointed without a specific term will not impair the quality of corporate governance of the Group as required by the principles set out in CG Code A.4.

## Purchase, sale or redemption of shares

During the six months ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months period under review and they have all confirmed that they have complied with the required standard set out in the Model Code.

## Changes in Directors' Information

The changes in the Directors' information as required to be disclosed pursuant to Chapter 13.51B(1) of the Listing Rules are set out below:

Ms Elizabeth Law

During this period, Ms Law was appointed as Independent Non-Executive Director of Clifford Modern Living Holdings Limited

## Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the interim report and the unaudited condensed consolidated financial statements for the six months ended 31 December 2016. Terms of reference of the Audit Committee are available on request to shareholders of the Company. The Audit Committee is also responsible for reviewing the Group's financial controls, risk management and internal control systems. The Audit Committee has begun to implement the above responsibilities, including without limitation, reviewing the Company's risk relating to strategy, operation and finance and enhancing the Group's capacity to cope with the risk associated with the business of the Group.

On behalf of the Board

**Michael Koon Ming Choi**

*Chief Executive Officer*

Hong Kong, 13 February 2017

# Independent Review Report

# Deloitte. 德勤

## To the Board of Directors of Sunwah Kingsway Capital Holdings Limited

### Introduction

We have reviewed the condensed consolidated financial statements of Sunwah Kingsway Capital Holdings Limited (the “Company”) and its subsidiaries set out on pages 2 to 22, which comprise the condensed consolidated statement of financial position as of 31 December 2016 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

13 February 2017

# Directory of Licensed Subsidiaries and Affiliates

## LICENSED SUBSIDIARIES OF SUNWAH KINGSWAY CAPITAL HOLDINGS LIMITED

### **Kingsway Financial Services Group Limited**

Licensed Corporation of the Hong Kong Securities and  
Futures Commission

Exchange Participant of The Stock Exchange of Hong Kong  
Broker Participant of Hong Kong Securities Clearing  
Company Limited

Exchange Participant of Hong Kong Futures Exchange  
Participant of HKFE Clearing Corporation Limited

Options Trading Exchange Participant of SEHK

SEOCH Direct Clearing Participant

Lead Underwriter and Securities Broker licence for

B-Shares of Shenzhen and Shanghai Stock Exchanges

granted by the China Securities Regulatory Commission

B-Shares Special Seat Holder of Shenzhen Stock Exchange

B-Shares Tangible Trading Seat Holder of Shanghai Stock  
Exchange

B-Shares Special Clearing Participant of China Securities

Depository and Clearing Corporation Limited –

Shenzhen Branch

B-Shares Clearing Participant of China Securities

Depository and Clearing Corporation Limited –

Shanghai Branch

### **Kingsway Capital Limited**

Licensed Corporation of the Hong Kong Securities and  
Futures Commission

Main Board and GEM Board Sponsor of The Stock Exchange  
of Hong Kong

### **Kingsway SW Asset Management Limited**

Licensed Corporation of the Hong Kong Securities and  
Futures Commission

### **Kingsway SW Finance Limited**

Money Lender registered with the HKSAR Government

## AFFILIATED & OVERSEAS OFFICES

### **Canada**

- Kingsway Capital of Canada Inc.  
8 King Street East, Suite 1201, Toronto, Ontario,  
Canada M5C 1B5

### **China**

- Kingsway Financial Services Group Ltd. – Beijing  
Representative Office
- Beijing Kingsway Advisory Limited  
18/F, Block 1, Henderson Centre,  
18 Jianguomenneida,  
Beijing, 100005, PRC
- Shanghai Kingsway Financial Consultancy Limited  
Room 2038-2039, Catic Building, 212 Jiangning Road,  
Jingan, Shanghai 200041, PRC
- Shenzhen Kingsway Financial Consultancy Limited  
701, Tower A, Aerospace Skyscraper,  
4019 Shennan Road, Futian District, Shenzhen,  
518048, PRC

## ULTIMATE HOLDING COMPANY

### **Sunwah International Limited**

A listed company on the Toronto Stock Exchange

