SHENWAN HONGYUAN (H.K.) LIMITED
申萬宏源(香港)有限公司

(Incorporated in Hong Kong with limited liability)(於香港註冊成立之有限公司)
(Stock Code 股份代號:218)

annual report 2016 年報

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhu Minjie *(Chairman)*
Chen Xiaosheng
Guo Chun *(Chief Executive Officer)*
Lee Man Chun Tony

Non-executive Director

Zhang Lei

Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

AUDIT COMMITTEE

Ng Wing Hang Patrick *(Chairman)*
Kwok Lam Kwong Larry
Zhuo Fumin

REMUNERATION COMMITTEE

Kwok Lam Kwong Larry *(Chairman)*
Ng Wing Hang Patrick
Zhuo Fumin

NOMINATION COMMITTEE

Zhu Minjie *(Chairman)*
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

COMPANY SECRETARY

Wong Che Keung Leslie

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Limited Macau Branch
Bank of Communications Co., Ltd., Hong Kong Branch
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation, Hong Kong Branch
Dah Sing Bank, Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Oversea-Chinese Banking Corporation Limited, Hong Kong Branch
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

AUDITORS

KPMG

REGISTERED OFFICE

Level 19
28 Hennessy Road
Hong Kong

SHARE REGISTRARS & TRANSFER OFFICE

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

WEBSITE

http://www.swhyhk.com

CHAIRMAN'S STATEMENT

I hereby present to the shareholders the annual report of Shenwan Hongyuan (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2016.

RESULTS

For the year ended 31 December 2016, the Group recorded a profit before tax of approximately HK$91 million, representing a decrease of 55% as compared with HK$203 million in 2015. Net profit attributable to shareholders of approximately HK$82 million, representing a decrease of 55% as compared with HK$184 million in 2015. The turnover decreased by 40% to approximately HK$416 million (2015: HK$697 million). The basic earnings per share decreased by 55% to HK10.33 cents as compared with HK23.21 cents in 2015.

DIVIDEND

The board of directors (the "Board") of the Company has resolved to recommend the payment of a final dividend of HK4 cents per ordinary share in respect of 2016, to shareholders whose names appear on the register of members of the Company on 19 May 2017. The proposed dividend will be paid on or about 1 June 2017 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

2016 MARKET REVIEW

From the macroeconomics perspective in the Chinese Mainland, as driven by the upward momentum in both sales volumes and prices of the real estate market in the first half year of 2016, a certain extent of increases were seen in the new construction area and the price of some commodities. The recovery of CPI and PPI also drove up the market gradually and mitigated the worries on deflation. The bond yields still showed a downward trend which was attributable to continuous asset shortage and market pessimistic economic outlook. In the second half of 2016, with the supply-side reform progressing and the strengthening of environmental protection policies implementation, there was apparent contraction in the supply of certain raw materials and manufacturing industry, and bulk commodity price showed a significant recovery.

From the global market environment perspective, more risk events were seen in the first half of 2016, which included capital flight to safe-haven assets such as gold and bonds due to the risk events like Brexit. On the other hand, cross-border capital returned to emerging markets in the first half year due to the weak U.S. economic recovery and oil price rebound. The global bonds markets experienced diverted retracements due to the strong U.S. dollars recovery in the second half year, and expected increase in interest rates after the December FOMC meeting. Also, the election of the new president in the U.S. also gave the market an expectation of gradual stronger fiscal policies, and the stock markets showed signs of capital funds moving back to the U.S.

The Chinese Mainland market witnessed significant fluctuations in early 2016. The RMB exchange rate fluctuation had affected the market risk preference. Following the settling down of market sentiments, the index showed some rise and transaction volume also went up gradually. The market in Chinese Mainland in 2016 went up steadily but its style showed an obvious change when compared with 2015. The blue chips outperformed the growth stocks in 2016 mainly due to lower valuation, state-owned enterprise reform expectation, cyclical commodity price recovery and the placement of off-line subscription of new issue shares.

CHAIRMAN'S STATEMENT *(Cont'd)*

2016 MARKET REVIEW *(Cont'd)*

The Hong Kong market continued its recovery after significant fluctuations in early 2016. The risk events affecting the market in Hong Kong were assimilated quickly. The Shenzhen-Hong Kong Stock Connect was the biggest change in Hong Kong market in 2016, and at the same time, its announcement in mid-August also abolished the aggregate quota and opened the channels for placing the Hong Kong market for large-scale investment institutions in Chinese Mainland. Meanwhile, the launch of Shenzhen-Hong Kong Stock Connect also brought increasing liquidity for small and medium size stocks.

FUTURE PLAN & PROSPECTS

Looking from an international perspective, the current global political and macroeconomic policies are highly uncertain, the financial set-up is undergoing structural change, the U.S. dollars is entering the interest rate hike cycle and a series of policy adjustments may come under the new U.S. president, which may lead to the possible transfer of financial risk to emerging markets.

Looking from the Chinese Mainland perspective, although certain leading indicators had improved in the fourth quarter of 2016, the weak foundation for economic growth, debt deleverage, real estate industry de-bubbling, pressure of Renminbi depreciation, bonds default had affected the operation of capital markets. Effective prevention and solution of financial risks would become a major focus of the financial policy of Chinese Mainland in 2017, which is also a big challenge for the capital markets and securities industry.

We remain optimistic about the Chinese Mainland market, and considered the main catalyst in moving upwards in 2017 was state-owned enterprise reform, albeit pressure still exists in the first half year for the SME Board and GEM Board indexes that were represented by growth stocks. This was partly due to IPO acceleration, and partly due to lifting up of non-tradable shares restrictions. However, with the IPO rhythm being accepted by the market in the second half year, the pressure to lift up the non-tradable shares restrictions had mitigated, and we believe the growth stocks could usher in opportunities thereafter. Looking forward the Hong Kong market in 2017, we expect it will become a trend for banks and insurance institutions in the Chinese Mainland coming southbound to invest in large-scale financial capital stocks through Southbound Trading Link. The diminishing supply, machinery equipment replacement and improved distressed assets margins in banks will become the main force of Chinese stocks increase in Hong Kong. On the other hand, the settling down Chinese Mainland economy and the undervalued Chinese stocks may attract increasing placements for Hong Kong stocks by international funds and we believe the index in 2017 will continue to maintain a sound growing trend.

CHAIRMAN'S STATEMENT *(Cont'd)*

FUTURE PLAN & PROSPECTS *(Cont'd)*

During the year, Mr. Chu Xiaoming resigned as Executive Director and Chairman of the Board of the Company on 5 March 2016 due to devoting more of his time to the businesses of Shenwan Hongyuan Group Co., Ltd. and Shenwan Hongyuan Securities Co., Ltd. In addition, Mr. Lu Wenqing retired as Executive Director of the Company on 12 May 2016. On behalf of the Board and all staff of the Group, I would like to express our heartfelt and tribute to Mr. Chu Xiaoming and Mr. Lu Wenqing for their contributions to the Group.

Zhu Minjie
Chairman

Hong Kong
10 March 2017

MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE

REVIEW OF OPERATIONS

For 2016, the overall business development of the Group was steady with a turnover of HK$416 million (2015: HK$697 million), representing a year-on-year decrease of 40%. Profit before tax reached HK$91 million, representing a year-on-year decrease of 55% from HK$203 million for 2015. Profit attributable to shareholders decreased by 55% from HK$184 million for 2015 to HK$82 million for 2016. Revenue from each business segment dropped year-on-year.

For brokerage business, due to the significant year-on-year decrease in stock market's average daily turnover, revenue from brokerage business decreased by 44% year-on-year to HK$217 million for 2016 from HK$390 million for 2015. For corporate finance business, apart from considerable revenue generated from outstanding performance of placement projects, we also successfully completed the sponsoring/lead placing agent of 4 IPO projects, including the listing of ISDN Holdings Limited (1656) on the Main Board, Miricor Enterprises Holdings Limited (8358) on the GEM Board, Huajin International Holdings Limited (2738) on the Main Board and Future Data Group Limited (8229), a Korean enterprise, on the GEM Board. Among which, ISDN Holdings Limited and Miricor Enterprises Holdings Limited passed the listing hearing at the end of 2016, and listed in early January 2017. For 2016, revenue from corporate finance business decreased by 59% year-on-year to HK$47 million for 2016 from HK$114 million for 2015. The numbers of sponsoring/lead placing agent, underwriting participation/placement and financial advisory projects are 4, 13 and 19 respectively. Revenue from asset management business decreased by 66% year-on-year to HK$3.24 million for 2016 from HK$9.52 million for 2015. Revenue from financing and loans business decreased by 13% year-on-year to HK$149 million for 2016 from HK$171 million for 2015. The average margin loan balance for 2016 reached approximately HK$1.86 billion.

Brokerage business

The brokerage business of the Group focuses on the stock and futures markets in Hong Kong as well as overseas non-Hong Kong stock markets. The global financial market of 2016 is plagued by a series of uncertainties including the economic slowdown in Chinese Mainland is worse than expected; the possibility of RMB depreciation still exists; the continued decline in the oil price triggers financial problems for oil companies and financial institutions holding crude oil related products; the possible interest rate raising in the U.S. may trigger again the capital outflow in the emerging market; the local property market may be affected by the hike of dollar interests; and Brexit may give rise to the global economic recession, etc. Global investors are all very cautious about entering the market, which is clearly evidenced by the fact that the proportion of cash on hand in fund has hit a new record. Throughout the year, an average daily turnover of Hong Kong Stock Exchange decreased from HK$105.6 billion for 2015 to HK$66.9 billion for 2016. To weaken the impact of the decrease in the turnover of the Hong Kong stock market, the Group proactively introduces clients to participate in overseas stock markets and global futures markets, thus to reduce our reliance on a single market. In addition to expanding overseas stock markets and global futures markets, the Group continues to actively expand the domestic market to increase the number of new account opened for Hong Kong stocks. For 2016, the Group had closely cooperated with the International Business Division of the parent company to vigorously explore cross-border products, invested in overseas markets through QDII, satisfying domestic clients' demands to invest overseas. For 2016, the total size of fund was approximately US$400 million, including domestic institutions and individual customers invested in overseas markets such as Hong Kong, U.S., by using QDII channel. The absolute amount of commission income from Hong Kong securities under the brokerage business decreased from HK$282 million for 2015 to HK$124 million for 2016 representing a year-on-year decrease of 56%, with its percentage to total income from brokerage business decreased from 72% for 2015 to 57% for 2016. The percentage of brokerage income other than commission income from Hong Kong securities to total income from brokerage business increased from 28% for 2015 to 43% for 2016.

MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE *(Cont'd)*

REVIEW OF OPERATIONS *(Cont'd)*

Brokerage business *(Cont'd)*

For the institutional brokerage business, the Group further integrated its overseas offices and sales teams for centralising its management and joint marketing, and actively expanded the comprehensive institutional business, which included share placement and RQFII products marketing. The Group has introduced the equity capital markets team to actively develop block trades from institutional clients and placement business since 2015. While in 2016, the Group further introduced the bonds market team to actively develop the bond placement business and generated contributions. The percentage of trading volume in Hong Kong securities of our institutional sales team to the Group was 32% for 2016.

Financing and loans business

Due to the continuous low Hang Seng Index and Hang Seng China Enterprises Index, and the extended downturn of average daily turnover for 2016, clients' appetite to borrow is affected accordingly. Under this circumstance, the Group has taken timely measures to meet clients' demand for borrowings, and actively developed project loans that are linked with investment banks and institutional customers for the purpose of reducing the decline in interest income of general customers. In addition, the Group succeeded in negotiating with a number of banks on reducing the interest rate of borrowed funds so as to reduce the interest expense. The average margin balance was approximately HK$1.855 billion for 2016, while income decreased from HK$171 million for 2015 to HK$149 million for 2016, representing a year-on-year drop of 13%.

Corporate finance business

Shenwan Hongyuan Capital (H.K.) Limited ("Shenwan Hongyuan Capital"), a wholly-owned subsidiary of the Group, is mainly engaged in the sponsor, financial advisory and securities underwriting businesses. For 2016, the numbers of sponsoring and lead placing agent, underwriting participation placement and financial advisory projects which the Group completed in total are 4, 13 and 19 respectively. The Group successively participated in 13 underwriting placement projects, including IPO of DFZQ (3958) and Vincent Medical Holdings Limited (1612), placement of China Digital Culture (Group) Limited (8175), Silk Road Energy Services Group Limited (8250), Asia Allied Infrastructure Holdings Limited (711) and Tonking New Energy Group Holdings Limited (8326), bonds placement of Dongxing Securities (Hong Kong) Company Limited, China Guochu Energy Chemical Group Co., Limited and Zhenjiang Transportation Industry Group Co., Ltd. and the placements of 4 sponsoring and lead placing agent projects mentioned above.

Securities research business

Our securities trading and brokerage businesses are professionally supported by a securities research team of the Group. With the support of our parent company, which is one of the leading securities companies in the Chinese Mainland, the Group has become a specialist in the research of the Chinese Mainland securities and prepares detailed company analytical reports for circulation to our clients. In 2016, the securities research team of the Group had issued a total of over 9,000 research reports, covering macroeconomics, market strategy and different industries, providing thorough and incisive analysis of Hong Kong stock and A Shares in China for clients. After developing Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the research service needs offered by the Group for clients are further improved.

In 2016, a total of 40 analysts either in person or invited Hong Kong listed companies to meet with our clients from Hong Kong, Asia and Europe and America and had completed the holding of 70 international road shows for the whole year. We believe that such excursions were beneficial to the collaboration between our parent company and us and posed positive impact on the research and investment banking fronts.

MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE *(Cont'd)*

REVIEW OF OPERATIONS *(Cont'd)*

Asset management business

Shenwan Hongyuan Asset Management (Asia) Limited ("Shenwan Hongyuan Asset Management"), a subsidiary of the Group, is engaged in asset management business. Shenwan Hongyuan Asset Management fully elaborated on RQFII innovative policy to vigorously conduct cross-border asset management business. The total asset management size decreased from approximately HK$4.220 billion at the end of 2015 to approximately HK$4.116 billion at the end of 2016; revenue from asset management business decreased by 66% year-on-year from HK$9.52 million for 2015 to HK$3.24 million for 2016.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2016, the total number of the issued ordinary shares was 796,138,689 shares (2015: 796,138,689) and total equity attributable to shareholders was approximately HK$2.09 billion (2015: HK$2.08 billion).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2016, the Group had a cash holding of HK$388 million (2015: HK$512 million) and investments at fair value through profit or loss of HK$110 million (2015: HK$43 million). As at 31 December 2016, the Group's total unutilised banking facilities amounted to HK$4,117 million (2015: HK$2,911 million), of which HK$2,771 million (2015: HK$1,346 million) could be drawn down without the need of notice period or completion of condition precedent.

As at 31 December 2016, the Group had outstanding short-term bank borrowings amounting to HK$279 million (2015: HK$750 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2016 were 138% (2015: 138%) and 13% (2015: 36%) respectively.

The Group has sufficient financial resources for its day to day operations as well as spare capacity to take advantage of any investment opportunities when they arise.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group did not hold any significant investment and did not have any material acquisition or disposal.

CHARGES ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 31 December 2016.

MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE *(Cont'd)*

RISK MANAGEMENT

The Group has properly put in place credit management policies which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are reviewed and updated regularly.

The management closely monitors the market condition so that precautionary measures will be taken to eliminate any risk that the Group may encounter. As at 31 December 2016, the advances to customers were overdue account receivables from cash clients and margin financing. The balance of overdue account receivables from cash client amounted to HK$33 million (2015: HK$69 million). The balance of margin financing amounted to HK$1,792 million as at 31 December 2016 (2015: HK$2,054 million), of which 27% (2015: 19%) was attributable to corporate customers with the rest attributable to individual customers.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars and Renminbi. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the consolidated statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and take necessary measures when the situations so justify.

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Future Plan & Prospects" in the Chairman's Statement, the Group had no other future plans for material investments or capital assets as at 31 December 2016.

EMPLOYEES

As at 31 December 2016, the total number of full-time employees was 275 (2015: 253). The total staff costs for the year amounted to approximately HK$139 million (2015: HK$194 million).

CORPORATE SOCIAL RESPONSIBILITY REPORT

In 2016, the Group adopted a series of environmental-friendly measures in the workplace and served the community through organising and participating in various charitable activities to demonstrate our commitment to corporate social responsibility.

ENVIRONMENTAL

Environmental Performance

In 2016, the Group committed to manage its operations in an efficient and sustainable manner, and we continually look for opportunities to improve our environmental performance by reducing energy and use of other resources.

Environmental Impacts

As a financial services institution, our direct environmental impacts mainly resulted from the energy use and associated green house gas (GHG) of our offices and branches in Hong Kong region. Other key environmental impacts resulted from the use of company car, paper consumption and disposal of information technology (IT) equipment.

Greenhouse Gas Emissions Reduction and Energy Saving

Our Group generates GHG indirectly through electricity consumption to operate our facilities. We have committed to reduce our GHG emissions by improving our operational efficiency. In 2016, the direct GHG emissions generated by the Group's company car amounted to 14.7 tonnes of carbon dioxide[1] and indirect GHG emissions generated by the Group's electricity consumption (Hong Kong business) amounted to 653 tonnes of carbon dioxide[1]. Compared with the amount of GHG emissions in 2015, we have reduced our direct and indirect GHG emissions by about 3% and 2% respectively.

Energy consumption accounts for a major part of the Group's GHG emissions. Various energy saving measures have been implemented to improve operational efficiency and to reduce energy consumption of the Group. In 2016, the Group started to install energy efficient LED lighting across the offices by phases. The project is expected to reduce the office's lighting-related energy usage by more than 10% after all the phases are completed. Furthermore, all incandescent light bulbs were replaced by energy saving bulbs and higher energy-efficiency office equipment was adopted in our workplaces.

1 *Calculated on the basis of the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for buildings in Hong Kong", as drawn up by the Electrical and Mechanical Services Department and the Environmental Protection Department.*

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

ENVIRONMENTAL *(Cont'd)*

Sustainable Paper Use

The Group has sought to increase the use of paper that is independently certified as sourced from sustainably managed forests. In 2016, approximately 78% of the paper purchased by our Group was sustainably certified. In addition, the Company uses the FSC (Forest Stewardship Council) certified printing paper for the production of its corporate communications, such as annual reports, interim reports, circulars, etc.

The Group also strives to reduce the use of paper by offering paperless billing options for customers and has implemented smart printing and photo-copying methods in our workplaces. Moreover, we have arrangements with vendors to recycle used papers in Hong Kong.

Managing IT Equipment

The use and disposal of IT equipment such as computers and servers is another focus of our operational sustainability efforts. IT hardware has a range of potential environmental impacts across its life cycle from production and use to eventual disposal. The Group has committed to extend the lifespan of IT equipment by donating the unused equipment to non-profit making organisations. All IT equipment we recycled or donated has passed our strict data security tests.

Hazardous waste

No hazardous waste was generated in connection with the Group's business.

Plans for 2017

- To further reduce electricity consumption by implementing additional energy saving measures.

- To further reduce paper use by promoting paperless environment for internal communications.

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

ENVIRONMENTAL *(Cont'd)*

Environmental Performance Summary[1]

Emissions[2]

Indicators	2016	2015
Total GHG emissions[3] (Scope 1 and 2) (tonnes)	**668**	686
Total GHG emissions (Scope 1 and 2) per unit floor area (tonnes/m^2)	**0.165**	0.169
Total GHG emissions (Scope 1 and 2) per employee (tonnes/employee)	**3.13**	3.52
Total GHG emissions (Scope 1, 2 and 3) (tonnes)	**704.48**	716.91
Total GHG emissions (Scope 1,2 and 3) per unit floor area (tonnes/m^2)	**0.174**	0.177
Total GHG emissions (Scope 1, 2 and 3) per employee (tonnes/employee)	**3.31**	3.68
Direct GHG emissions (Scope 1) (tonnes)		
Company car	**14.7**	15.2
Indirect GHG emissions (Scope 2) (tonnes)		
Electricity	**653**	671
Indirect GHG emissions[4] (Scope 3) (tonnes)		
Paper consumption	**35.04**	30.05
GHG emissions avoided by recycling of paper (tonnes)	**4.17**	0.66

1. Unless otherwise specified, the environmental data covers the Group's operation in Hong Kong region only.

2. Due to the Group's business nature, the most significant airborne emissions are GHG emissions, arising mainly from the use of electricity and fuels derived from fossil fuels.

3. GHG emissions data is presented in carbon dioxide equivalent and was based on the reporting requirements of the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)" issued by the EMSD and the EPD in Hong Kong.

4. The Group currently does not report on emission data relating to air travel. We plan to disclose this information in future reports.

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

ENVIRONMENTAL *(Cont'd)*

Environmental Performance Summary[1] *(Cont'd)*

Energy Consumption[2]

Indicators	2016	2015
Total energy consumption[3] (MWh)	**1000.30**	1028.49
Total energy consumption per floor area (MWh/m^2)	**0.247**	0.254
Total energy consumption per employee (MWh/employee)	**4.7**	5.27
Direct energy consumption (MWh)		
Unleaded petrol	**67.1**	69.4
Indirect energy consumption (MWh)		
Electricity	**933.2**	959.09

Paper Consumption

Indicators	2016	2015
Total paper consumption[4] (tonnes)	**7.3**	6.26
Office paper	**6.42**	5.24
Paper for financial statement printing	**0.88**	1.02
FSC certified paper used (%)	**78**	0

Water Consumption

In Hong Kong, the Group operates in leased office premises in which both the water supply and discharge are solely controlled by the building management offices which consider the provision of water withdrawal and discharge data or sub-metering for individual occupants not feasible.

1. Unless otherwise specified, the environmental data covers the Group's operations in Hong Kong region only.

2. Energy consumption data is based on the amount of electricity and fuels consumed.

3. Energy consumption is calculated in megawatt-hours, or MWh.

4. Includes paper used for printing customer financial statements, proposals and office documents.

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

SOCIAL

Employment and Labour Practices

(a) Employment

The Group maintains policies for the recruitment, compensation, promotion and training of staff. Pay surveys are conducted periodically by independent consultants appointed by the Group to maintain the Group's competitiveness in the market. With reference to market conditions, the Group will formulate relevant and proper remuneration and incentive plans to attract and retain talent. The Group supports equal opportunities and recruits competent candidates globally.

The Group was awarded the "2015/16 Family-Friendly Employers" designation by the Family Council in recognition of our value and continues to provide a pro-family culture and environment to our employees.

(b) Health and Safety

The Group is committed to providing a healthy and appropriate workplace for employees. We conducted an assessment on our offices with regard to the "Code of Practice for Working with Display Screen Equipment" in order to ensure compliance with the "Occupational Safety and Health (Display Screen Equipment) Regulations".

(c) Development and Training

Development and training is an ongoing process to ensure the continued enhancement of the skills and knowledge of employees. The Group has training policies and organises various training programmes to improve the skills of its employees and to increase the professionalism and efficiency of the Group. Employees are provided with on-the-job training throughout their employment with the Group. The Group also has policies for employee development. In compliance with Securities and Futures Commission requirements, the Group organised a total of 20 Continuous Professional Training seminars for all licensed staff members for the year ended 31 December 2016.

(d) Labour Standards

To maintain good employee relations, the Group is committed to providing a workplace free from discrimination and harassment in any form and to providing equal opportunities for all employees. All employees are made aware of the Group's employment policies and guidelines, which are in compliance with relevant laws and regulations. Staff regulations, employment terms and staff benefits can be accessed by all staff members in the Human Resources Manual put on the Group's intranet.

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

SOCIAL *(Cont'd)*

Operating Practices

(a) Supply Chain Management

The Group selects reliable vendors, agencies and third party financial institutions, collectively "suppliers", to support the business operations, and is committed as much as possible to conduct business only with suppliers that act in a socially responsible manner and within ethical expectations. The Group will take into account, among other things, reputation, track record of high corporate standards, expertise and capacity in the process of selecting the qualified supplier. In addition, appropriate management approvals is required to obtain before entering into any contract with a supplier. Such procedures aim at promoting operational efficiency, improving segregation of duties and making the best decision.

Moreover, in order to reduce the negative impacts on the environment and society, the Group will purchase and use more sustainable and efficient products and services. For example, we will procure the electrical appliances with higher energy efficiency and eco-friendly toner cartridges. Those suppliers with environmental certifications or caring company qualifications will win priority consideration.

(b) Product Responsibility

During the year, the Group was not aware of any incidents of non-compliance with relevant regulations and codes concerning advertising and privacy matter for the provision and use of the Group's products and services.

The Group has in place procedures relating to the services and products provided. To suit the client's needs, the financial services or products provided to clients are based on their financial background, trading experience and risk tolerance level after the "Know Your Clients" procedures and assessment processes were performed. We are committed to provide clear and balanced information to clients. Product features, terms and conditions, and any associated risks are clearly communicated to ensure clients can make an informed decision. Moreover, the Group has set standards for advertising and sales literature which require information contained in all advertising and sales literature must be factual and which prohibit the use of false, misleading or inaccurate statements in any form of communication.

In addition, the Group emphasises the importance of protecting the privacy of its clients and complies with the provisions of the Personal Data (Privacy) Ordinance in the collection, processing and use of client's personal data. Specific processes for the handling and protection of client data are set out in the relevant internal procedure manual. The Group will, where appropriate, include terms about the confidentiality of client data to avoid disclosure of client information and protect client privacy. During the year, the Group did not receive complaints from clients in relation to disclosure of information.

The Group has established policies to provide guidance to customer complaints handling procedures. At present, the Compliance Department is responsible for handling customer complaints.

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

SOCIAL *(Cont'd)*

Operating Practices *(Cont'd)*

(c) Anti-corruption

The Group maintains and effectively implements a comprehensive system of internal control and stringent policies, which include Compliance Manual and Employee Whistleblowing Procedures, for anti-corruption and anti-fraud, and is committed to promoting integrity and preventing unethical behaviour. We encourage the reporting of suspected business irregularities by providing easily accessible channels specifically for this purpose.

When suspected wrongdoings are identified, such as breach of duty, abuse of power, receiving bribes, staff can report to the Chairman of Audit Committee or Head of Compliance and Internal Audit for investigation and resolution. The Compliance and Internal Audit Department will then carry out investigation and verification, and report to the regulator or law enforcement authority when considered to be necessary.

Moreover, the Group has policy sets forth procedures for client's acceptance by conducting "Know Your Clients" procedures to understand the background and financial status of the clients. We will perform name searches to check whether a client is or is related to a politically exposed person who may present a higher bribery and corruption risk. Procedures are put in place to identify and mitigate the aforementioned risks. Clients will be refused of our services when considered to be suspicious.

The Group is committed to adhering to the highest ethical standards. During the year, no significant risks relating to corruption were identified. There were no confirmed incidents of corruption or public legal cases brought against the Group or its employees concerning corruption. The Group will continue to comply with ethical requirements and upholds its reputation to prevent corruption.

Community Investment

In terms of community involvement, the Group is committed to contributing to the community and fulfilling its corporate social responsibility undertakings. We support long-term community investment by establishing community partnerships and encouraging our employees to participate in volunteer services. In 2016, the Group continued its cooperation with the Chinese Young Men's Christian Association (YMCA) of Hong Kong, participated in various charitable and care activities, including organising volunteer teams to assist the Elderly College of Chinese YMCA in holding and sponsoring a graduation ceremony, sponsoring and joining the elderly visit activities. The Group also collaborates with the Tung Wah Group of Hospitals to co-ordinate activities for children from low-income families in promotion of social inclusion.

We hope not only to help people in need through our social activities, but also to cultivate in our employees the spirit of care and community contribution.

In 2016, the Group was once again awarded the "Caring Company" designation by the Hong Kong Council of Social Service in recognition of our approach and continuous contribution to the community.

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous waste.	• The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period.	10 – 11
KPI A1.1	Types of emissions and respective emissions data.	• Environmental – Environmental Impacts • Environmental – Greenhouse Gas Emissions Reduction and Energy Saving • Environmental – Environmental Performance Summary	10, 12
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	• Environmental – Greenhouse Gas Emissions Reduction and Energy Saving • Environmental – Environmental Performance Summary	10, 12
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	• The Group does not produce any hazardous waste from its operations.	Not applicable
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	• Environmental – Sustainable Paper Use • Environmental –Managing IT Equipment • Environmental – Environmental Performance Summary	11 – 13
KPI A1.5	Description of measures to mitigate emissions and results achieved.	• Environmental – Greenhouse Gas Emissions Reduction and Energy Saving	10
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	• Environmental – Sustainable Paper Use • Environmental – Managing IT Equipment • Operating Practices – Supply Chain Management	11, 15

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX TABLE *(Cont'd)*

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	• Environmental – Environmental Performance • Environmental – Greenhouse Gas Emissions Reduction and Energy Saving • Environmental – Sustainable Paper Use • Environmental – Managing IT Equipment • Environmental – Plans for 2017 • Operating Practices – Supply Chain Management	10, 11, 15
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	• Environmental – Greenhouse Gas Emissions Reduction and Energy Saving • Environmental – Environmental Performance Summary	10, 13
KPI A2.2	Water consumption in total and intensity.	• The Group operates in leased office premises of which both the water supply and discharge are solely controlled by the respective building management which considers the provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible.	Not applicable
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	• Environmental – Greenhouse Gas Emissions Reduction and Energy Saving • Environmental – Environmental Performance Summary	10, 13
KPI A2.4	Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable to the Group's business.	Not applicable
KPI A2.5	Total packaging material used for finished products (in tonnes).	Not applicable to the Group's business.	Not applicable

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX TABLE *(Cont'd)*

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	• Environmental – Environmental Performance • Environmental – Greenhouse Gas Emissions Reduction and Energy Saving • Environmental – Sustainable Paper Use • Environmental – Managing IT Equipment • Environmental – Plans for 2017 • Operating Practices – Supply Chain Management	10, 11, 15
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	• Environmental – Environmental Impacts • Environmental – Sustainable Paper Use • Environmental – Managing IT Equipment • Environmental – Plans for 2017 • Operating Practices – Supply Chain Management	10, 11, 15
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	• Employment and Labour Practices – Employment	14
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	• Employment and Labour Practices – Health and Safety	14

CORPORATE SOCIAL RESPONSIBILITY REPORT *(Cont'd)*

THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX TABLE *(Cont'd)*

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	• Employment and Labour Practices – Development and Training	14
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	• Employment and Labour Practices – Labour Standards	14
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	• Operating Practices – Supply Chain Management	15
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	• Operating Practices – Product Responsibility	15
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	• Operating Practices – Anti-corruption	16
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	• Community Investment	16

CORPORATE GOVERNANCE REPORT

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviation from the Code Provision A.6.7 which is explained as below, the Company has met all the code provisions stipulated in Appendix 14, Corporate Governance Code and Corporate Governance Report (the "Code"), of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2016.

Code Provision A.6.7 specifies that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other business engagements at that relevant time, two independent non-executive directors of the Company were unable to attend the annual general meeting and extraordinary general meeting of the Company both held on 13 May 2016, and a non-executive director and an independent non-executive director of the Company were unable to attend the extraordinary general meeting of the Company held on 4 November 2016.

CORPORATE GOVERNANCE PRINCIPLES AND SHENWAN HONGYUAN'S PRACTICES:

A.1 The Board of Directors

Principle: An issuer should be headed by an effective board which should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the issuer.

The board should regularly review the contribution required from a director to perform his responsibilities to the issuer, and whether he is spending sufficient time performing them.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Five board meetings and three general meetings, being the annual general meeting held on 13 May 2016 and two extraordinary general meetings held on 13 May 2016 and 4 November 2016 respectively, were held by the Company in the financial year ended 31 December 2016. Attendance record of each individual director is as follows:

Name of Directors	Number of board meeting(s) attended/held	Number of general meeting(s) attended/held
Executive Directors		
Chu Xiaoming *(Chairman) (resigned on 5 March 2016)*	1/1	n/a
Zhu Minjie *(Chairman) (appointed on 5 March 2016)*	4/4	2/3
Lu Wenqing *(retired on 12 May 2016)*	1/1	n/a
Chen Xiaosheng *(appointed on 5 March 2016)*	4/4	2/3
Guo Chun *(Chief Executive Officer)*	5/5	3/3
Lee Man Chun Tony	5/5	3/3
Non-executive Director		
Zhang Lei	5/5	2/3
Independent Non-executive Directors		
Ng Wing Hang Patrick	5/5	3/3
Kwok Lam Kwong Larry	5/5	1/3
Zhuo Fumin	4/5	0/3

Drafts of the agenda were sent to directors for comments before the meetings were held. They could include matters in the agenda for board meetings.

Notice of at least 14 days were given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice was given.

Minutes of the board meetings, and meetings of the Audit Committee, the Remuneration Committee and the Nomination Committee are kept by the Company Secretary. Minutes of other board committees (as listed under D.2 Board Committees) are kept by the appointed Secretary of each committee. Such minutes are open for inspection during office hour by any director by giving at least 2 days' notice to the Company Secretary.

Minutes of the board meetings and meetings of board committees have recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes were sent to all directors for their comment and records respectively, normally within one month after the board meeting was held.

The Company established a policy for any director to seek independent professional advice in appropriate circumstances, at the Company's expenses. The director is required to submit a request in writing to the Chairman stating the grounds for seeking the independent professional advice. The Chairman shall either approve the director's request directly, or if thinks fit, convene a board meeting to resolve the matter.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting.

The Company has arranged appropriate insurance cover in respect of legal actions against its directors. The coverage and the amount insured under such policy are reviewed annually by the Company.

A.2 Chairman and Chief Executive

Principle: There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Chu Xiaoming acted as the Chairman until he resigned on 5 March 2016 and was succeeded by Mr. Zhu Minjie since then, and Mr. Guo Chun acts as the Chief Executive Officer.

The respective responsibilities of the Chairman and Chief Executive Officer are clearly established. The Chairman is responsible for providing leadership for and the management of the Board whilst the Chief Executive Officer is responsible for the day-to-day management of the Group's business including the implementation of significant strategies formulated by the Board.

The Chairman ensured that all directors were properly briefed on issues arising at board meetings.

The Chairman is responsible for ensuring that directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.

The Chairman ensured that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner. The Chief Executive Officer and Company Secretary assisted the Chairman in preparing agenda for each board meeting and all directors have been consulted about any matters proposed for inclusion in the agenda.

The Chairman ensured that the Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Directors are encouraged to express their viewpoints to the Board's affairs and voice their concerns, if any, and are provided sufficient time for discussion of issues in the meetings and the Chairman directs discussions towards the emergence of a consensus view and then sum up discussions so that all directors understand what has been agreed.

During the financial year ended 31 December 2016, the Chairman held a meeting with the non-executive and independent non-executive directors without the presence of the executive directors.

The Chairman ensured that appropriate steps are taken to provide effective communication with shareholders and that their views were communicated to the Board as a whole. The Board has established a shareholders communication policy which is available on the Company's website.

A.3 Board Composition

Principle: The board should have a balance of skills, experience and diversity of perspectives appropriate for the requirements of the issuer's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

During the financial year, the composition of the Board of the Company with their respective names and titles are set out below:

Executive Directors
Chu Xiaoming *(Chairman) (resigned on 5 March 2016)*
Zhu Minjie *(Chairman) (appointed on 5 March 2016)*
Lu Wenqing *(retired on 12 May 2016)*
Chen Xiaosheng *(appointed on 5 March 2016)*
Guo Chun *(Chief Executive Officer)*
Lee Man Chun Tony

Non-executive Director
Zhang Lei

Independent Non-executive Directors
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

All directors were expressly identified by categories of executive directors, non-executive directors and independent non-executive directors in all corporate communications that disclose the names of directors of the Company.

An updated list of the directors of the Company identifying their role and function and whether they are independent non-executive directors is maintained on the websites of the Hong Kong Exchanges and Clearing Limited ("HKEx") and the Company.

A.4 Appointments, Re-election and Removal of Directors

Principle: There should be a formal, considered and transparent procedure for the appointment of new directors. There should be plans in place for orderly succession for appointments. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

All directors (including non-executive directors and independent non-executive directors) are appointed for a specific term, subject to retirement by rotation at least once every three years.

According to the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then number nearest to but not less than one-third, shall retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years. Further, any director newly appointed shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election.

The Board can appoint new director(s) either to fill a casual vacancy or as an addition to the Board between general meetings. Nomination Committee will make recommendation to the Board on such matter (see A.5 below). The director so appointed, however, shall retire and eligible to be re-elected in the coming general meeting. In addition, shareholder can also propose a candidate for election as director at a general meeting in accordance with the Articles of Association of the Company. The nomination procedures by shareholders are published on the website of the Company. All successful candidates must possess the necessary skills, knowledge and experience which can help the Board to direct the Company's business. In addition, all candidates must be able to meet the criteria stipulated in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rules 3.13 of the Listing Rules. To further enhance accountability, any further appointment of an independent non-executive director who has served the Board for more than 9 years will be subject to a separate resolution to be approved by shareholders.

A.5 Nomination Committee

Principle: In carrying out its responsibilities, the nomination committee should give adequate consideration to the Principles under A.3 and A.4.

The Nomination Committee of the Company was established in March 2012. The functions of the Nomination Committee are mainly to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspective) of the Board, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of independent non-executive directors, to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors as well as to monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy, as appropriate. Details of terms of reference of the Nomination Committee are published on the websites of HKEx and the Company.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

The Nomination Committee comprises the Chairman of the Company, Mr. Chu Xiaoming, until he resigned on 5 March 2016 and was succeeded by Mr. Zhu Minjie since then, and three independent non-executive directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin. Mr. Chu Xiaoming acted as the chairman of the Nomination Committee until he resigned on 5 March 2016 and was succeeded by Mr. Zhu Minjie since then.

The Nomination Committee held one meeting in the financial year ended 31 December 2016. The following is an attendance record of the meeting held by the Nomination Committee for the financial year:

Name of Committee Members	**Number of meeting(s) attended/held**
Chu Xiaoming *(Chairman) (resigned on 5 March 2016)*	1/1
Zhu Minjie *(Chairman) (appointed on 5 March 2016)*	n/a
Ng Wing Hang Patrick	1/1
Kwok Lam Kwong Larry	1/1
Zhuo Fumin	1/1

During the financial year, the Nomination Committee considered and made recommendation to the Board on the appointment of Mr. Zhu Minjie and Mr. Chen Xiaosheng as executive directors of the Company, reviewed the structure, size, composition and diversity of the Board, assessed the independence of each independent non-executive director, and made recommendation to the Board on the re-election of the retiring directors standing for re-election at the annual general meeting.

The Nomination Committee was provided with sufficient resources to perform its duties and it can seek independent professional advice at the Company's expense if necessary.

The Company adopted the Board Diversity Policy which sets out the approach to achieve diversity on the Board. When determining the composition of the Board, it will take into consideration a number of factors, including but not limited to, skills, knowledge, professional experience, gender, age, cultural and educational background, and other qualities of Directors. All Board appointments will be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board. The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

A.6 Responsibilities of Directors

Principle: Every director must always know his responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company shall receive guidance materials from the Company Secretary upon his appointment so as to enable the director having a proper understanding of the Company's operations and business and to ensure him to be fully aware of his responsibilities under statue and common law, the Listing Rules, applicable legal and other regulatory requirements and the Company's business and governance policies. A director can also request the Company Secretary to arrange him to attend any relevant course and seminar.

The functions of non-executive directors have included the functions as specified in Code Provision A.6.2(a) to (d).

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company made specific enquiry of all directors. According to their replies, all the directors complied with the requirements set out in the Model Code during the financial year ended 31 December 2016. The Company also complied with the other requirements stipulated in the Model Code.

Directors confirmed that they have complied with the Code Provision A.6.5 on directors' training. During the year, the directors have participated in continuous professional development by the following means to develop and refresh their knowledge and skills and provided a record of training to the Company.

Name of Directors	Training Received (Note)
Executive Directors	
Chu Xiaoming *(Chairman) (resigned on 5 March 2016)*	–
Zhu Minjie *(Chairman) (appointed on 5 March 2016)*	E
Lu Wenqing *(retired on 12 May 2016)*	–
Chen Xiaosheng *(appointed on 5 March 2016)*	A, B, C, E
Guo Chun *(Chief Executive Officer)*	A, B, E
Lee Man Chun Tony	A, B, D, E
Non-Executive Director	
Zhang Lei	A
Independent Non-Executive Directors	
Ng Wing Hang Patrick	A
Kwok Lam Kwong Larry	A, C
Zhuo Fumin	A, C

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Note:

A	Attending classes and/or seminars and/or forums
B	Attending in-house briefings
C	Giving talks at classes and/or seminars and/or forums
D	Attending training relevant to the Company's business conducted by lawyers
E	Reading materials and/or participate in activities relevant to the Company's business or to the directors' duties and responsibilities

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Upon reviewing (i) the annual confirmation of time commitment given by each director as well as the directorship and major commitments of each director held in public companies or organisations; and (ii) the attendance rate of each director on board meetings and committee meetings, it is satisfied that all directors have spent sufficient time in performing their responsibilities during the year.

A.7 Supply of and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

For regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers were sent in full to all directors in a timely manner and at least 3 days before the intended date of a board meeting and board committee meeting.

As mentioned in D.1 below, there are matters reserved to be approved by the Board. Management is aware of the obligation to supply the Board and its committees with adequate information, in a timely manner, to enable it to make informed decisions. The information supplied must be complete and reliable. The Board and individual directors have separate and independent access to the Company's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

B.1 The Level and Make-up of Remuneration and Disclosure

Principle: An issuer should disclose its directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the issuer successfully without paying more than necessary. No director should be involved in deciding his own remuneration.

The Remuneration Committee of the Company was established in April 2005. The functions of the Remuneration Committee are mainly to review and make recommendations to the Board on the Company's policy and structure for all remunerations of directors and senior management. The terms of reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.2(a) to (h), with appropriate modifications where necessary. The Remuneration Committee is delegated with responsibility to determine the remuneration packages of individual executive directors and senior management. Details of terms of reference of the Remuneration Committee are published on the HKEx's and Company's websites.

The Remuneration Committee presently consists of three independent non-executive directors, namely, Mr. Kwok Lam Kwong Larry, Mr. Ng Wing Hang Patrick and Mr. Zhuo Fumin. Mr. Kwok Lam Kwong Larry acts as the chairman of the Remuneration Committee.

The Remuneration Committee held two meetings in the financial year ended 31 December 2016. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Kwok Lam Kwong Larry *(Chairman)*	2/2
Ng Wing Hang Patrick	2/2
Zhuo Fumin	2/2

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration policies of the Group and compared with companies of similar scale as benchmark. Furthermore, the Committee made recommendations to the Board for the reward system of the Group, the salary increment of employees in 2016 and the reward of the Chief Executive Officer for 2016. None of the directors of the Company participated in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

The Remuneration Committee shall consult the Chairman and/or Chief Executive Officer about their remuneration proposals for the directors. The Remuneration Committee shall have access to independent professional advice if necessary.

The Remuneration Committee was provided with sufficient resources to perform its duties.

For the financial year ended 31 December 2016, the remuneration of the members of the senior management by band is set out below:

Remuneration bands	Number of senior management*
Nil – HK$3,000,000	1
HK$3,000,001 – HK$5,000,000	2

Details of the directors' remuneration and five highest paid employees for the financial year ended 31 December 2016 as required to be disclosed pursuant to Appendix 16 of the Listing Rules are provided in notes to the financial statements.

* The evaluation of the performance of the employees has not been completed. Thus, the amount of bonuses has not yet been determined and the final amount will be disclosed in due course.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

C.1 Financial Reporting

Principle: The board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

Management provided sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval.

Management provided all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

Directors have acknowledged their responsibility for preparing accounts of the Company.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditors' Report.

For the basis on which the Company generates or preserves value over the longer term and the strategy for delivery its objectives, please refer to Chairman's Statement and Management Discussion & Analysis of Performance respectively.

The Board presented a balanced, clear and understandable assessment of the Company in annual and interim reports and other financial disclosures required by the Listing Rules, and also for the reports to regulators and information disclosed under statutory requirements.

C.2 Risk Management and Internal Control

Principle: The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems.

Audit Committee

The Audit Committee is delegated by the Board with the responsibilities to monitor the Group's overall risk management and internal control system, and to advise the Board on the Group's risk management and internal control related matters. The Audit Committee is also responsible to assess the effectiveness of the Group's risk management and internal control measures (including financial, operational, information technology, compliance monitoring and risk management measures).

On behalf of the Board, the Audit Committee carries out regular review on business processes and operations, considers findings on major risk management and internal control related matters and the management's response to these findings. The Audit Committee also reviews the risk management and internal control systems of the Group with the management to ensure that the management has performed its duty to put in place an effective system.

In addition, the Audit Committee reviews and monitors the effectiveness of the function of the Internal Audit Department, ensures it is adequately resourced and has appropriate status within the Group. For the external auditor, the Audit Committee reviews and monitors the external auditor's independency and objectivity and the effectiveness of their audit in accordance with applicable standards. The Audit Committee also discusses the nature and scope of the audit and reporting obligations with the external auditor before the commencement of the audit. External auditor also reports their audit findings and the internal control matters identified during the audit to the Audit Committee. After a detailed review of the effectiveness of the Group's internal control systems, the Audit Committee will report their findings to the Board.

The Audit Committee is currently composed of three independent non-executive directors, it has held three meetings in the financial year ended 31 December 2016. List of the Audit Committee members and the attendance record of the meeting held by the Audit Committee are set out under the section headed "Corporate Governance Report" C.3 Audit Committee.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Group's Risk Management Structure

Three committees have been established under the Board of the Group to assist the Board in formulating the policies and monitoring the implementation of the risk management and internal control related matters. The accountability structure between the Board and the Committees and their major responsibilities are as follows:

Board

- Safeguards the interests of stakeholders and the Group's assets
- Determines the Group's strategic objectives
- Ensures the Group has established an adequate and effective risk management and internal control system and has the ultimate responsibility for such matters

→ **Audit Committee**

- Performs the functions of monitoring the Group's overall risk management and internal control system

↓

Executive Committee

- Assists the Board in dealing with major matters of the Group's business operations and implementing effective risk management system
- Formulates the Group's business operations strategy, monitors regularly its implementation status, and to implement risk control measures on major matters involved in the business activities

↓

Management Committee

- Holds regular meetings to make day-to-day business decisions (including formulating the risk management measures and supervising its execution): the decision of the Management Committee will be reported to the Executive Committee on a regular basis

Internal Audit Department

Apart from the aforesaid three committees, the Group has an independent Internal Audit Department to support the Board to monitor the Group's corporate governance compliance and to ensure a sound and effective internal control system is established. The Internal Audit Department independently evaluates and reviews departments' compliancy with the policies, procedures and guidelines of the Group, as well as the applicable rules and regulatory requirements.

In addition, the Internal Audit Department also carries out specific audits on particular areas as directed by the Audit Committee. During the audit, the Internal Audit Department will assess the suitability and effectiveness of the Group's current operational processes and internal control systems. If weaknesses are identified, the Internal Audit Department will provide recommendations to the relevant departments, monitor the remediation progress, and report to the Audit Committee on the key findings and the rectification status on a regular basis.

Three Lines of Defence Model

The Group has adopted a "three lines of defence" model to establish an effective risk management and internal control systems:

First line of defence – Risk management (All departments)

Each of the Group's departments have the primary responsibility of managing their business risk, and serve as the primary and first line of defence of the risk management and internal control systems, its major risk management measures include:

- Implements the Group's established policies, procedures and guidelines, as well as industry regulations, and to ensure that duties are properly segregated.
- Implements the "Employee Whistleblowing Policy" to ensure employees are able to report any suspected wrongdoings or improprieties through appropriate and established procedures.
- Carried out internal control effectiveness evaluation in 2016 according to "The Guideline for Self-Assessment on Internal Controls" established by the Group. "The Guideline for Self-Assessment on Internal Controls" specifies the requirements or procedures for self-evaluation of internal controls. Each department is required to evaluate and rate their compliance with the established internal control policies and procedures in the "Report for Self-Assessment on Internal Controls". Where control weaknesses are identified, the responsible department should formulate and implement appropriate remediation measures. According to the results of the internal control effectiveness evaluation performed in 2016, the overall performance of department's implementation of the Company's established internal control policies is satisfactory.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Second line of defence – Risk monitoring (Compliance Department, Legal Department and back office operating departments)

Compliance Department, Legal Department and the back office operating departments form the second line of defence of the risk management and internal control systems. Compliance Department, Legal Department and the back office operating departments are administratively independent from the business units, their major duties of risk monitoring include:

- Assist the management in formulating the Group's policies and procedures, and to make corresponding changes to the Group's policies and procedures when industry regulations are updated.

- Provide guidance and training to all staff on risk management processes.

- Assist in regulatory authorities' investigations and enquiries.

- Established a "Risk and Internal Control Monitoring Register" covering all of the Group's key risk areas (including credit risk, liquidity risk, operational risk, compliance risk and foreign exchange risk), to identify the key potential risks affecting its business operation and the relevant internal control activities and measures to address such risks. The "Risk and Internal Control Monitoring Register" will be updated regularly for the purpose of ongoing assessment and establishment of a risk-management based internal audit plan.

- Established a comprehensive set of key risk indications with reporting thresholds which clearly define the reporting mechanism. When trigger event arose, the incident will be reported to the respective level of management according to the pre-defined threshold and where appropriate, remedial actions would be taken. The adoption of relevant method would define the scope of responsibilities and would enhance the monitoring of the accountability of all departments.

Third line of defence – Independent assurance (Internal Audit Department)

- Internal Audit Department serve as the third line of defence of the risk management and internal control systems, to conduct systematic review of the Group's risk management and internal control systems independently on a regular basis. The Internal Audit Department's role as the third line of defence is independent from the first and second lines of defence, and is responsible for monitoring the compliance with policies and procedures by the first and second lines of defence. The Head of Internal Audit Department reports directly to the Audit Committee at least semi-annually, and reports regularly to the Board through the Audit Committee.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

- Internal Audit Department conducts independent review of the Group's structure and implementation of internal controls on a regular basis.

- Internal Audit Department reported twice in 2016 on the risk management and internal controls related matters to the Audit Committee, which in turn reported to the Board accordingly.

Group's Key Risk and Management

The Group's key risk areas and the relevant management measures are as follows:

Liquidity Risk

Certain subsidiaries of the Group are subject to the local country's regulatory liquidity requirements. Currently, a monitoring system has been established to ensure the relevant licensed subsidiaries maintain adequate liquid capital to support their business commitments and comply with the relevant applicable Financial Resource Rules. Treasury Department and Finance Department also closely monitor the Group's cash flow and the Group's assets and liabilities position. Moreover, Credit Department carries out regular review of the margin ratio of the pledged securities to ensure they have sufficient liquidity, thereby to manage liquidity risk.

Credit Risk

The Group has an established authorisation procedure and policy for stock financing, merger and acquisition financing, margin loan, client's credit and trading limit, as well as the margin ratios of stocks.

The Group's Credit Department is responsible for monitoring the positions of client's accounts (including the stock, futures and stock options) and the level of financing on a daily basis. Credit Department will strictly enforce margin call and execute force sale in accordance with the Group's established policies and procedures. When the breach of the Group's financing or credit policy is identified, the Credit Department will report the matters to the management immediately.

In addition, the Credit Department conducts regular stress test on client's repayment capability, so as to identify those client's accounts that may have margin deficits under volatile market condition. Moreover, to avoid excessive concentration of credit risk, the Group has set the maximum level for client concentration risk, stock concentration risk and margin loan for individual client respectively.

Operational Risk

Operational risk is the risk of loss resulting from inadequacy or failure of internal processes, human or system insufficiency or errors, or loss from external events. The Management Committee of the Group supervises the daily operation of the Group, and to manage the risks according to the actual situation of the businesses. Operational Manuals once approved are published on the Group's intranet for relevant department and staff's compliance and implementation. The existing business operating procedures and the risk management measures are being reviewed and updated from time to time or deemed necessary to ensure that it is consistent with the actual operations of the Group.

Compliance Risk and Legal Risk

The regulated activities of the Group, including brokerage business, corporate finance business, asset management business and securities research business, has developed relevant compliance policies and procedures in accordance with applicable regulations, codes and guidelines, these includes due diligence on clients, client suitability testing towards products, anti-money laundering checking, segregation of duties, as well as prevention of conflict of interest. All these are recorded in the Group's Compliance Manual and Operational Manual for relevant staff's adoption.

The Group has a Compliance Department and a Legal Department, which are independent from the business units. The Compliance Department is responsible for compliance risk management, conduct compliance monitoring and review. The Legal Department is responsible for providing legal advisory services, drafting and examination of legal documents.

Foreign Exchange Risk

The Group holds foreign currencies mainly in United States dollars and Renminbi. Since Hong Kong dollars is pegged to the United States dollars, material foreign exchange risk will not be caused. As for the Renminbi against Hong Kong dollars, the Finance Department of the Group monitors the foreign exchange exposure through asset and liability management, and will conduct hedging if necessary.

Handling and Dissemination of Inside Information

To ensure inside information of the Group is to be disclosed to the public in a timely manner in accordance with the Listing Rules, applicable laws and regulatory requirement, a framework has been established to set out the procedures and internal controls for the handling and dissemination of inside information. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

Evaluation of Effectiveness of the Risk Management and Internal Control Systems

The Board acknowledges their responsibility to review the effectiveness of the risk management and internal control systems adopted. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board reviews the effectiveness of the Group's risk management and internal control systems on an ongoing basis. Reviews covering all material control activities, including financial, operational, compliance and risk management functions, have been carried out by the Board, through the Audit Committee and Internal Audit Department, with a view to ensure an appropriate and effective risk management and internal control systems are established. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions. For the financial year ended 31 December 2016, the Board found that the existing risk management and internal control systems were sound and effective to safeguard the shareholders' and customers' interests and the assets of the Group.

C.3 Audit Committee

Principle: The board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the issuer's external auditors. The audit committee established under the Listing Rules should have clear terms of reference.

The Audit Committee was set up in 1999. The roles of the Audit Committee are mainly to ensure integrity of financial statements, to oversee financial reporting system, risk management and internal control procedures as well as to provide advice and recommendations to the Board. The details of the terms of reference of the Audit Committee are published on the websites of the HKEx and the Company.

The Audit Committee is currently composed of three independent non-executive directors, namely, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin. Mr. Ng Wing Hang Patrick acts as the chairman of the Audit Committee.

The Audit Committee held three meetings in the financial year ended 31 December 2016. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Ng Wing Hang Patrick *(Chairman)*	3/3
Kwok Lam Kwong Larry	3/3
Zhuo Fumin	3/3

A summary of the work performed by the Audit Committee during the financial year is listed below:

(1) reviewed the financial statements and the independent auditors' report before their submission to the Board;

(2) reviewed the results of the audit on the Company's system of internal controls;

(3) reviewed the results of the audit on the connected or continuing connected parties transactions;

(4) nominated external auditors for re-appointments at the annual general meeting held in 2016, and considered the proposed remuneration and terms of engagement of external auditors;

CORPORATE GOVERNANCE REPORT *(Cont'd)*

(5) reviewed the framework of risk management and internal control systems;

(6) assessed and reported to the Board the eligibility and suitability of KPMG proposed for appointment as external auditors; and

(7) performed corporate governance functions delegated by the Board.

The work and findings of the Audit Committee were reported to the Board. During the year, no issues brought to the attention of management and the Board were of sufficient importance to require disclosure in the Annual Report.

The Board agreed with the Audit Committee's proposal for the re-appointment of Messrs. KPMG as the Company's external auditors for 2017. The recommendation will be put forward for the approval of shareholders at the forthcoming annual general meeting.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the meetings were sent to all committee members for their comment and records, normally within one month after the meeting.

No member of the Company's Audit Committee was a former partner of the Company's existing external auditors.

During the financial year ended 31 December 2016, the remuneration paid to the external auditors, Messrs. KPMG, was as below:

Nature of services	*HK$'000*
Audit services	1,700
Tax advisory services	160

The Audit Committee was provided with sufficient resources, including the advice of external auditors and Internal Audit Department, to perform its duties.

The Audit Committee established an employee whistleblowing procedures on financial reporting improprieties of the Group. Under the employee whistleblowing procedures, the employees can report any concerns relating to the possible financial reporting improprieties to the chairman of Audit Committee.

D.1 Management Functions

Principle: An issuer should have a formal schedule of matters specifically reserved for board approval. The board should give clear directions to management on the matters that must be approved by it before decisions are made on the issuer's behalf.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Company whilst managing the Company's day-to-day business is the responsibility of the management.

When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the management's powers, in particular, where management shall report back and obtain prior Board approval before making decisions or entering into any commitments on the Company's behalf.

Directors are clearly understood delegation arrangements in place. The Company has issued formal letter of appointment to each director (including non-executive director and independent non-executive director) setting out the key terms and conditions of the appointment.

Matters reserved to be approved by the Board include:

(1) Appointment of directors;

(2) Significant strategies and business plans of the Company;

(3) Proposal for selection of external auditors;

(4) Financial statements and budgets;

(5) Substantial investments other than those arising in the ordinary course of Company's businesses; and

(6) Formation of board committees.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

D.2 Board Committees

Principle: Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

Where board committees are established to deal with matters, the Board shall give them sufficiently clear terms of reference to enable them to perform their functions properly.

Apart from the Audit Committee (particulars are disclosed under C.3), Remuneration Committee (particulars are disclosed under B.1) and Nomination Committee (particulars are disclosed under A.5), the Board also established an Executive Committee and a Management Committee with specific terms of reference. The Executive Committee consists of all the executive directors and is responsible for formulating and reviewing the Company's important strategies on business and operations. The Management Committee consists of the Chief Executive Officer, deputy general manager(s), executive directors and chief operating officer. The Management Committee usually meets weekly for making policy(ies) relating to the Company's day-to-day management and business.

The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee require such committees to report back to the Board on their decisions and recommendations. Material matters will be reported to the Board by the other board committees according to their respective terms of reference.

D.3 Corporate Governance Functions

The Board has delegated the responsibility for performing corporate governance functions to the Audit Committee, with the functions as specified in Code Provision D.3.1(a) to (e).

CORPORATE GOVERNANCE REPORT *(Cont'd)*

E.1 Effective Communication

Principle: The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation.

At the annual general meeting and extraordinary general meetings held in 2016, a separate resolution was proposed by the Chairman for each substantially separate issue.

During the financial year, the Company held the annual general meeting on 13 May 2016 and two extraordinary general meetings on 13 May 2016 and 4 November 2016 respectively.

At the annual general meeting held on 13 May 2016, the Chairman of the Board and the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or members of the respective Committees, and the representative of the then external auditor, Messrs. Ernst & Young, were present to answer questions from the shareholders.

At the extraordinary general meeting held on 13 May 2016 to obtain independent shareholders' approval on the continuing connected transactions, the chairman of the independent board committee and the representative from the independent financial advisor to independent shareholders of the Company attended the meeting to answer questions.

In addition, there was an extraordinary general meeting held on 4 November 2016 to obtain shareholders' approval on the removal and appointment of auditors of the Company. Due to other business engagement at the relevant time, the Chairman of the Board was unable to attend the meeting, and Mr. Guo Chun, Executive Director and Chief Executive Officer of the Company, has been elected by other directors of the Company present to act as the chairman of the meeting in accordance with Articles of Association of the Company. The chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or members of the respective Committees and the representative of the then external auditor, Messrs. Ernst & Young, attended the meeting to answer any questions from the shareholders.

The Company arranges for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.

The Board has established a shareholders communication policy and was published on the Company's website. The policy is subject to review on a regular basis to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

Pursuant to the disclosure requirements under the Listing Rules and the Code, the Company is required to disclose the following information on shareholders' rights:

Set out below are procedures by which shareholders of the Company may (a) convene an extraordinary general meeting; (b) put enquiries to the Board; (c) put forward proposals at shareholders' meetings; and (d) propose a person for election as a director. These procedures are generally governed by the Articles of Association and applicable laws, rules and regulations, which prevail over what is stated below in case of inconsistencies.

(a) How shareholders can convene an extraordinary general meeting

Pursuant to Article 67 of the Articles of Association of the Company, extraordinary general meeting(s) shall be convened as provided by the Companies Ordinance.

Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request in writing to call an extraordinary general meeting.

The written request:

(i) must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting (in case if the resolution is to be proposed as a special resolution, the written request should include the text of the resolution and specify the intention to propose the resolution as a special resolution);

(ii) must be signed by the requisitionist(s); and

(iii) may either be deposited at the registered office of the Company at Level 19, 28 Hennessy Road, Hong Kong in hard copy form or sent in electronic form by email at co.sec@swhyhk.com.

The Board must call an extraordinary general meeting within 21 days after the date on which they become subject to the requirement and the extraordinary general meeting so called must be held on a date not more than 28 days after the date of the notice convening the extraordinary general meeting.

If the Board does not proceed to convene the extraordinary general meeting as aforesaid, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, may themselves call an extraordinary general meeting, provided that any extraordinary general meeting so convened is held within 3 months after the date on which the Board becomes subject to the requirement to call an extraordinary general meeting. Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the Board duly to call an extraordinary general meeting must be reimbursed by the Company.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

(b) *The procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed*

Shareholders and other stakeholders may send their enquiries and concerns to the Board by addressing them to Company Secretary, whose contacts are listed below:

Registered office:	Level 19, 28 Hennessy Road, Hong Kong
Email:	co.sec@swhyhk.com

(c) *The procedures and sufficient contact details for putting forward proposals at shareholders' meetings*

Any shareholder(s) satisfying the following conditions can request in writing to move a resolution at an annual general meeting:

(i) shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders who have a right to vote on the resolution at the annual general meetings to which the requests relate; or

(ii) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The written request:

(i) must identify the resolution of which the notice is to be given;

(ii) must be signed by the requisitionist(s); and

(iii) may either be deposited at the registered office of the Company at Level 19, 28 Hennessy Road, Hong Kong in hard copy form or sent in electronic form by email at co.sec@swhyhk.com, not later than 6 weeks before the annual general meeting to which the requests relate; or if later, the time at which notice is given of that annual general meeting.

(d) *The procedures for shareholders to propose a person for election as a director*

Pursuant to Article 108 of the Articles of Association of the Company, if a shareholder wish to propose a person other than a retiring director for election as a director at a general meeting, notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company during a period of not less than seven days commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date appointed for the meeting.

During the year, there were no significant changes in the Company's constitutional documents. The Articles of Association of the Company is available on the HKEx's and Company's websites.

CORPORATE GOVERNANCE REPORT *(Cont'd)*

E.2 Voting by Poll

Principle: The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Since the amendment of the Listing Rules with effect from 1 January 2009, all resolutions set out in the notice of general meetings of the Company have been conducted by poll.

To ensure that shareholders are familiar with the poll procedures at the annual general meeting and extraordinary general meetings held in 2016, the Chairman (through the Company Secretary) explained the detailed procedures of poll voting.

After the conclusion of the annual general meeting and extraordinary general meetings, the poll results were published on the website of HKEx at http://www.hkexnews.hk and the Company's website at http://www.swhyhk.com.

F. Company Secretary

Principle: The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.

Mr. Wong Che Keung Leslie is the Chief Operating Officer and Company Secretary of the Group and has day-to-day knowledge of the Company's affairs. He reports to the Chairman and/or the Chief Executive Officer.

The appointment and removal of the Company Secretary is subject to the Board approval in accordance with the Articles of Association of the Company. Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed.

Mr. Wong confirmed that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2016 in compliance with Rule 3.29 of the Listing Rules. The biographical details of Mr. Wong are set out on page 51 under the section headed Biographical Details of the Directors of the Company and the Senior Management of the Group.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the audited financial statements.

The directors recommend the payment of a final dividend of HK4 cents per ordinary share in respect of 2016 to shareholders on the register of members on 19 May 2017.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out under the sections headed Chairman's Statement, Management Discussion & Analysis of Performance, Corporate Social Responsibility Report and Corporate Governance Report on pages 3 to 5, pages 6 to 9, pages 10 to 20 and pages 21 to 44 respectively of this annual report.

REPORT OF THE DIRECTORS *(Cont'd)*

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and 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.

	Year ended 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
RESULTS					
REVENUE	**416,455**	696,649	473,291	354,045	293,992
Other gains/(loss), net	**1,267**	988	(246)	3,288	3,683
Impairment loss of an available-for-sale investment	**–**	–	–	(2,623)	(2,330)
Commission expenses	**(68,790)**	(156,237)	(103,838)	(70,397)	(48,569)
Employee benefit expenses	**(139,382)**	(193,907)	(150,214)	(114,263)	(111,133)
Depreciation expenses	**(5,040)**	(5,248)	(5,884)	(9,066)	(9,361)
Interest expenses for financial service operations	**(5,883)**	(17,396)	(14,273)	(10,531)	(442)
Other expenses, net	**(107,721)**	(122,164)	(97,342)	(98,025)	(94,030)
PROFIT BEFORE TAX	**90,906**	202,685	101,494	52,428	31,810
Income tax expense	**(8,632)**	(18,372)	(7,567)	(5,185)	(1,649)
PROFIT FOR THE YEAR	**82,274**	184,313	93,927	47,243	30,161
Attributable to:					
Ordinary equity holders of the Company	**82,275**	184,314	93,934	47,239	30,151
Non-controlling interests	**(1)**	(1)	(7)	4	10
	82,274	184,313	93,927	47,243	30,161

	As at 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**7,450,971**	7,425,262	6,089,134	5,065,225	4,578,048
TOTAL LIABILITIES	**(5,359,214)**	(5,344,090)	(4,772,638)	(3,819,112)	(3,373,289)
NON-CONTROLLING INTERESTS	**(3,114)**	(2,630)	(2,631)	(2,638)	(2,634)
	2,088,643	2,078,542	1,313,865	1,243,475	1,202,125

The above summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS *(Cont'd)*

SHARE CAPITAL

There were no movements in the issued share capital of the Company during the year.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company, or existed during the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK$107,170,000 of which HK$31,846,000 has been proposed as a final dividend for 2016.

CHARITABLE CONTRIBUTIONS

No charitable contribution was made by the Group during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

REPORT OF THE DIRECTORS *(Cont'd)*

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Chu Xiaoming *(Chairman) (resigned on 5 March 2016)*
Zhu Minjie *(Chairman) (appointed on 5 March 2016)*
Lu Wenqing *(retired on 12 May 2016)*
Chen Xiaosheng *(appointed on 5 March 2016)*
Guo Chun *(Chief Executive Officer)*
Lee Man Chun Tony

Non-executive director:
Zhang Lei

Independent non-executive directors:
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin

In accordance with Article 104(A) of the Company's Articles of Association and in compliance with Code Provision A.4.3 of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Messrs. Ng Wing Hang Patrick, Kwok Lam Kwong Larry and Zhuo Fumin will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received annual confirmations of independence from Messrs. Ng Wing Hang Patrick, Kwok Lam Kwong Larry and Zhuo Fumin and as at the date of this report, still considers them to be independent.

A list of names of all the directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at www.swhyhk.com.

REPORT OF THE DIRECTORS *(Cont'd)*

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP

Executive directors

Zhu Minjie – Chairman

Mr. Zhu Minjie, aged 51, was appointed as an Executive Director and the Chairman of the Company on 5 March 2016. Mr. Zhu is also the Deputy General Manager of Shenwan Hongyuan Securities Co., Ltd and the Vice Chairman of Shenwan Hongyuan (International) Holdings Limited. He joined the former Shanghai International Securities Co., Ltd. in 1988 and held various positions. Mr. Zhu has over 28 years of experience in the securities industry. He was accredited as Economist by Economics Intermediate Professional and Technical Title Evaluating Committee*（經濟系列中級專業技術職務任職資格評審委員會）of Shanghai Foreign Economics & Trade Commission in 1992. Mr. Zhu graduated from Shanghai Institute of Mechanical Engineering (now known as University of Shanghai for Science and Technology) and also holds a Master's Degree in Economics from Fudan University in Shanghai.

Chen Xiaosheng

Mr. Chen Xiaosheng, aged 47, was appointed as an Executive Director of the Company on 5 March 2016. Mr. Chen is also the Assistant to President of Shenwan Hongyuan Securities Co., Ltd and General Manager of Institutional Business Division of Shenwan Hongyuan Securities Co., Ltd as well as Director and General Manager of SWS Research Co., Ltd. He also serves as a member of the Board of Supervisors as well as a deputy head of Securities Analysts and Investment Advisers Committee of the Securities Association of China. From 1994 to 2015, Mr. Chen held various positions at Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd. He has over 20 years of experience in the securities industry. Mr. Chen was accredited as Securities Analyst by the Securities Association of China in 2011. He graduated from Shanghai Jiaotung University with a Master's Degree in Structural Engineering and also holds an Executive Master of Business Administration Degree from Arizona State University, United States of America.

Guo Chun – Chief Executive Officer

Mr. Guo Chun, aged 52, was appointed as an Executive Director of the Company in May 2000 and as Chief Executive Officer of the Company on 9 March 2012. Mr. Guo is also the Managing Director of the International Business Division of Shenwan Hongyuan Securities Co., Ltd and the Deputy Managing Director of Shenwan Hongyuan (International) Holdings Limited. He has been working in the securities industry of the People's Republic of China (the "PRC") since 1987 and has 29 years' extensive experience in stockbroking and investment banking in the PRC. Before joining the former Shanghai Shenyin Securities Co., Ltd. and served as a regional superintendent in Shanghai in 1990, Mr. Guo worked for the Industrial and Commercial Bank of China. Mr. Guo acted as the Managing Director of the International Business Division of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., and Shenwan Hongyuan Securities Co., Ltd. from May 2008 to March 2012 and since February 2014 to date. Mr. Guo holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia and an Executive Master of Business Administration Degree from Arizona State University, United States of America.

* *For identification purpose only*

REPORT OF THE DIRECTORS *(Cont'd)*

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Executive directors *(Cont'd)*

Lee Man Chun Tony

Mr. Lee Man Chun Tony, aged 63, was appointed as an Executive Director of the Company in June 2000. Mr. Lee is also an Independent Non-executive Director of China Chengtong Development Group Limited, which is listed on the Hong Kong Stock Exchange. He is an Associate of the Hong Kong Institute of Certified Public Accountants and has more than 30 years' experience in accounting, capital markets, corporate management, finance and banking. Mr. Lee held senior positions with Standard Chartered Bank and Sanwa International Finance Ltd. before he joined the Group in 1995. He previously served as Chief Executive Officer of the Company from July 2000 to 9 March 2012. Mr. Lee obtained a Master of Business Administration from Chu Hai College of Higher Education in 1981.

Non-executive director

Zhang Lei

Mr. Zhang Lei, aged 48, is a Non-executive Director of the Company. He graduated from Shanghai Jiaotong University as doctor of philosophy of Financial Management Engineering in 1997. Mr. Zhang has many years of experience in the securities industry. He has previously worked for Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., as Deputy Manager of Client Asset Management Division. Mr. Zhang joined Shanghai Industrial Investment (Holdings) Company Limited in July 2006, and currently serves as its General Manager of Finance & Planning Department. He also presently holds directorships in certain wholly-owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited and acts as the responsible officer of SIIC Asset Management Company Limited.

Independent non-executive directors

Ng Wing Hang Patrick

Mr. Ng Wing Hang Patrick, aged 64, is an Independent Non-executive Director of the Company. Mr. Ng is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Pan-China (H.K.) CPA Limited, a certified public accountants firm in Hong Kong. He also serves as an Independent Non-executive Director of Far East Hotels and Entertainment Limited, which is listed on the Hong Kong Stock Exchange. Mr. Ng graduated from The Hong Kong Polytechnic University in 1975.

Kwok Lam Kwong Larry, B.B.S., J.P.

Mr. Kwok Lam Kwong Larry, aged 61, is an Independent Non-executive Director of the Company. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a Chartered Accountant in England and Wales and a CPA in Hong Kong and Australia. Mr. Kwok graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws as well as a Master's Degree in Laws. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

REPORT OF THE DIRECTORS *(Cont'd)*

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Independent non-executive directors *(Cont'd)*

Zhuo Fumin

Mr. Zhuo Fumin, aged 65, is an Independent Non-executive Director of the Company. Mr. Zhuo graduated from Shanghai Jiaotong University's Electrical Engineering School and holds a Master's Degree in Economics conferred by Fudan University. He has more than 40 years of experience in running joint stock companies and in corporate management and has extensive capital market experience. Mr. Zhuo currently serves as Chairman and Managing Partner in V Star Capital. He also serves as an Independent Director of Daqo New Energy Corp., which is listed on the New York Stock Exchange, an Independent Director of China Enterprise Company Limited and Arcplus Group PLC, which are listed on the Shanghai Stock Exchange, an Independent Director of Focus Media Information Technology Co., Ltd., which is listed on the Shenzhen Stock Exchange, a Non-executive Director of Besunyun Holdings Company Limited and also an Independent Non-executive Director of SRE Group Limited and Sinopharm Group Co. Ltd., all of which are listed on the Hong Kong Stock Exchange.

Senior management

Yang Ming – Deputy General Manager

Mr. Yang Ming, aged 42, has been appointed as Deputy General Manager of the Group in July 2013. Mr. Yang is also the Assistant to General Manager of the International Business Division of Shenwan Hongyuan Securities Co., Ltd. He previously worked for SWS Research Co., Ltd. as Analyst and Manager of Overseas Development Center, and has more than 10 years' experience in securities research. Mr. Yang graduated from the University of Limburg in Belgium as a Master Graduate Student.

Wong Che Keung Leslie – Chief Operating Officer and Company Secretary

Mr. Wong Che Keung Leslie, aged 52, is the Chief Operating Officer and Company Secretary of the Group. Besides company secretarial duties, Mr. Wong is also responsible for overseeing accounting, securities settlement, credit, treasury, information technology as well as legal affairs of the Group. Mr. Wong once served as the Head of Compliance of the Group and subsequently, a Director of Shenwan Hongyuan Securities (H.K.) Limited and the Finance Director before succeeding to the position of the Chief Operating Officer of the Group in 2010. Mr. Wong was appointed as the Company Secretary of the Group in December 2004. Prior to joining the Group in 1996, he has worked in the Securities and Futures Commission for 7 years. Mr. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants, and obtained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong. He serves as a member of the Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited since 1 June 2012.

Ting Kay Loong Willis – Head of Corporate Finance

Mr. Ting Kay Loong Willis, aged 55, is the Head of Corporate Finance of the Group. Mr. Ting has over 28 years of experience in the securities industry. Prior to joining the Group in 2006, he worked for several international financial institutions and listed companies in Hong Kong, responsible for capital market activities and equity investments. Mr. Ting holds a Bachelor of Economics Degree from Macquarie University, Australia and is a fellow member of the Australian Society of Certified Public Accountants.

REPORT OF THE DIRECTORS *(Cont'd)*

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board of the Company with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director or a connected entity of a director had a significant beneficial interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every Director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

The Company has taken out and maintained appropriate directors' liability insurance in respect of relevant legal actions against its directors.

DIRECTOR'S INTEREST IN SHARES

As at 31 December 2016, none of the directors and the chief executive of the Company was taken to be interested or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules.

REPORT OF THE DIRECTORS *(Cont'd)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2016, the interests of substantial shareholders, other than directors or chief executive of the Company, who had interests or short positions of 5% or more of the issued shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity and nature of interests	Number of ordinary shares held *(Note)*	Percentage of the Company's issued shares
Shenwan Hongyuan Holdings (B.V.I.) Limited ("SWHYHBVI")	Directly beneficially owned	402,502,312[(1)]	50.56
Venture-Some Investments Limited ("VSI")	Through controlled corporation	402,502,312[(1)]	50.56
Shenwan Hongyuan (International) Holdings Limited	Through controlled corporation Directly beneficially owned	402,502,312[(1)] 3,306,257[(2)]	50.56 0.42
Shenwan Hongyuan Group Co., Ltd.	Through controlled corporation	405,808,569[(1) (2)]	50.98

Note:

(1) SWHYHBVI is held directly as to 60.82% by VSI. VSI is wholly-owned by Shenwan Hongyuan (International) Holdings Limited. Shenwan Hongyuan (International) Holdings Limited is wholly-owned by Shenwan Hongyuan Group Co., Ltd. Hence, VSI, Shenwan Hongyuan (International) Holdings Limited and Shenwan Hongyuan Group Co., Ltd. are deemed to be interested in the same parcel of 402,502,312 shares held by SWHYHBVI under the SFO.

(2) Shenwan Hongyuan (International) Holdings Limited also held directly 3,306,257 shares of the Company. Hence, Shenwan Hongyuan Group Co., Ltd. is also deemed to be interested in the same parcel of 3,306,257 shares held by Shenwan Hongyuan (International) Holdings Limited under the SFO.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any person who had interests or short positions in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

REPORT OF THE DIRECTORS *(Cont'd)*

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The connected transactions and continuing connected transactions of the Company and the Group during the year are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules in note 28(a)(i-v) to the financial statements.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions as set out in note 28(a)(i-v) to the financial statements and confirmed that these transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

KPMG, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. KPMG have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter will be provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following directors are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Zhu Minjie (Executive Director and Chairman of the Company) is:

- a deputy general manager of Shenwan Hongyuan Securities Co., Ltd which is involved in securities business;
- a director of Shenyin & Wanguo Investment Co. Ltd. which is involved in equity investment business;
- a director of SWS Research Co., Ltd. which is involved in securities research and consulting business;
- a director of SWS MU Fund Management Co., Ltd which is involved in fund management business; and
- a director of Shenyin Wanguo Futures Co., Ltd. which is involved in futures business.

REPORT OF THE DIRECTORS *(Cont'd)*

DIRECTORS' INTERESTS IN A COMPETING BUSINESS *(Cont'd)*

Mr. Chen Xiaosheng (Executive Director of the Company) is:

- an assistant to president and general manager of institutional business division of Shenwan Hongyuan Securities Co., Ltd which is involved in securities business; and

- a director and general manager of SWS Research Co., Ltd. which is involved in securities research and consulting business.

Mr. Guo Chun (Executive Director and Chief Executive Officer of the Company) is the managing director of the international business division of Shenwan Hongyuan Securities Co., Ltd which is involved in securities business.

Mr. Zhang Lei (Non-executive Director of the Company) is a director and responsible officer of SIIC Asset Management Company Limited which is involved in the provision of asset management services.

Any director(s) who is/are or deemed to be interested in any proposed transaction(s) will have his/their interest fully disclosed and will abstain from voting at the relevant resolution(s) in accordance with the applicable requirements of the Articles of Associations, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies/entities.

AUDITORS

KPMG were first appointed as auditors of the Company upon the ordinary resolutions for the removal of Ernst & Young and appointment of KPMG passed at the extraordinary general meeting of the Company held on 4 November 2016.

KPMG retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhu Minjie
Chairman

Hong Kong
10 March 2017

INDEPENDENT AUDITOR'S REPORT

To the members of Shenwan Hongyuan (H.K.) Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Shenwan Hongyuan (H.K.) Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 64 to 132, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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 2016 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 of 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 for 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.

INDEPENDENT AUDITOR'S REPORT *(Cont'd)*

The key audit matters for the audit of the Group and how these matters were addressed in our audit were as follows:

Revenue recognition – brokerage business

Refer to note 5 to the consolidated financial statements and the accounting policies on page 90.

The Key Audit Matter	How the matter was addressed in our audit
Revenue from the Group's brokerage business represented 52% of the total revenue of the Group for the year ended 31 December 2016. Revenue from the brokerage business principally comprised brokerage commission income which is recognised on a trade date basis. We identified the recognition of revenue from the brokerage business as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk that the timing of revenue could be manipulated to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue from the brokerage business included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to revenue recognition; • developing an expectation of brokerage commission income for the current year based on our consideration of trading volumes, commission rates and historical data, comparing our expectation with the actual brokerage commission income recorded by the Group and investigating any significant differences between our expectation and the amounts recorded by the Group; • comparing details of journal entries raised during the current year which affected revenue from the brokerage business with underlying documentation on a sample basis; and • for the key underlying systems used for the processing of transactions in relation to brokerage commission income, we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls. We also assessed the design, implementation and operating effectiveness of the key internal controls over the underlying information technology systems, including controls over access to these systems and controls over data and change management.

INDEPENDENT AUDITOR'S REPORT *(Cont'd)*

Revenue recognition – corporate finance business

Refer to note 5 to the consolidated financial statements and the accounting policies on page 90.

The Key Audit Matter	How the matter was addressed in our audit
Revenue from the corporate finance business represented 11% of the total revenue of the Group for the year ended 31 December 2016. Revenue from the corporate finance business principally comprised underwriting commission, sponsorship fees and financial advisory fees. Underwriting commission is recognised when the obligations under the underwriting agreement have been fulfilled. Sponsorship fees and financial advisory fees are recognised when the corresponding service is provided or when the Group is entitled to receive the fees in accordance with the terms of the related service agreement. When the service arrangement cover a range of services to be provided over time, the determination of the timing and the proportion of recognition of underwriting commission, sponsorship fees and financial advisory fees can involve significant management judgement.	Our audit procedures to assess the recognition of revenue from the corporate finance business included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to revenue recognition, including deal approval, invoicing and journal entry approval; • performing the following procedures to assess the recognition of revenue for a sample of specific revenue transactions recorded during the current year: – inspecting the executed service agreements and evaluating whether revenue was recognised in accordance with the terms of the agreements and the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

INDEPENDENT AUDITOR'S REPORT *(Cont'd)*

The Key Audit Matter	How the matter was addressed in our audit
We identified the recognition of revenue from the corporate finance business as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk that the timing of revenue could be manipulated to meet specific targets or expectations and because the timing of recognition of underwriting commission, sponsoring fees and financial advisory fees requires management judgement.	– inspecting relevant documentation such as circulars issued by listed companies and correspondence with customers to assess whether the service has been performed and completed in accordance with the terms of the executed service agreements; – where partial fees were recognised before project completion, making enquiries of the relevant business teams to understand the basis of partial fee recognition and assessing whether the related revenue was recognised in the appropriate accounting period in accordance with the Group's revenue recognition policies; • obtaining an analysis of revenue from the corporate finance business recognised after the reporting date and inspecting relevant documentation, including circulars issued by listed companies and correspondence with customers, to assess whether any income should have been recognised in the current year; and • comparing details of journal entries raised during the current year which affected revenue from the corporate finance business with underlying documentation on a sample basis.

INDEPENDENT AUDITOR'S REPORT *(Cont'd)*

Impairment of loans and advances to customers

Refer to note 18 to the consolidated financial statements and the accounting policies on page 85-86.

The Key Audit Matter

The Group's loans and advances to customers represented 24% of its total assets as at 31 December 2016.

Impairment of loans and advances to customers is a subjective area due to the level of judgement applied by management in determining impairment allowances.

Customers are required to provide collateral to the Group as security for the loans and advances granted to customers and the Group is permitted to dispose of the collateral in settlement of the customers' obligations to maintain agreed margin levels or in settlement of any other liability of the customers due to the Group.

From the Group's perspective, the loans and advances to customers which gave rise to the greatest uncertainty in determining impairment allowances were those where the loans and advances to customers were subject to potential collateral shortfalls.

Impairment allowances are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower and collateral valuation. Management assessed the value of collateral held at the reporting date, which principally comprises listed securities, with reference to quoted prices using publicly available market data.

How the matter was addressed in our audit

Our audit procedures to assess impairment of loans and advances to customers included the following:

- assessing the design, implementation and operating effectiveness of key internal controls relating to the approval, recording and monitoring of loans and advances to customers and collateral shortfalls and the measurement of impairment allowances for loans and advances to customers;

- comparing the total balance of the loans and advances report, which contains information of loan balance and the value of collateral used by management for the measurement of impairment allowances, with the general ledger and comparing individual loan information, on a sample basis, with underlying documentation to assess the presentation of the information relating to the balances of loans and advances to customers in the report;

- critically evaluating management's assessment of impairment allowances by comparing the valuation of collateral held for sample of loans and advances to customers as recorded in the loans and advances report with publicly available market data and comparing management's assessment of impairment allowances with historical losses; and

The Key Audit Matter	How the matter was addressed in our audit
We identified impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in determining impairment allowances and because of its significance to the financial results and capital of the Group.	• for the key underlying systems used for the processing of transactions in relation to loans and advances to customers, we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls. We also assessed the design, implementation and operating effectiveness of the key internal controls over the underlying information technology systems, including controls over access to these systems and controls over data and change management.

Information other than the consolidated financial statements and our auditor's report thereon

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT *(Cont'd)*

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, 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.

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.

INDEPENDENT AUDITOR'S REPORT *(Cont'd)*

- 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 audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Fong Hoi Wan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	5	**416,455**	696,649
Other gains, net	5	**1,267**	988
Commission expenses		**(68,790)**	(156,237)
Employee benefit expenses	6	**(139,382)**	(193,907)
Depreciation expenses	12	**(5,040)**	(5,248)
Interest expenses for financial services operations	6	**(5,883)**	(17,396)
Other expenses, net		**(107,721)**	(122,164)
PROFIT BEFORE TAX	6	**90,906**	202,685
Income tax expense	9	**(8,632)**	(18,372)
PROFIT		**82,274**	184,313
Attributable to:			
Ordinary equity holders of the Company		**82,275**	184,314
Non-controlling interests		**(1)**	(1)
		82,274	184,313
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	11	**HK10.33 cents**	HK23.21 cents

The notes on pages 71 to 132 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December

	2016 HK$'000	2015 HK$'000
PROFIT	**82,274**	184,313
OTHER COMPREHENSIVE INCOME:		
Items that may be reclassified to the consolidated statement of profit or loss in subsequent periods		
Exchange differences on translation of accounts of a subsidiary	**(522)**	–
Available-for-sale investments:		
Reclassification adjustments for gain included in the consolidated statement of profit or loss – gain on disposal	**–**	(167)
OTHER COMPREHENSIVE INCOME, NET OF TAX	**(522)**	(167)
TOTAL COMPREHENSIVE INCOME	**81,752**	184,146
Attributable to:		
Ordinary equity holders of the Company	**81,753**	184,147
Non-controlling interests	**(1)**	(1)
	81,752	184,146

The notes on pages 71 to 132 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**9,531**	12,221
Stock and Futures Exchange trading rights	13	**4,212**	4,212
Other assets	14	**32,430**	28,476
Deferred tax assets	15	**6,479**	7,304
Total non-current assets		**52,652**	52,213
CURRENT ASSETS			
Investments at fair value through profit or loss	16	**110,326**	42,980
Account receivables	17	**488,560**	879,937
Loans and advances	18	**1,792,161**	2,053,818
Prepayments, deposits and other receivables	19	**26,504**	21,253
Tax recoverable		**16,162**	1,172
Bank balances held on behalf of clients	20	**4,576,893**	3,862,085
Cash and bank balances	21	**387,713**	511,804
Total current assets		**7,398,319**	7,373,049
CURRENT LIABILITIES			
Account payables	22	**5,031,376**	4,448,656
Other payables and accruals	23	**48,509**	127,599
Interest-bearing bank borrowings	24	**278,590**	749,680
Tax payable		**542**	17,889
Total current liabilities		**5,359,017**	5,343,824
NET CURRENT ASSETS		**2,039,302**	2,029,225
TOTAL ASSETS LESS CURRENT LIABILITIES		***2,091,954***	*2,081,438*
NON-CURRENT LIABILITY			
Deferred tax liability	15	**197**	266
NET ASSETS		**2,091,757**	2,081,172

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Cont'd)*

	Notes	**As at 31 December 2016 HK$'000**	As at 31 December 2015 HK$'000
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	*25*	**1,200,457**	1,200,457
Other reserves	*26*	**888,186**	878,085
		2,088,643	2,078,542
Non-controlling interests		**3,114**	2,630
TOTAL EQUITY		**2,091,757**	2,081,172

Zhu Minjie
Director

Guo Chun
Director

The notes on pages 71 to 132 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

		Attributable to ordinary equity holders of the Company								
	Note	Share capital HK$'000 (Note 25)	Capital reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	General reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015		580,120	15*	167*	138*	–	733,425*	1,313,865	2,631	1,316,496
Profit for the year		–	–	–	–	–	184,314	184,314	(1)	184,313
Other comprehensive income for the year:										
Disposal of an available-for-sale investments, net of tax		–	–	(167)	–	–	–	(167)	–	(167)
Total comprehensive income for the year		580,120	15	–	138	–	917,739	1,498,012	2,630	1,500,642
Final 2014 dividend declared and paid		–	–	–	–	–	(39,807)	(39,807)	–	(39,807)
Issue of shares from rights issue		620,337	–	–	–	–	–	620,337	–	620,337
At 31 December 2015 and 1 January 2016		1,200,457	15*	–	138*	–	877,932*	2,078,542	2,630	2,081,172
Profit for the year		–	–	–	–	–	82,275	82,275	(1)	82,274
Other comprehensive income for the year:										
Exchange differences on translation of accounts of a subsidiary		–	–	–	–	(522)	–	(522)	–	(522)
Total comprehensive income for the year		1,200,457	15	–	138	(522)	960,207	2,160,295	2,629	2,162,924
Final 2015 dividend declared and paid	10	–	–	–	–	–	(71,652)	(71,652)	–	(71,652)
Capital contribution from non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	485	485
At 31 December 2016		1,200,457	15*	–	138*	(522)*	888,555*	2,088,643	3,114	2,091,757

* These reserve accounts comprise the other reserves of HK$888,186,000 (2015: HK$878,085,000) in the consolidated statement of financial position.

The notes on pages 71 to 132 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**90,906**	202,685
Adjustments for:			
Gain on disposal of property, plant and equipment	*5*	**(15)**	–
Fair value gain from an unlisted available-for-sale investment (transfer from equity on disposal)		**–**	(167)
Depreciation	*12*	**5,040**	5,248
		95,931	207,766
(Increase)/decrease in other assets		**(3,954)**	23,117
(Increase)/decrease in investments at fair value through profit or loss		**(67,839)**	156,899
Decrease in account receivables		**391,377**	260,443
Decrease/(increase) in loans and advances		**261,657**	(336,184)
(Increase)/decrease in prepayments, deposits and other receivables		**(5,251)**	3,189
Increase in bank balances held on behalf of clients		**(714,808)**	(1,197,147)
Increase in account payables		**582,720**	795,548
(Decrease)/increase in other payables and accruals		**(79,074)**	22,229
Cash generated from/(used in) operations		**460,759**	(64,140)
Hong Kong profits tax paid		**(40,076)**	(12,927)
Overseas taxes paid		**(137)**	(445)
Net cash flows generated from/(used in) operating activities		**420,546**	(77,512)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*12*	**(2,350)**	(4,210)
Proceeds from disposal of property, plant and equipment		**15**	–
Net cash flows used in investing activities		**(2,335)**	(4,210)

CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

Year ended 31 December

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from rights issue	*25*	**–**	620,337
Net payment to bank loans		**(471,090)**	(259,199)
Dividend paid		**(71,652)**	(39,807)
Capital contribution from non-controlling shareholder of a subsidiary		**485**	–
Net cash flows (used in)/generated from financing activities		**(542,257)**	321,331
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(124,046)**	239,609
Cash and cash equivalents at beginning of year		**511,804**	272,195
Effect of foreign exchange rate changes		**(45)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**387,713**	511,804
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*21*	**387,713**	361,804
Non-pledged time deposits with original maturity of less than three months when acquired	*21*	**–**	150,000
Cash and bank balances as stated in the consolidated statement of financial position		**387,713**	511,804
Net cash flows generated from/(used in) operating activities include:			
Interest received		**31,226**	23,410
Dividend received		**378**	1,319

The notes on pages 71 to 132 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1 CORPORATE AND GROUP INFORMATION

Shenwan Hongyuan (H.K.) Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is situated at Level 19, 28 Hennessy Road, Hong Kong.

During the year, Shenwan Hongyuan (H.K.) Limited and its subsidiaries (the "Group") was involved in the following principal activities:

- brokerage business
- corporate finance business
- asset management business
- financing and loans business
- investment and other business

The Company is a subsidiary of Shenwan Hongyuan Holdings (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability. In the opinion of the directors, the ultimate holding company of the Company is Shenwan Hongyuan Group Co., Ltd., which was established in the People's Republic of China (the "PRC") and listed in Shenzhen Stock Exchange (stock code: 000166).

Information about subsidiaries

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operate in Hong Kong. Particulars of the Company's principal subsidiaries are as follows:

Name	Issued ordinary share capital/ units	Percentage of equity attributable to the Company Direct		Indirect		Principal activities
		2016	2015	**2016**	2015	
Shenwan Hongyuan Securities (H.K.) Limited	HK$130,000,000	**100**	100	**–**	–	Securities brokerage and margin financing
Shenwan Hongyuan Futures (H.K.) Limited	HK$30,000,000	**100**	100	**–**	–	Futures and options brokerage
Shenwan Hongyuan Capital (H.K.) Limited	HK$20,000,000	**100**	100	**–**	–	Corporate finance
Shenwan Hongyuan Asset Management (Asia) Limited	HK$10,000,000	**–**	–	**100**	100	Provision of asset management services

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

1 CORPORATE AND GROUP INFORMATION *(Cont'd)*

Name	Issued ordinary share capital/ units	Percentage of equity attributable to the Company Direct		Indirect		Principal activities
		2016	2015	**2016**	2015	
Shenwan Hongyuan Research (H.K.) Limited	HK$300,000	**100**	100	**–**	–	Provision of securities research services
Shenwan Hongyuan Strategic Investments (H.K.) Limited	HK$10,000	**100**	100	**–**	–	Securities trading and investment holding
Shenwan Hongyuan Finance (H.K.) Limited	HK$25,000,000	**100**	100	**–**	–	Provision of financial services
Shenwan Hongyuan Enterprises (H.K.) Limited	HK$15,000,000	**100**	100	**–**	–	Provision of management and treasury services
Shenwan Hongyuan Online Limited	HK$2	**100**	100	**–**	–	Leasing of computer equipment
Shenwan Hongyuan Trading (H.K.) Limited	HK$375,000	**100**	100	**–**	–	Securities trading
Sparkle Well Limited	HK$2	**100**	100	**–**	–	Property holding
Wealthy Limited	HK$2	**100**	100	**–**	–	Property holding
Shenwan Hongyuan Group Co., Limited	HK$2	**100**	100	**–**	–	Investment holding
First Million Holdings Ltd *	US$1	**100**	100	**–**	–	Investment holding
Crux Assets Limited*	US$1	**–**	–	**100**	100	Investment holding
Shenwan Hongyuan Nominees (H.K.) Limited	HK$1,000	**–**	–	**100**	100	Provision of share custodian and nominee services
Shenyin Wanguo Online Broker (H.K.) Limited	HK$10,000,000	**60**	60	**–**	–	Dormant

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

1 CORPORATE AND GROUP INFORMATION *(Cont'd)*

Name	Issued ordinary share capital/ units	Percentage of equity attributable to the Company Direct		Indirect		Principal activities
		2016	2015	**2016**	2015	
Shenwan Hongyuan Singapore Private Limited#	SG$2,500,000	**–**	–	**100**	100	Securities brokerage
Shenyin Wanguo RQFII A Share Strategic Fund△	HK$10,484,550	**–**	–	**95**	–	Securities trading and investment holding

* Incorporated in the British Virgin Islands

\# Incorporated in the Republic of Singapore

△ A sub-fund of SWS Strategic Investments Funds ("the fund") launched on 8 June 2016 and established under the laws of Hong Kong by a Trust Deed dated 6 January 2012.

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. The financial statements not audited by KPMG reflect total net assets and total profit before tax constituting approximately 1.5% and 0.7% of consolidated totals. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out in note 2.5.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2.3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as the "Group").

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Cont'd)*

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the investments at fair value through profit or loss are stated at their fair values as explained in the accounting policies set out in note 2.5(h). These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

2.3 CHANGES IN ACCOUNTING POLICY

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

2.4 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Amendments to HKAS 7	*Statement of cash flows: Disclosure initiative*[1]
Amendments to HKAS 12	*Income taxes: Recognition of deferred tax assets for unrealised losses*[1]
HKFRS 9	*Financial instruments*[2]
HKFRS 15	*Revenue from contracts with customers*[2]
Amendments to HKFRS 2	*Share-based payment: Classification and measurement of share-based payment transactions*[2]
HKFRS 16	*Leases*[3]

1 Effective for accounting periods beginning on or after 1 January 2017
2 Effective for accounting periods beginning on or after 1 January 2018
3 Effective for accounting periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. The Group expects to adopt the standard from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification, measurement and calculation of impairment of the Group's financial assets.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.4 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Cont'd)*

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. 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 standard also 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 Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impacts of adopting HKFRS 15 on its financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(a) Subsidiaries and non-controlling interests *(Cont'd)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2.5(h)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2.5(c)).

(b) Fair value measurement

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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(b) Fair value measurement *(Cont'd)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy with reference to the observability and significance of the inputs that are used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

For assets and liabilities that are measured at fair value and recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

(c) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than 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 consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(c) Impairment of non-financial assets *(Cont'd)*

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 other than goodwill and certain financial assets 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 consolidated statement of profit or loss in the period in which it arises.

(d) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(d) Related parties *(Cont'd)*

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

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

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

(e) 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 land under finance leases	Over the lease terms
• Buildings	4%
• Leasehold improvements	Over the lease terms
• Furniture, fixtures and equipment	15% – 33$^1/_3$%
• Motor vehicles	25%

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 consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(f) 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets, which consist of the Stock and Futures Exchange trading rights, being the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited with indefinite useful lives, are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of the Stock and Futures Exchange trading rights is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(g) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership are not transferred to the leasee are accounted for as operating leases. Where the Group is the lessee, rentals payable under 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 terms.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Financial assets

(i) 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, or as derivatives designated as hedging instruments in an effective hedge, 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.

(ii) 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive and negative net changes in fair value recognised in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Financial assets *(Cont'd)*

(ii) Subsequent measurement (Cont'd)

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 consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and club debentures. 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.

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, 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. 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.

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 the foreseeable future or until maturity.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Financial assets *(Cont'd)*

(ii) Subsequent measurement (Cont'd)

Available-for-sale financial investments *(Cont'd)*

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date at 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 consolidated statement of profit or loss.

(iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Financial assets *(Cont'd)*

(iv) Impairment

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 to 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 (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Financial assets *(Cont'd)*

(iv) Impairment (Cont'd)

Financial assets carried at amortised cost *(Cont'd)*

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 consolidated statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(i) Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, 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.

The Group's financial liabilities include account payables, other payables and certain accruals, and interest-bearing bank borrowings.

(ii) Subsequent measurement

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 consolidated 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 the consolidated statement of profit or loss.

(iii) Derecognition

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 consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(j) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

(k) Cash and bank balances

For the purpose of the consolidated statement of cash flows, cash and bank balances 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, and assets similar in nature to cash, which are not restricted as to use.

(l) Bank balances held on behalf of clients

The Group has classified clients' monies as bank balances held on behalf of clients under the current assets section of the consolidated statement of financial position and recognised a corresponding account payables to respective clients on grounds that the Group is liable for any loss or misappropriation of clients' monies.

(m) 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 consolidated statement of profit or loss.

(n) 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(n) Income tax *(Cont'd)*

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.

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 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 investments in subsidiaries, 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 investments in subsidiaries, 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(n) Income tax *(Cont'd)*

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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(o) 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) income from brokerage business, on a trade date basis;

(b) income from corporate finance business including underwriting commission, when the obligation under the underwriting or sub-underwriting agreement has been fulfilled;

(c) service income from asset management business including management fee and investment advisory fee income, as the underlying services have been provided;

(d) interest income from financing and loans business, 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;

(e) income from investment and other business including realised fair value gains or losses on listed and unlisted investments trading, on a trade date basis and unrealised fair value gains or losses on changes in fair value at the end of the reporting period; and

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

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(p) Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. The Group also retains its previous retirement scheme (the "ORSO Scheme") registered under the Occupational Retirement Scheme Ordinance as a top-up benefit for its employees.

Contributions are made based on a percentage of the employees' relevant income or basic salaries, whichever is greater, and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme and the ORSO Scheme. For the ORSO Scheme, when the contribution exceeds the statutory maximum requirements, the excess contribution is credited as the employer's voluntary contribution to the ORSO Scheme. The employer's mandatory contributions to the MPF Scheme vest fully with the employees when contributed into the MPF Scheme. The employer's voluntary contributions to the ORSO Scheme vest with the employees according to the vesting scale of the ORSO Scheme. Forfeited contributions in respect of employees who leave the Group before their contributions fully vest are available to the Group to offset its future voluntary contributions.

The assets of the MPF Scheme and the ORSO Scheme are held separately from those of the Group in independently administered funds.

(q) 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 consolidated statement of profit or loss.

The functional currencies of the overseas subsidiaries are determined as Hong Kong Dollar and Renminbi.

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. 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 (i.e., 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).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(q) Foreign currencies *(Cont'd)*

When the functional currencies of overseas subsidiaries 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 consolidated 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.

(r) Segment reporting

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

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

3 SIGNIFICANT JUDGEMENT AND ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, 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.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

3 SIGNIFICANT JUDGEMENT AND ACCOUNTING ESTIMATES *(Cont'd)*

Estimation uncertainty

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

(a) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2016 was HK$152,095,000 (2015: HK$128,572,000). Further details are contained in note 15 to the financial statements.

(b) Impairment of loans and advances

The Group maintains allowance accounts for estimated losses arising from the inability of its customers to make required payments. The Group makes it estimates based on the ageing of its receivable balances, customers' creditworthiness and the fair value of collateral held. If the financial condition of its customers deteriorates so that the actual impairment losses might be higher than expected, the Group would be required to revise the basis of estimation. As at 31 December 2016, no impairment allowances (2015: Nil) have been recognised for loans and advances.

4 OPERATING SEGMENT INFORMATION

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

(a) brokerage business;

(b) corporate finance business;

(c) asset management business;

(d) financing and loans business;

(e) investment business; and

(f) others.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

4 OPERATING SEGMENT INFORMATION *(Cont'd)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax.

Segment assets exclude deferred tax assets, tax recoverable and unlisted club debentures included in other assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liability and tax payable as these liabilities are managed on a group basis.

	Brokerage business HK$'000	Corporate finance business HK$'000	Asset management business HK$'000	Financing and loans business HK$'000	Investment business HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2016							
Segment revenue and other gains/(losses) from external customers	217,429	46,834	3,238	148,975	(21)	1,267	417,722
Segment results and profit/(loss) before tax	23,148	5,752	(9,463)	73,985	(3,783)	1,267	90,906
Segment assets	5,332,542	101,462	65,553	1,813,054	113,249	–	7,425,860
Reconciliation:							
Deferred tax assets							6,479
Tax recoverable							16,162
Unlisted club debentures included in other assets							2,470
Total assets							7,450,971
Segment liabilities	5,062,730	4,088	278	291,377	2	–	5,358,475
Reconciliation:							
Deferred tax liability							197
Tax payable							542
Total liabilities							5,359,214
Other segment information:							
Interest expenses	–	–	–	5,883	–	–	5,883
Depreciation expenses	1,732	330	89	–	2,889	–	5,040
Capital expenditure	1,829	444	77	–	–	–	2,350

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

4 OPERATING SEGMENT INFORMATION *(Cont'd)*

	Brokerage business HK$'000	Corporate finance business HK$'000	Asset management business HK$'000	Financing and loans business HK$'000	Investment business HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2015							
Segment revenue and other gains/(losses) from external customers	389,880	114,206	9,519	170,566	12,478	988	697,637
Segment results and profit/(loss) before tax	82,504	28,663	(621)	82,449	8,702	988	202,685
Segment assets	5,096,326	69,102	62,446	2,068,659	117,783	–	7,414,316
Reconciliation:							
Deferred tax assets							7,304
Tax recoverable							1,172
Unlisted club debentures included in other assets							2,470
Total assets							7,425,262
Segment liabilities	4,532,488	16,486	1,349	773,844	1,768	–	5,325,935
Reconciliation:							
Deferred tax liability							266
Tax payable							17,889
Total liabilities							5,344,090
Other segment information:							
Interest expenses	–	–	–	17,396	–	–	17,396
Depreciation expenses	1,623	311	79	–	3,235	–	5,248
Capital expenditure	2,748	–	–	–	1,462	–	4,210

Geographical information

The Group's operations are substantially located in Hong Kong and substantially all non-current assets of the Group are located in Hong Kong. Therefore, no further analysis of geographical information is presented.

Information about major customers

As no customer of the Group from whom the revenue derived individually has amounted to over 10% of the Group's total revenue during the year, no information about major customers is presented.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

5 REVENUE AND OTHER GAINS, NET

An analysis of revenue, which is also the Group's turnover and other gains, net are as follows:

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Revenue:		
Brokerage business:		
Commission on securities dealing		
– Hong Kong securities	**123,535**	282,219
– Other than Hong Kong securities	**25,412**	51,798
Commission on futures and options contracts dealing	**30,770**	34,529
Handling fee and facilitating fee income	**21,389**	4,971
Research fee income and others	**16,323**	16,363
	217,429	389,880
Corporate finance business:		
Initial public offering, placing, underwriting and sub-underwriting commission	**20,068**	90,572
Financial advisory, compliance advisory, sponsorship fee income and others	**26,766**	23,634
	46,834	114,206
Asset management business:		
Management fee and investment advisory fee income	**3,238**	9,519

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

5 REVENUE AND OTHER GAINS, NET *(Cont'd)*

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Financing and loans business:		
Interest income from loans to cash clients and margin clients	**117,563**	142,190
Interest income from initial public offering loans	**186**	4,966
Interest income from banks and others	**31,226**	23,410
	148,975	170,566
Investment business:		
Net realised and unrealised (losses)/gains on financial assets:		
– Listed investments	**(4,113)**	389
– Unlisted investments	**(384)**	7,262
Dividend income and interest income:		
– Listed investments	**306**	115
– Unlisted investments	**4,170**	4,712
	(21)	12,478
	416,455	696,649
Other gains, net:		
Exchange gains, net	**1,252**	821
Gain on disposal of property, plant and equipment	**15**	–
Gain on disposal of an unlisted available-for-sale investment	**–**	167
	1,267	988

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

6 PROFIT BEFORE TAX

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

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Employee benefit expenses (including directors' remuneration – note 7):		
Salaries and other staff costs	**131,270**	186,205
Retirement benefit scheme contributions	**9,009**	8,402
Less: Forfeited contributions	**(897)**	(700)
Net retirement benefit scheme contributions*	**8,112**	7,702
	139,382	193,907
Interest expenses on loans and overdrafts wholly repayable within five years	**5,883**	17,396
Minimum lease payments under operating leases in respect of land and buildings	**28,309**	26,406
Auditors' remuneration	**1,700**	1,800

* At 31 December 2016, the Group had forfeited contributions of HK$261,658 (2015: Nil), which were included in prepayment, deposits and other receivables in the consolidated statement of financial position, available to reduce its contributions to the retirement benefit schemes in future.

7 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), 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:

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Fees	**540**	540
Other emoluments:		
Salaries, allowances and benefits in kind	**4,713***	10,519
Retirement benefit scheme contributions	**200**	200
	4,913	10,719
	5,453	11,259

* The evaluation of the performance of the Executive Directors has not been completed. Thus, the amount of the total other emoluments has not yet been determined and the final amount will be disclosed in due course.

Comparative figures of 2015 were restated in accordance with the announcement made by the Group on 13 May 2016.

(a) Independent non-executive directors

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

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Ng Wing Hang Patrick	**180**	180
Kwok Lam Kwong Larry	**180**	180
Zhuo Fumin	**180**	180
	540	540

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

7 DIRECTORS' REMUNERATION *(Cont'd)*

(b) Executive directors and non-executive directors

The remuneration paid to executive directors and non-executive directors during the year was as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
For the year ended 31 December 2016				
Executive directors:				
Chu Xiaoming (resigned on 5 March 2016)	–	–	–	–
Zhu Minjie (appointed on 5 March 2016)	–	–	–	–
Lu Wenqing (retired on 12 May 2016)	–	–	–	–
Chen Xiaosheng (appointed on 5 March 2016)	–	–	–	–
Guo Chun	–	2,713*	–	2,713
Lee Man Chun Tony	–	2,000*	200	2,200
	–	4,713	200	4,913
Non-executive directors:				
Zhang Lei	–	–	–	–
	–	4,713	200	4,913

* The evaluation of the performance of the Executive Directors has not yet been completed. Thus, the amount of salaries, allowances and benefits in kind has not yet been determined and the final amount will be disclosed in due course.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

7 DIRECTORS' REMUNERATION *(Cont'd)*

(b) Executive directors and non-executive directors *(Cont'd)*

The remuneration paid to executive directors and non-executive directors during the year was as follows: *(Cont'd)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
For the year ended 31 December 2015				
Executive directors:				
Chu Xiaoming	–	–	–	–
Lu Wenqing	–	–	–	–
Guo Chun	–	7,219	–	7,219
Lee Man Chun Tony	–	3,300	200	3,500
	–	10,519	200	10,719
Non-executive directors:				
Zhang Lei	–	–	–	–
	–	10,519	200	10,719

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

Comparative figures of 2015 were restated in accordance with the announcement made by the Group on 13 May 2016.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

8 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2015: one director), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining four (2015: four) non-directors, highest paid employees are as follows:

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**10,079**	9,302
Bonuses	**2,085***	9,569
Retirement benefit scheme contributions	**878**	472
	13,042	19,343

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

	Number of employees*	
	2016	2015
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	3
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	–
HK$5,500,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$6,500,000	**–**	1
	4	4

* The evaluation of the performance of the employees has not been completed. Thus, the amount of bonuses has not yet been determined and the final amount will be disclosed in due course.

Comparative figures of 2015 were restated in accordance with the announcement made by the Group on 13 May 2016.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

9 INCOME TAX

(a) Taxation in the consolidated statement of profit or loss represents:

	For the year ended 31 December	
	2016 **HK$'000**	2015 HK$'000
Current tax – Hong Kong		
Charge for the year	**9,728**	25,710
Overprovision in prior years	**(1,915)**	(494)
	7,813	25,216
Current tax – Elsewhere	**63**	228
Deferred tax *(note 15)*	**756**	(7,072)
Total tax charge for the year	**8,632**	18,372

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the appropriate current rates of tax prevailing in the jurisdictions in which the Group operates.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense for the year at the effective tax rate is as follows:

	For the year ended 31 December	
	2016 **HK$'000**	2015 HK$'000
Profit before tax	**90,906**	202,685
Tax at the statutory tax rate of 16.5% (2015: 16.5%)	**14,999**	33,443
Adjustments in respect of current tax of previous periods	**(1,915)**	(494)
Income not subject to tax	**(14,643)**	(13,607)
Expenses not deductible for tax	**7,186**	8,127
Effect of different tax rates of companies operating in other jurisdictions	**25**	112
Tax losses utilised from previous periods	**(403)**	(2,559)
Tax effect of unused tax losses recognised as deferred tax assets	**–**	(7,160)
Temporary differences not recognised	**3,383**	510
Tax expense for the year at the Group's effective rate (2016: 9.5%; 2015: 9.1%)	**8,632**	18,372

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

10 DIVIDEND

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Proposed final – HK4 cents (2015: HK9 cents) per ordinary share	**31,846**	71,652

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

11 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Group had no potentially dilutive ordinary shares in issue during those years. As at 31 December 2016, the total number of the issued ordinary shares was 796,138,689 shares (2015: 796,138,689 shares).

	For the year ended 31 December	
	2016	2015
Profit attributable to ordinary equity holders of the Company (HK$'000)	**82,275**	184,314
Weighted average number of ordinary shares in issue (in thousands) *(note)*	**796,139**	794,242
Earnings per share, basic and diluted (HK cents per share)	**10.33**	23.21

Note: For the year ended 31 December 2015, the Group issued 265,379,563 new shares and raised approximately HK$621.5 million by way of rights issue on the basis of one rights share for every two existing shares held by shareholders of the Company at the price of HK$2.342, which represent a discount to the prevailing fair value at the date of rights issue of the existing shares. After deducting the expense in connection with this rights issue amounting to HK$1.2 million, the net proceeds of HK$620.3 million were credited to the Company's share capital account.

The effect of the bonus element resulting from the rights issue has been included in the calculation of basic and diluted earnings per share for previous financial year.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2016					
At 31 December 2015 and 1 January 2016:					
Cost	4,095	24,123	45,439	2,463	76,120
Accumulated depreciation	(2,682)	(18,543)	(40,384)	(2,290)	(63,899)
Net carrying amount	1,413	5,580	5,055	173	12,221
Opening net carrying amount	1,413	5,580	5,055	173	12,221
Additions	–	80	2,270	–	2,350
Depreciation provided during the year	(123)	(1,562)	(3,196)	(159)	(5,040)
Disposal:					
– Cost	–	–	(516)	–	(516)
– Accumulated depreciation	–	–	516	–	516
Closing net carrying amount	1,290	4,098	4,129	14	9,531
At 31 December 2016:					
Cost	4,095	24,203	47,193	2,463	77,954
Accumulated depreciation	(2,805)	(20,105)	(43,064)	(2,449)	(68,423)
Net carrying amount	1,290	4,098	4,129	14	9,531

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

12 PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2015					
At 31 December 2014 and 1 January 2015:					
Cost	4,095	23,098	42,254	2,463	71,910
Accumulated depreciation	(2,559)	(17,190)	(36,772)	(2,130)	(58,651)
Net carrying amount	1,536	5,908	5,482	333	13,259
Opening net carrying amount	1,536	5,908	5,482	333	13,259
Additions	–	1,025	3,185	–	4,210
Depreciation provided during the year	(123)	(1,353)	(3,612)	(160)	(5,248)
Closing net carrying amount	1,413	5,580	5,055	173	12,221
At 31 December 2015:					
Cost	4,095	24,123	45,439	2,463	76,120
Accumulated depreciation	(2,682)	(18,543)	(40,384)	(2,290)	(63,899)
Net carrying amount	1,413	5,580	5,055	173	12,221

The Group's leasehold land and buildings included in property, plant and equipment with a net carrying amount of HK$1,290,000 (2015: HK$1,413,000) are situated in Hong Kong and are held under a long term lease.

13 STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	2016 HK$'000	2015 HK$'000
Cost and carrying amount as at 1 January and 31 December	**4,212**	4,212

14 OTHER ASSETS

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Deposits with exchanges and clearing houses	**23,273**	17,095
Unlisted club debentures	**2,470**	2,470
Other deposits and prepayments	**6,687**	8,911
	32,430	28,476

None of the above assets is either past due or impaired.

15 DEFERRED TAX

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

Deferred tax assets

	Losses available for offsetting against future taxable profits HK$'000	**Deductible temporary differences** HK$'000	**Total** HK$'000
At 1 January 2015	–	236	236
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year *(note 9)*	7,160	(92)	7,068
At 31 December 2015 and 1 January 2016	**7,160**	**144**	**7,304**
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 9)*	**(778)**	**(47)**	**(825)**
At 31 December 2016	**6,382**	**97**	**6,479**

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

15 DEFERRED TAX *(Cont'd)*

Deferred tax liability

	Accelerated tax depreciation HK$'000
At 1 January 2015	270
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 9)*	(4)
At 31 December 2015 and 1 January 2016	**266**
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 9)*	**(69)**
At 31 December 2016	**197**

Other than the losses available for offsetting against future taxable profits for which deferred tax assets are recognised as at 31 December 2016, the Group has unrecognised tax losses arising in Hong Kong of HK$152,095,000 (2015: HK$128,572,000), subject to agreement by the Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be available from these group companies against which the tax losses can be utilised.

At 31 December 2016, there was no significant unrecognised deferred tax liability (2015: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

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

16 INVESTMENTS

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Investments at fair value through profit or loss		
Listed investment funds, at fair value	**14,761**	–
Listed equity investments, at fair value	**10,694**	–
Unlisted investment funds, at fair value	**4,315**	–
Unlisted debt investments, at fair value	**80,556**	42,980
	110,326	42,980

The investments at fair value through profit or loss at 31 December 2016 of HK$110,326,000 (2015: HK$42,980,000) were classified as held for trading.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

17 ACCOUNT RECEIVABLES

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Account receivables arising from securities dealing:		
– Cash clients	**199,658**	527,507
– Brokers and dealers	**110,321**	215,042
– Clearing houses	**166,204**	131,318
	476,183	873,867
Account receivables arising from corporate finance, advisory and other services:		
– Corporate clients	**12,377**	6,070
	488,560	879,937

There was no provision for impairment of account receivables at 31 December 2016 (2015: Nil).

Ageing analysis of account receivables

An ageing analysis of account receivables from cash clients before provision for impairment based on the trade date is as follows:

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Within 1 month	**178,457**	476,506
1 to 2 months	**4,975**	6,687
2 to 3 months	**3,547**	3,165
Over 3 months	**12,679**	41,149
	199,658	527,507

The aging of account receivables from clearing houses, brokers and dealers are within one month and are not past due. They represent (1) pending trades arising from business of dealing in securities, which are normally due within a few days after the trade date, (2) deposits at clearing houses arising from the business of dealing in securities, futures and options contracts and (3) cash and deposits balances at brokers and dealers.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

17 ACCOUNT RECEIVABLES *(Cont'd)*

Ageing analysis of account receivables *(Cont'd)*

The aging of account receivables from corporate clients arising from corporate finance, advisory and other services are mostly within one month. As at 31 December 2016, balances of HK$3,000,000 (2015:Nil) were less than 1 month past due and balances of HK$9,377,000 (2015:6,070,000) were not past due.

Save for the credit period allowed by the Group, the account receivables from cash clients shall be due on the settlement dates of the respective securities and futures contract transactions. In view of the fact that the Group's account receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Although the Group does not hold any collateral or other credit enhancements over its account receivables from cash clients, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts. Overdue account receivables from cash clients of HK$32,615,000 (2015: HK$69,039,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2015: with reference to the Hong Kong dollar prime rate).

The ageing analysis of the account receivables from cash clients that are not individually nor collectively considered to be impaired, i.e. based on the settlement date, is as follows:

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Not past due	**167,043**	458,468
Less than 1 month past due	**12,408**	18,333
1 to 3 months past due	**7,774**	9,712
Over 3 months past due	**12,433**	40,994
	199,658	527,507

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 or are covered by securities deposited with the Group.

Receivables that were past due but not impaired relate to a large number of diversified cash clients 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 they are covered by securities deposited with the Group and there has not been a significant change in credit quality. The balances are therefore considered to be fully recoverable.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

18 LOANS AND ADVANCES

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Loans and advances to customers before provision for impairment:		
– Secured	**1,792,161**	2,053,818
– Unsecured	**–**	–
	1,792,161	2,053,818
Less: Provision for impairment	**–**	–
	1,792,161	2,053,818

Customers are required to provide collateral to the Group for the loans and advances granted. As at 31 December 2016, the total market value of the securities pledged by customers to the Group as collateral in respect of the above loans and advances to customers was HK$9,233,062,000 (2015: HK$9,196,684,000), of which a total market value of HK$1,235,013,000 (2015: HK$687,743,000) of such collateral was pledged with banks to secure certain of the Group's bank loans (note 24) as at 31 December 2016. The Group is allowed to dispose of the collateral in settlement of the customers' obligation to maintain the agreed level of margin and any other liability of the customers due to the Group. The Group is allowed to deposit the collateral with an authorised institution as collateral for financial accommodation provided to the Group according to the applicable legislations and regulations.

In view of the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans and advances to margin clients of HK$1,792,161,000 (2015: HK$2,053,818,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2015: with reference to the Hong Kong dollar prime rate).

The Group's loans and advances to customers were repayable on demand at the end of the reporting period.

There was no provision for impairment of loans and advances at 31 December 2016 (2015: Nil).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Prepayments	**8,292**	8,771
Deposits and other receivables	**18,212**	12,482
	26,504	21,253

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.

20 BANK BALANCES HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold clients' monies in accordance with the relevant legislation. The Group is allowed to retain some or all of the interest on the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

21 CASH AND BANK BALANCES

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Cash and bank balances	**387,713**	361,804
Time deposit	**–**	150,000
	387,713	511,804

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$8,139,000 (2015: HK$8,524,000).

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposit is made for one week, and earns interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

22 ACCOUNT PAYABLES

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Account payables		
– Clients	**4,816,857**	4,137,417
– Brokers and dealers	**31,461**	53,517
– Clearing houses	**183,058**	257,722
	5,031,376	4,448,656

Account payables are non-interest-bearing except for the account payables to clients of HK$4,352,897,000 (2015: HK$3,605,214,000).

All of the account payables are aged and due within one month or on demand.

23 OTHER PAYABLES AND ACCRUALS

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Other payables	**6,592**	21,918
Accruals	**41,917**	105,681
	48,509	127,599

Other payables are non-interest-bearing and have an average term of within one year.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

24 INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2016			As at 31 December 2015		
	Effective interest rate	**Maturity**	**HK$'000**	Effective interest rate	Maturity	HK$'000
Current						
Bank loans – secured	**Hong Kong Interbank Offered Rate ("HIBOR") +1.4% to 1.6%**	**On demand**	**155,590**	HIBOR +1.5% to fixed rate of 6.97%	On demand	749,680
	Lender's cost of fund +1.5%	**On demand**	**123,000**	–	–	–
			278,590			749,680

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Analysed into:		
Bank loans and overdrafts repayable within one year or on demand	**278,590**	749,680

Notes:

(a) The Group's bank loans of HK$278,590,000 (2015: HK$749,680,000) were secured by certain marketable securities pledged by customers to the Group and/or corporate guarantee to banks by the Company.

HK$278,590,000 (2015: HK$150,000,000) of the Group's bank loans utilised was secured by certain marketable securities pledged by customers to the Group with a total market value of HK$1,235,013,000 (2015: HK$687,743,000) as at 31 December 2016 *(note 18)*.

The Company had guaranteed the Group's bank loans of HK$278,590,000 (2015: HK$749,680,000), up to HK$1,702,685,000 (2015: HK$1,613,500,000), as at 31 December 2016.

(b) Certain of the Group's unutilised banking facilities are secured by guarantees given by the Company.

(c) As at 31 December 2016, except for the bank loan of HK$5,590,000 (2015: HK$59,680,000) which is denominated in RMB, all borrowings are denominated in Hong Kong dollars.

(d) The carrying amounts of the Group's borrowings approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

25 SHARE CAPITAL

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Issued and fully paid:		
796,138,689 (2015: 796,138,689) ordinary shares	**1,200,457**	1,200,457

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

	Number of shares in issue	**Share capital** HK$'000	**Total** HK$'000
At 1 January 2015	530,759,126	580,120	580,120
Shares issued upon rights issue *(Note (a))*	265,379,563	620,337	620,337
At 31 December 2015, 1 January 2016 and 31 December 2016	**796,138,689**	**1,200,457**	**1,200,457**

Notes:

(a) For the year ended 31 December 2015, the Group issued 265,379,563 new shares and raised approximately HK$621.5 million by way of rights issue on the basis of one rights share for every two existing shares held by shareholders of the Company at the price of HK$2.342, which represent a discount to the prevailing fair value at the date of rights issue of the existing shares. After deducting the expense in connection with this rights issue amounting to HK$1.2 million, the net proceeds of HK$620.3 million were credited to the Company's share capital account.

The effect of the bonus element resulting from the rights issue has been included in the calculation of basic and diluted earnings per share for previous financial year.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

26 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 of the financial statements.

The Group's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

27 COMMITMENTS

(a) Capital commitments

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Contracted, but not provided for the purchases of furniture, fixtures and equipment	**250**	377

(b) Operating lease commitments as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years (2015: one to six years).

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
Within one year	**28,955**	26,674
In the second to fifth years, inclusive	**24,568**	41,169
	53,523	67,843

At 31 December 2016, the Group did not have any other significant commitments (2015: Nil).

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

28 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 during the year:

		For the year ended 31 December	
	Note	**2016 HK$'000**	2015 HK$'000
Commission expenses for brokerage services in relation to the PRC capital markets paid to a wholly-owned subsidiary of the ultimate holding company	*(i)*	**1,313**	4,669
Research fee for supporting services in relation to research paid to a subsidiary of the ultimate holding company	*(ii)*	**5,000**	11,500
Consultancy fee for supporting services in relation to PRC market paid to the subsidiaries of the ultimate holding company	*(iii)*	**2,500**	5,800
Consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company	*(iv)*	**11,320**	12,494
Consultancy fee for supporting services in connection with corporate finance business paid by a wholly-owned subsidiary of the ultimate holding company	*(v)*	**1,135**	–
Interest expense paid to an intermediate holding company	*(vi)*	**–**	1,132

Notes:

(i) The commission expenses paid to a wholly-owned subsidiary of the ultimate holding company were calculated based on the prescribed percentage stated in the signed cooperation agreement for clients' transaction amount in Shenzhen and Shanghai B shares.

(ii) The research fee paid to a subsidiary of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.

(iii) The consultancy fee for supporting service in relation to PRC market paid to the subsidiaries of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

28 RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes: (Cont'd)

(iv) The consultancy fee for supporting service in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company was calculated based on a fixed percentage of the relevant commission earned by the wholly-owned subsidiary of the ultimate holding company.

(v) The consultancy fee for supporting services in connection with corporate finance business paid by a wholly-owned subsidiary of the ultimate holding company was calculated based on prescribed percentage stated in the signed corporation agreement for relevant financial advisory fee earned by a wholly-owned subsidiary of the ultimate holding company. The amount is included in the account receivables balance as at 31 December 2016 and is unsecured, interest free and repayable on demand.

(vi) During the year ended 31 December 2016, no interest expense was paid. During the year ended 31 December 2015, the interest expense paid to an intermediate holding company was calculated based on the prescribed interest rate on outstanding loan amount stated in the signed loan agreement.

(vii) Included in the account receivables balance as at 31 December 2016 was a receivable due from a wholly-owned subsidiary of the ultimate holding company of HK$7,645,000 (2015: HK$65,870,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.

(viii) Included in the account payables balance as at 31 December 2016 was a payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK$2,260,000 (2015: HK$14,357,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and payable on the settlement date of the relevant transactions.

(ix) Included in the other payables and accruals balance as at 31 December 2016 was a consultancy fee payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK$1,000,000 (2015: HK$1,500,000) arising from supporting services for PRC market. This balance is unsecured, interest-free and payable on demand.

(x) Included in the account receivables balance as at 31 December 2016 was consultancy fee receivable due from a wholly-owned subsidiary of the ultimate holding company of HK$5,423,000 (2015: HK$4,323,000) arising from supporting services relating to Hong Kong and overseas markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.

(xi) Included in the account payables balance as at 31 December 2016 was the amount of segregated client money held on behalf of an intermediate holding company of the Company of HK$166,174,000 (2015: HK$163,182,000). This balance is unsecured, bears interest at the bank deposit rate and is payable on demand. A corresponding amount is also included in the bank balances held on behalf of clients as at 31 December 2016 and 2015.

(xii) Included in the account payables balance as at 31 December 2016 was the amount of segregated client money held on behalf of directors of the Company and key management personnel of the Group of HK$4,119,000 (2015: HK$610,000). This balance is unsecured, bears interest at the bank deposit rate and is payable on demand. A corresponding amount is also included in the bank balances held on behalf of clients as at 31 December 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

28 RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Compensation of key management personnel of the Group:

	For the year ended 31 December	
	2016	2015
	HK$'000	HK$'000
Short term employee benefits	**29,112**	54,737
Post-employment benefits	**1,763**	1,664
	30,875	56,401

Further details of directors' emoluments are included in note 7 to the financial statements.

The related party transactions in respect of items (a)(i-v) above also constitute continuing connected transactions to be disclosed in annual report as defined in Chapter 14A of the Listing Rules.

29 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:

As at 31 December 2016

Financial assets	**Financial assets at fair value through profit or loss – held for trading HK$'000**	**Loans and receivables HK$'000**	**Total HK$'000**
Other assets	**–**	**32,430**	**32,430**
Investments at fair value through profit or loss	**110,326**	**–**	**110,326**
Account receivables	**–**	**488,560**	**488,560**
Loans and advances	**–**	**1,792,161**	**1,792,161**
Financial assets included in prepayments, deposits and other receivables	**–**	**18,212**	**18,212**
Bank balances held on behalf of clients	**–**	**4,576,893**	**4,576,893**
Cash and bank balances	**–**	**387,713**	**387,713**
	110,326	**7,295,969**	**7,406,295**

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

29 FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Account payables	**5,031,376**
Financial liabilities included in other payables and accruals	**44,812**
Interest-bearing bank borrowings	**278,590**
	5,354,778

As at 31 December 2015

Financial assets

	Financial assets at fair value through profit or loss – held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Other assets	–	28,476	28,476
Investments at fair value through profit or loss	42,980	–	42,980
Account receivables	–	879,937	879,937
Loans and advances	–	2,053,818	2,053,818
Financial assets included in prepayments, deposits and other receivables	–	12,482	12,482
Bank balances held on behalf of clients	–	3,862,085	3,862,085
Cash and bank balances	–	511,804	511,804
	42,980	7,348,602	7,391,582

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

29 FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Account payables	4,448,656
Financial liabilities included in other payables and accruals	51,569
Interest-bearing bank borrowings	749,680
	5,249,905

30 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group currently has a legally enforceable right to set off the Continuous Net Settlement ("CNS") money obligations receivable and trade payables with Hong Kong Securities Clearing Company Limited ("HKSCC"), which are included in "account receivables" and "account payables" as presented in the consolidated statement of financial position, respectively. It intends to settle on a net basis as account receivables from or account payables to the Stock Exchange. The net amount of CNS money obligations receivable or payable with HKSCC and guarantee fund placed in HKSCC do not meet the criteria for offsetting against each other in the financial statements and the Group does not intend to settle the balances on a net basis.

	As at 31 December 2016					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	Net amount HK$'000
Assets						
Account receivables	648,778	(160,218)	488,560	–	–	488,560

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

30 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Cont'd)*

As at 31 December 2016

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
Liabilities						
Account payables	**5,191,594**	**(160,218)**	**5,031,376**	**–**	**–**	**5,031,376**

As at 31 December 2015

	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Assets						
Account receivables	1,102,775	(222,838)	879,937	–	–	879,937

As at 31 December 2015

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
Liabilities						
Account payables	4,671,494	(222,838)	4,448,656	–	–	4,448,656

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

31 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following tables present the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique (see note 2.5(b)).

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

Financial instruments measured at fair value:

As at 31 December 2016

	Fair value measurement using		
	Level 1 (Unadjusted quoted prices in active markets) HK$'000	**Level 2 (Significant observable inputs) HK$'000**	**Total HK$'000**
Investments at fair value through profit or loss:			
Listed investment funds, at fair value	**14,761**	**–**	**14,761**
Listed equity investments, at fair value	**10,694**	**–**	**10,694**
Unlisted investment funds, at fair value	**–**	**4,315**	**4,315**
Unlisted debt investments, at fair value	**2,318**	**78,238**	**80,556**
	27,773	**82,553**	**110,326**

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

31 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Cont'd)*

Financial instruments measured at fair value: *(Cont'd)*

As at 31 December 2015

	Fair value measurement using		
	Level 1 (Unadjusted quoted prices in active markets) HK$'000	Level 2 (Significant observable inputs) HK$'000	Total HK$'000
Investments at fair value through profit or loss:			
Unlisted debt investments, at fair value	–	42,980	42,980

During the years ended 31 December 2016 and 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Valuation techniques and inputs used in Level 2 fair value measurements

The Group measures Level 2 fair values using the following method and there is no change to the valuation technique:

Level 2 – Valuation techniques based on observable input. This category includes unlisted debt investments and unlisted investment funds valued using:

– Quoted market prices in active market for similar instruments

– Quoted prices for similar instruments in market that are considered less than frequent or

– Other valuation techniques where all significant inputs are directly or indirectly observable from market data

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's operating segments include brokerage business, corporate finance business, asset management business, financing and loans business, investment business and other business.

The main risks arising from the Group's normal course of business and its financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and 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 borrowings from banks during the year are for the provision of financing and loans to customers. 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 Hong Kong dollar prime rate. As the Hong Kong dollar prime rate basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings, interest-bearing account receivables, cash and bank balances and loans and advances) and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2016			
Hong Kong dollar	**25**	**4,774**	**–**
Hong Kong dollar	**(25)**	**(4,774)**	**–**
2015			
Hong Kong dollar	25	3,679	–
Hong Kong dollar	(25)	(3,679)	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Foreign currency risk

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars and RMB. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the consolidated statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and take necessary measures when the situations so justify. The Group's revenue denominated in currencies other than Hong Kong dollars and United States dollars constituted approximately 3% (2015: 5%) of the total revenue.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in RMB rate %	**Increase/ (decrease) in profit before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2016			
If the Hong Kong dollar weakens against the RMB	**3**	**923**	**–**
If the Hong Kong dollar strengthens against the RMB	**(3)**	**(923)**	**–**
2015			
If the Hong Kong dollar weakens against the RMB	3	687	–
If the Hong Kong dollar strengthens against the RMB	(3)	(687)	–

* Excluding retained profits

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk

The Group has put in place a well-established credit policy governing the granting of credit limit to customers. Customers are generally required to deposit their securities with the Group as collateral to their borrowings. The credit department is responsible for assisting the directors in formulating the credit policy of the Group, monitoring the credit risks of customers with reference to the realisable values of the collateral, managing the concentration of credit risk by customer and recommending measures to the directors for granting credit facilities which exceed the authority limit of the credit department. There are no significant concentrations of credit risk within the Group as it relates to a large number of diversified customers.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, bank balances held on behalf of clients, investments at fair value through profit or loss, other assets, and deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from account receivables and loans and advances are disclosed in notes 17 and 18 to the financial statements, respectively.

Liquidity risk

There is a constant need of funding for the settlement of securities transactions and for the provision of financing and loans to the customers. The source of funding is either from the Group's own capital or borrowings from financial institutions, if necessary.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both of its financial instruments and financial assets (e.g., account receivables) and projected cash flows from operations.

The Group's borrowings from banks during the year are 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 six months, where the borrowings 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 is able to be realised in the market within a reasonable period of time.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Liquidity risk *(Cont'd)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand HK$'000	**Less than 1 year HK$'000**	**Total HK$'000**
As at 31 December 2016			
Account payables	**4,723,582***	**307,794**	**5,031,376**
Financial liabilities included in other payables and accruals	**–**	**44,812**	**44,812**
Interest-bearing bank borrowings	**278,663#**	**–**	**278,663#**
	5,002,245	**352,606**	**5,354,851**

	On demand HK$'000	Less than 1 year HK$'000	Total HK$'000
As at 31 December 2015			
Account payables	3,998,866*	449,790	4,448,656
Financial liabilities included in other payables and accruals	–	51,569	51,569
Interest-bearing bank borrowings	749,837#	–	749,837#
	4,748,703	501,359	5,250,062

Included in interest-bearing bank borrowings were certain of the Group's bank loans in the amount of HK$278,590,000 (2015: HK$749,680,000), of which the loan agreements contain repayment on demand clauses giving the banks the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Had the banks not called in the loan, the scheduled repayment dates of interest bearing bank borrowing were within 1 month from the end of the reporting period (2015: within 1 month from the end of the reporting period).

* Balance includes bank balances held on behalf of clients under the current asset section of the consolidated statement of financial position of HK$4,576,893,000 (2015: HK$3,862,085,000).

Price risk

Price risk is the risk that the fair values or future cash flows due to changes in market prices. The Group was exposed to price risk through its investments at fair value through profit or loss *(note 16)* as at 31 December 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Price risk *(Cont'd)*

The following table demonstrates the sensitivity to every 1% change in the fair values of the 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. For the purpose of this analysis, for the available-for-sale-equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which impact the consolidated statement of profit or loss.

	Increase/ (decrease) in fair value %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2016			
Listed investments			
– Investment funds	**1**	**148**	**–**
	(1)	**(148)**	**–**
– Equity investments	**1**	**107**	**–**
	(1)	**(107)**	**–**
Unlisted investments:			
– Investment funds	**1**	**43**	**–**
	(1)	**(43)**	**–**
– Debt investments	**1**	**806**	**–**
	(1)	**(806)**	**–**
2015			
Unlisted investments:			
– Debt investments	1	430	–
	(1)	(430)	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

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. 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The gearing ratio is reviewed and assessed regularly by the board of directors. The gearing ratios as at the end of the reporting periods were as follows:

	2016 **HK$'000**	2015 HK$'000
Interest-bearing bank borrowings	**278,590**	749,680
Total equity	**2,091,757**	2,081,172
Gearing ratio	**13.3%**	36.0%

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

33 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2016 HK$'000	As at 31 December 2015 HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**1,304,199**	1,354,407
CURRENT ASSETS		
Prepayments, deposits and other receivables	**950**	1,478
Cash and bank balances	**5,406**	6,958
Total current assets	**6,356**	8,436
CURRENT LIABILITIES		
Other payables and accruals	**2,794**	2,916
Tax payable	**134**	350
	2,928	3,266
NET CURRENT ASSETS	**3,428**	5,170
NET ASSETS	**1,307,627**	1,359,577
EQUITY		
Share capital	**1,200,457**	1,200,457
Other reserves	**107,170**	159,120
TOTAL EQUITY	**1,307,627**	1,359,577

Zhu Minjie
Director

Guo Chun
Director

NOTES TO FINANCIAL STATEMENTS *(Cont'd)*

31 December 2016

33 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Notes:

A summary of the Company's reserves is as follows:

	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	656	142,510	143,166
Total comprehensive income for the year	–	55,761	55,761
Dividend paid	–	(39,807)	(39,807)
At 31 December 2015 and 1 January 2016	**656**	**158,464**	**159,120**
Total comprehensive income for the year	**–**	**19,702**	**19,702**
Dividend paid	**–**	**(71,652)**	**(71,652)**
At 31 December 2016	**656**	**106,514**	**107,170**

The Company's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

34 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 March 2017.

35 EVENT AFTER THE REPORTING PERIOD

The proposed final dividend for the year set out in note 10 to the financial statement has been approved by the directors on 10 March 2017 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

36 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

SHENWAN HONGYUAN (H.K.) LIMITED
申 萬 宏 源 （ 香 港 ） 有 限 公 司

Level 19, 28 Hennessy Road, Hong Kong
香港軒尼詩道28號19樓

Tel 電話： (852) 2509 8333
Fax 傳真： (852) 3525 8368
Website 網址： www.swhyhk.com

MIX
Paper from responsible sources
FSC™ C127090
www.fsc.org