
CASH 時富

# ANNUAL REPORT 2016

Celestial Asia Securities Holdings Limited

(Stock Code:1049)

# Contents

# Corporate Profile

# CORPORATE PROFILE

Celestial Asia Securities Holdings Limited ("CASH Group", SEHK: 1049) is a multi-faceted investment conglomerate focusing on enhancing client experience through technology and innovation. Headquartered in Hong Kong, We serve modern consumer needs in investment and wealth management, home improvement, lifestyle, personal enjoyment and mobile internet services. All our businesses share a common mission that our customers' interests always come first. Our brands are synonymous with good customer service, great quality and fabulous value.

Abide by the "People-Oriented" principle, CASH Group is committed to becoming a Total Caring Organisation to partner with our key stakeholders to work towards the sustainable development of our business, our employees, our environment and our society. CASH's award-winning companies comprise CASH Financial Services Group (CFSG): CASH Retail Management Group (CRMG), and Net2Gather (China) Holdings.

## FINANCIAL SERVICES — CFSG

CASH Financial Services Group (SEHK: 510) is a leading financial services conglomerate in Hong Kong. Established in 1972, CFSG provides a comprehensive range of financial products and quality investment services that include mobile and premium trading, investment banking and corporate finance advisory, wealth and asset management, FinTech platform, etc, for the versatile investment and wealth management needs of our broad-based clients.

As a leading technology-focused financial services provider, coupled with our professional talents, CFSG is committed to operating the state-of-the-art internet finance trading platform to meet the investment needs of clients in today's borderless world. In 1998, CFSG was the first in Hong Kong to develop and launch investment trading via the Internet, demonstrating our innovation and dedication to integrating technology into daily life. As technologies advance, CFSG is dedicated to enhancing the trading experience of our clients. We further developed the mobile trading services by introducing various stock and futures trading apps on iPhone, iPad and Android operating systems, enabling institutional, corporate, commercial and individual clients to obtain instant market information while at the same time trade anytime, anywhere, and borderless.

Leveraging our advanced electronic trading platform, CFSG has developed an extensive distribution network to reach our institutional, corporate and individual clients across China. Along with our headquarters in Hong Kong, we have established a Mainland head office in Shanghai, with offices strategically located in other provinces.

Known for our innovation and quality services, CFSG has been widely recognised in the industry. In 2008, CFSG was the first organisation in Hong Kong to obtain the stringent ISO 9001:2008 certification, with zero non-conformity. Other accolades include a Top Service Brand award from the Hong Kong Brand Development Council, Internet Finance Bronze Award from Internet Professional Association, Distinguished Salespersons Awards from the Hong Kong Management Association, a Certificate of Merit of the Hong Kong Awards for Industries in Technological Achievement from the Hong Kong Productivity Council, a Certificate of Merit of the Hong Kong Awards for Industries in Innovation and Creativity from the Hong Kong General Chamber of Commerce, a Wastewi$e Certificate (Excellence Level) from Environmental Campaign Committee, a Certificate of Merit in the Best Brand Enterprise Award from the Hong Kong Productivity Council, etc.

## RETAIL MANAGEMENT — CRMG

Founded in 1986, CASH Retail Management Group (CRMG) offers a diverse portfolio of home furnishing and lifestyle brands that satisfy our customers' needs through a blend of operating efficiency, effective use of technology, and talented people. We build our competitive advantage by achieving economies of scale through our single operating platform and our in-depth understanding of the market. Businesses comprise sourcing and retailing of quality products with brands such as Pricerite, www.pricerite.com.hk, TMF, etc.

Pricerite is one of the largest home furnishing specialists in Hong Kong. Upholding the "Living Smart" principle, we are committed to offering total smart home solutions to improve the quality of living and enhance space utilisation for our customers. Our extensive sourcing network in Mainland China and around the world best demonstrates our strengths in supply chain management and product development, offering a selection of versatile household offerings that are multi-functional, extensible, modular, as well as transformable, enabling us to work directly with manufacturing partners to ensure all our products are with great value.

# CORPORATE PROFILE

CRMG pioneers to develop 'Omni Channel' in Hong Kong. This has revolutionised the Hong Kong home furnishing market with easy access to our comprehensive network of outlets and e-shopping channels through a variety of digital devices, enabling our customers to enjoy a quality shopping experience, anytime, anywhere. We have a long heritage of adopting advanced technologies to enhance our operating efficiency. From back office support to product and service offerings, marketing communication and supply chain management, we strengthen our competitive edges through a balanced fusion of technology and people.

With a series of multi-functional design concepts and high-quality imported accessories, TMF home design services tailor-make home-sweet-homes for customers to manage their living space in a smart way. This, together with Pricerite's comprehensive range of ready-made furniture, household items and home appliances, makes TMF the ultimate one-stop home design centre for local families.

CRMG upholds the "People-oriented" principle, and attain leadership by innovation — in product mix, merchandising, store layout and entire market strategy in home improvement product retailing. Our constant efforts to increase our understanding of customers' expectations and needs through the use of information technology to gain accurate and timely data and use of market research tools drive our customer-focused innovations.

We deliver through a balanced fusion of technology and people. We utilise technology to enhance product delivery, operating efficiency and ultimately our logistical strength. We complement this with our dedicated workforce to develop and source the best products, to build our brand and create our customer-friendly shopping environment, as well as to assist our customers with the best service possible.

Honouring a celebrated Hong Kong brand, CRMG has received wide recognitions for its exceptional performance in various aspects such as brand management, product design, quality services and e-shopping platforms. As a result, many high acclaims have been awarded to its brands, including the Hong Kong Top Brand 10 Year Achievement Award and Premier Service Brand from the Hong Kong Brand Development Council, Consumer Product Design Award from the HK Awards for Industries, Marketing Excellence Awards from HKMA/TVB, Q-Mark Elite Brand Award from Hong Kong Q-Mark Council, "Outstanding QTS Merchant Awards" — Gold Award from Hong Kong Tourism Board, and numerous Service and Courtesy Awards from the Hong Kong Retail Management Association, etc.

## MOBILE INTERNET — NET2GATHER (CHINA)

Net2Gather (China) Holdings is a Mobile Internet service provider in China, providing online games, mobile games and IPTV interactive games. By aggregating various Mobile Internet services into an integrated platform, including content (upstream), operating platforms (midstream) and distribution channels (downstream), Net2Gather aims to build a cross-value chain of activities to enable people to come 2Gather in an online community in China that combines Mobile, Internet and Television platforms in line with the national move towards convergence.

# Corporate Information

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive:**

| | |
|---|---|
| KWAN Pak Hoo Bankee | (Chairman & CEO) |
| LAW Ping Wah Bernard | (CFO) |
| LAW Ka Kin Eugene | (Deputy CEO) |
| KWOK Lai Ling Elaine | (COO) |
| NG Hin Sing Derek | (ED) |

**Independent Non-executive:**

LEUNG Ka Kui Johnny
WONG Chuk Yan
CHAN Hak Sin

## AUDIT COMMITTEE

| | |
|---|---|
| LEUNG Ka Kui Johnny | (committee chairman) |
| WONG Chuk Yan | |
| CHAN Hak Sin | |

## REMUNERATION COMMITTEE

| | |
|---|---|
| LEUNG Ka Kui Johnny | (committee chairman) |
| WONG Chuk Yan | |
| KWAN Pak Hoo Bankee | |

## COMPANY SECRETARY

LUKE Wing Sheung Suzanne, *FCIS, FCS*

## AUTHORISED REPRESENTATIVES

KWAN Pak Hoo Bankee
LAW Ping Wah Bernard
(alternate: LUKE Wing Sheung Suzanne)

## PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
CTBC Bank Co. Ltd.
Industrial and Commercial Bank of China (Asia) Limited
Nanyang Commercial Bank, Limited
OCBC Wing Hang Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Shanghai Commercial Bank Limited
The Bank of East Asia, Limited
The Hong Kong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

## SOLICITORS

Sidley Austin

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

28/F Manhattan Place
23 Wang Tai Road
Kowloon Bay
Hong Kong

## REGISTRARS AND TRANSFER OFFICE IN HONG KONG

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

## WEBSITE

www.cash.com.hk

## STOCK CODE ON MAIN BOARD

1049

## CONTACTS

| | | |
|---|---|---|
| Telephone | : | (852) 2287 8888 |
| Facsimile | : | (852) 2287 8000 |

# Chairman's Letter

# CHAIRMAN'S LETTER

Dear Fellow Shareholders,

In 2016, the macroeconomic and geopolitical environment proved turbulent in the wake of several unexpected events. The UK's decision to exit the European Union ("Brexit") pounded investor confidence while the US presidential election provided another surprise for the market. With anti-globalisation and anti-free trade sentiment on the rise, the prospect of US interest rate hikes and concerns over currency instability, the global economic outlook clouded over. In Mainland China, the slowing economy, together with continued depreciation of the RMB against the US dollar, caused more capital outflows, further worrying investors.

Locally, the Hong Kong economy continued to decline from slim growth of 2.4% in 2015 to an even thinner 1.9% in 2016. Although total exports for goods recorded modest growth, 2016 saw a sharp fall in visitor arrivals. Visitors to the city registered a 4.5% dip over the previous year, marking the second year in a row to record a drop. The downturn further dimmed private consumption, with retail sales recording an 8.1% decrease year on year, the worst performing year since the SARS outbreak hit Hong Kong in 2003. The total number of domestic properties sold hit the lowest point since 2013 while the total retail sales volume for furniture and fixtures fell by 2.5%.

On a brighter note, technology innovation has undoubtedly widened the business opportunities available. 2017 celebrates the 10th anniversary of iPhone's launch, yet mobile technologies have already transformed most people's daily lives. Social media and big data also provide more information than ever before. As a technology-focused investment service conglomerate, our initiatives to leverage the latest "smart" advances have enabled us to add value for clients despite the sluggish market conditions.

During the year, CASH Financial Services Group continued to invest in systems and platforms to enhance the investment experience of clients and help them grasp the transient market opportunities amid the doldrums. In line with this approach, we became the first in Hong Kong to utilise financial technology (FinTech) for investment by launching our FinTech Investment Platform. Leveraging big data analysis and rigorous risk management systems, FinTech offers novel solutions to augment investment performance and investor experience. In addition, we established our Sector Trading Platform, which allows clients to place a single order to simultaneously buy or sell a group of securities in the same sector. We will continue to maintain this technology-based strategic approach to trading and investment to keep on growing our client-focused businesses.

Technology has also revolutionised the retail landscape, driving most stages of the customer experience today. Consumer behaviour and expectations have become more sophisticated and brands need to constantly evolve to meet their demands. The influence of technology is only expected to increase as retailers seek to forge ever-greater connections with customers.

In response to the metamorphosis in market conditions, during the year we evolved Pricerite Group into CASH Retail Management Group. The move enables us to better reflect our commitment to a multi-brand strategy, offering a portfolio of brands in addition to Pricerite. The newly established group targets the latest retail technologies to build and extend our customer experience. We have adopted various contactless payment systems in our shops and, in 2016, introduced augmented reality (AR) and virtual reality (VR) to add a novel element to our in-store experience. Despite the slack local retail market, we will continue to invest in our retail management business to enable customers to live out their lifestyle dreams.

Looking ahead, uncertainty looks set to remain, with important elections in several key European countries in 2017 that could elevate geopolitical tensions. The pace of US interest rate hikes and unfolding consequences of Brexit may cast further shadows on Hong Kong's economic prospects. However, if a stable external environment prevails, the local economy should find support in resilient domestic demand and the on-going transformation and revitalisation of the Mainland economy, given the Central Government's determination to bring in reforms to foster long-term sustainable growth.

Despite the unsettled global outlook, the Group's fundamentals remain solid and financially healthy with our diversified portfolio helping us weather the current difficult economic climate. As the world admits the "new normal of VUCA (Volatility Uncertainty Complexity Ambiguity)" as the trend in the longer term, we should be mindful of any unexpected challenges in the economic and political landscape that will hinder our growth and sustainability. A healthy check-and-balance system for risk management is of paramount importance to minimise our credit and risk exposure to ensure business continuity. Upholding the importance of human capital and adoption of the latest technologies in innovative ways are the best strategies to enhance operational efficiency, connect with customers, and add value for stakeholders. Besides, we are committed to our corporate social responsibility of making our community more harmonious and cheerful.

Finally, I would like to thank the Board of Directors and all our dedicated employees for their loyalty, hard work, wisdom and unstinting contributions to the Group. They are unequivocally our most valuable asset in today's competitive and challenging business environment.

Yours sincerely,

**Bankee P. Kwan, JP**
*Chairman & CEO*
**Celestial Asia Securities Holdings Limited**

# Financial Review

# FINANCIAL REVIEW

## FINANCIAL PERFORMANCE

Facing the challenging global environment, political and economic uncertainties throughout the year under review, the Group's Financial Service Business and Retail Management Business managed to weather through the difficulties in 2016 and recorded revenue of HK$1,593.0 million for the year ended 31 December 2016 as compared to HK$1,634.6 million the previous year. During the year under review, CFSG recorded a decrease in fair value on its investment property in Hong Kong amounting to HK$13.6 million. Pursuant to a memorandum of understanding dated 4 May 2016 and a formal sale and purchase agreement dated 10 June 2016 entered into with a third party, CFSG disposed of the entire share capital of a wholly-owned subsidiary which owns the aforesaid investment property for HK$140.5 million. The disposal of the property was subsequently completed in July 2016 and a gain of HK$2.6 million was realised.

For the year ended 31 December 2016, the Group reported a net loss of HK$59.2 million (after taking into account the abovementioned decrease in fair value on investment properties and the gain on the disposal of the wholly-owned subsidiary) during the year as compared to a net profit of HK$18.2 million in 2015 (after taking into account (1) a gain on disposal of an intangible asset of approximately HK$12.1 million; and (2) a gain on disposal of available-for-sale financial assets of approximately HK$14.4 million).

**Financial Services Business — FSG**

For the year ended 31 December 2016, FSG recorded revenue of HK$149.9 million, a decrease of 38.5% as compared with HK$243.9 million in 2015.

Trading in the Hong Kong securities market continued to languish in the first half of 2016 in the aftermath of June 2015's great corrections in both the mainland and local stock markets. The Hang Seng Index posted the worst loss to start the Year of Monkey in February. On the first and second trading days after returning from the long Lunar New Year holiday, the Hang Seng Index plunged sharply to the lowest close since June 2012 at 18,319. Investor sentiment had been fragile since then as there were concerns over subdued global growth and uncertainties associated with the timing of US interest rate hikes. Additionally, the worries over industrial overcapacity in the Mainland, heightened RMB depreciation risks, high bad debts and rising credit default risks also hindered the recovery of domestic stock market. As a result, both local and Mainland investors became more cautious in their stock investments as RMB continued to depreciate against the US dollar which in turn had caused more capital outflows from China. These all exerted downward pressure on the performance of the Hong Kong stock market. In June, the already weakened investment sentiment had been further hit hard by the political and economic uncertainties brought about by the outcome of the United Kingdom's referendum which voted to leave the European Union. Fortunately, these Brexit-related worries and concerns was quickly relieved due to the stimulus measures by various governments envisaged by the investors. In the second half of 2016, the investor sentiment gradually improved as the market expected the pace of US interest rate hikes would slow down but the optimism began to fade later in the year as the Federal Reserve raised the first and last interest rate in 2016 and hinted that more interest hikes would be on the way for 2017. With the adverse factors weighted on the local stock market throughout the year, the average daily turnover in 2016 dropped 37% from the previous year. Our clients who are mostly retail investors had chosen to flee the highly volatile stock markets to avoid suffering huge trading and investment losses during this deteriorating financial environment. Even though, for years, FSG has dedicated its resources to developing its in-house direct market access platform through which its corporate clients place and execute their complex investment strategies and high frequency trading activities, but the growth in this business could not help much to recoup the loss in reduced commission income earned from dealing in securities by its individual clients during the year under review. FSG's broking business recorded a drop of 34.2% in revenue for 2016 as compared with the performance of last year, which was more or less in line with the drop in the average daily turnover in the local stock market for the same year.

Taking into account the various factors mentioned herein before, FSG recorded a net segment loss of HK$67.3 million for 2016 as compared to a net segment profit of HK$18.4 million for the previous year.

**Retail Management Business — CRMG**

During the year under review, Hong Kong had experienced a long period of stagnant economy with its GDP growth moderated to 1.9% year-on-year, a drop from 2.4% for 2015. At a time when the local currency still remained strong against major currencies and the various factors such as the doubts over both local and China's economic resilience further dampened the consumer's spending, Hong Kong's overall retail sales had dropped by 8.1% year-on-year after the decline of 3.7% in 2015. The protracted decline in consumer's spending in the city had put pressure on its retail market. Meanwhile, our Retail Management Business was still facing rising operating costs such as staff salaries and shop rentals. The labour market conditions remained tight with unemployment rate at around 3% for the whole year of 2016, which resulted in pushing up the overall salaries and wages. Even though most of local retailers felt the full brunt of the slowdown with sales, the rental costs of the outlets, especially those in shopping malls and streets selling goods for daily consumption to the local population, showed no visible sign of declining. To confront with the difficulties in the business landscape, we continued to be cost conscious by continuously optimising our outlet-network, intensifying our cost rationalisation measures and improving our operational efficiency. By riding on the fast growing demand for small and medium sized apartments by the young home-seekers, we had reformulated our sales mix strategy in a three-pronged approach to boost both our sales and profit margins. Firstly, we had continued to explore a series of new space-saving solutions and products that fully utilised the smaller space of these apartments to further emphasise our space-saving philosophy. Secondly, we reduced the number of stock-keeping units of some electrical appliances and other bulky products of low-profit margins in our shops to give way to the products of high-profit margins such as "Tailor-Made Furniture" (TMF). Lastly, we had introduced more exotic and trendy quality household products, mainly from Japan and Korea, to further fulfill our customers' broader lifestyle needs. We also devoted more resources to further developing and expanding our e-commerce business to cater for our younger customers' needs for improving their living spaces. During the year, we had redesigned our website and implemented the state-of-the-art technologies to build a one-stop online store selling a full range of products in a completely fresh, smart and inspiring e-shopping environment. As such, we had recruited a team of high-calibre professionals to pursue our new sales strategies and to embark on our new product development, which might inevitably lead to an increase in staff costs for the current year. Furthermore, we had been launching comprehensive marketing campaigns to further strengthen Pricerite's position as a leading brand in providing smart and lively furnishing solutions to young families living in small and medium sized apartments.

As a result of the above, the Group's Retail Management Business reported revenue of HK$1,440.5 million in 2016, representing an increase of 3.6% as compared with HK$1,390.3 million in 2015. Overall, our Retail Management Business recorded a net profit before taxation of HK$34.5 million for 2016 as compared to net profit before taxation of HK$32.7 million the previous year.

**Mobile Internet Services Business — Net2Gather**

During the year under review, the Group had implemented new mobile gaming business strategy to explore the development of overseas game licensing business. The Group's Mobile Internet Service Business recorded revenue of HK$2.6 million and a net segment loss of HK$2.0 million for 2016, as compared to revenue of HK$0.4 million and a net segment loss of HK$2.3 million in the previous year.

**Liquidity and Financial Resources**

The Group's total equity amounted to HK$755.2 million as at 31 December 2016 as compared to HK$811.9 million at the end of the previous year. The decrease in equity was mainly due to the loss reported for the year.

As at 31 December 2016, the Group had total outstanding borrowings of approximately HK$405.7 million a slight increase compared to HK$397.0 million as at 31 December 2015. The bank borrowings of approximately HK$386.0 million and HK$19.7 million were denominated in Hong Kong dollars and US dollars respectively. The above bank loans of approximately HK$405.7 million were secured by pledged deposits of HK$64.0 million, corporate guarantees and its margin clients' securities pledged to it.

As at 31 December 2016, our cash and bank balances totalled HK$1,516.0 million as compared to HK$1,627.4 million at the end of the previous year. The decrease in cash and bank balances was mainly due to the reduction of balances of our clients' money which were kept in the trust and segregated accounts. As at 31 December 2016, bank balances in our house accounts amounted to HK$696.2 million, of which HK$554.2 million and HK$142.0 million were denominated in Hong Kong dollars and other foreign currencies (mainly Renminbi and US dollar) respectively, whereas the bank balances of approximately HK$819.8 million in the trust and segregated accounts were denominated in the same currencies as those of the outstanding balances in the corresponding accounts payable to the clients from the business of dealing in securities.

The liquidity ratio as at 31 December 2016 remained healthy at 1.30 times, signifying a mild improvement as compared with 1.22 times as at 31 December 2015.

# FINANCIAL REVIEW

The gearing ratio, which represents the ratio of interest bearing borrowings of the Group divided by the total equity, was 53.8% as at 31 December 2016 as compared to 49.0% as at 31 December 2015. The increase in gearing ratio was mainly due to (1) the slight increase in the borrowings; and (2) the decrease in equity as mentioned above. On the other hand, we have no material contingent liabilities at the end of the year.

The Group's treasury policies are to secure healthy liquidity for running its operations smoothly and to maintain a sound financial position at all time throughout the year. Besides meeting its working capital requirements, cash balances and bank borrowings are maintained at healthy levels to meet its customers' investments needs while making sure all relevant financial regulations have been duly complied.

**Foreign Exchange Risks**

The Group did not have any material un-hedged foreign exchange exposure or interest rate mismatches at the end of the year.

**Material Acquisitions and Disposals**

In May 2016, the Group signed a formal sale and purchase agreement for disposal of a property in Shanghai to an independent third party at a consideration of RMB7.3 million (equivalent to approximately HK$8.76 million). The transaction was completed in October 2016.

As set out in the above paragraph under financial review, in May 2016, the Company announced a major transaction relating to disposal of the entire issued share capital of Cheer Wise Investments Limited ("Cheer Wise", a subsidiary of the Company held through CFSG) and the loans due by Cheer Wise to the Group to an independent third party at an aggregate consideration of HK$140.5 million. The sole asset of Cheer Wise was an investment property, including carparks in Kwun Tong. The disposal was approved by shareholders of the Company at a special general meeting held on 6 July 2016 and was completed on 15 July 2016. Details of the transaction are disclosed in the joint announcement of the Company and CFSG dated 4 May 2016, and the circular issued by the Company dated 17 June 2016.

In July 2016, the Group signed a formal sale and purchase agreement relating to disposal of another property in Shanghai to an independent third party at a consideration of RMB7.5 million (equivalent to approximately HK$8.8 million). The transaction was completed in September 2016.

In September 2016, the Group signed a sale and purchase agreement with Ever Billion Group Limited ("Ever Billion", an independent third party) relating to the proposed disposal of approximately 36.28% shareholding interest in CFSG (a non-wholly-owned subsidiary of the Company) at a consideration of HK$765 million (representing a purchase price of HK$0.51 per share of CFSG). The transaction constituted a possible very substantial disposal of the Company under the Listing Rules, which has been approved by shareholders of the Company at a special general meeting of the Company held on 28 October 2016, and triggered a possible mandatory general offer for shares in CFSG. The long stop date of the sale and purchase agreement has been extended to 31 March 2017. As at the publication date of this report, the condition relating to approval of the SFC for substantial shareholder of CFSG and its licensed corporation and the conditions which are to be satisfied on the completion date have not been fulfilled, and the transaction has been terminated on 29 March 2017. Details of the transaction were disclosed in the various announcements of the Company and CFSG relating to the transaction from September 2016 to March 2017.

Save as aforesaid, the Group did not make any material acquisitions and disposals during the year.

Save as disclosed in this annual report, there is no important event affecting the Group which has occured since the end of the financial year.

**Capital Commitment**

The Group did not have any material outstanding capital commitment at the end of the year.

**Material Investments**

The market value of a portfolio of investments held for trading decreased from HK$68.9 million as at 31 December 2015 to approximately HK$33.3 million as at 31 December 2016. A net gain derived from investments held for trading of HK$83.2 million was recorded for the year. Such securities investments were not material which represented around 1.3% of the total assets of the Group as at 31 December 2016.

We do not have any future plans for material investments, or addition of capital assets.

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

**Revenue**

| (HK$'m) | **2016** | 2015 | % change |
|---|---|---|---|
| Financial services | **149.9** | 243.9 | (38.5%) |
| Retailing | **1,440.5** | 1,390.3 | 3.6% |
| Online game | **2.6** | 0.4 | 550% |
| Group total | **1,593.0** | 1,634.6 | (2.5%) |

**Key Financial Metrics**

| | **2016** | 2015 | % change |
|---|---|---|---|
| **The Group** | | | |
| Net (loss) profit attributable to shareholders (HK$'m) | **(31.1)** | 15.2 | (304.6%) |
| (Loss) earnings per share (HK cents) | **(3.75)** | 2.03 | (284.7%) |
| Total assets (HK$'m) | **2,520.2** | 3,052.4 | (17.4%) |
| Cash on hand (HK$'m) | **1,516.0** | 1,627.4 | (6.9%) |
| Bank borrowings (HK$'m) | **405.7** | 397.0 | 2.2% |
| **Financial services** | | | |
| Annualised average fee income from broking per active client (HK$'000) | **10.2** | 16.3 | (37.4%) |
| **Retailing** | | | |
| Revenue per sq. ft. (HK$) | **4,380** | 4,296 | 2.0% |
| Growth for same stores (vs last year) | **3.6%** | 14.4% | N/A |
| Inventory turnover days | **27.7** | 27.6 | 0.36% |

# Management Discussion and Analysis

# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Services Business — FSG

### Industry Review

In 2016, the Hong Kong stock market experienced mixed fortunes. Stock prices faced pressure at the start of the year but enjoyed brighter days in the last two quarters of 2016 as US interest rate rises failed to materialise, less fallout occurred from the Brexit referendum than initially expected, and approval was given for the implementation of the Shenzhen-Hong Kong Stock Connect initiative. Following Donald Trump's win in the US presidential election in November, sentiment remained upbeat. The prospect that the Trump administration was likely to cut corporate tax and increase infrastructure investment to create more job opportunities buoyed optimism despite the possibility that higher inflation might also be in store due to greater government spending.

The Hang Seng Index ended 2016 at 22,000.56. This represented a year-on-year increase of 0.4%, as the prospect of hikes to the US interest rate re-emerged and president-elect Trump's unconventional approach to politics began to weigh on the market mood. The average daily turnover in 2016 was HK$66.9 billion, a decrease of 37% compared with HK$105.6 billion the previous year.

### Business Review

*Broking*

While the Dow Jones Industrial Average index in the US reached record highs, the Hong Kong stock market hovered at much less exciting levels. The strict monitoring of the outflow of funds from Mainland China had a negative impact and even the debut of Shenzhen-Hong Kong Stock Connect in December failed to boost the mood of the Hong Kong market. CFSG recorded a decline of 43% in securities commission income and a drop of 21% in commodities commission income. There was a 30% decrease in interest income due to diminished IPO activity.

*Investment Banking*

During the year, our investment banking group assisted potential IPO clients in planning and preparation for listings. Among these, we acted as Sole Sponsor for Gudou Holdings Limited's listing on the Hong Kong Stock Exchange's Growth Enterprise Market. Gudou is the first Mainland China hot spring resort operator and tourism property developer to list in Hong Kong and received a favourable market response.

On the financial advisory front, CFSG continued to serve as a long-term financial adviser or compliance adviser to listed companies. We also provided services on corporate finance transactions, including acquisitions and disposals and general offers, among others.

*Asset Management*

The level of our assets under management (AUM) was approximately in line with the benchmark index during the year. CFSG focuses on sectors with fast corporate earnings' growth, such as technology shares and Macau gaming.

*Wealth Management*

2016 saw fast-paced development and fierce competition in the wealth management market. Despite these testing conditions, CFSG achieved moderate growth. In addition to traditional products, we introduced a general insurance business, gaining positive feedback from clients. With demand growing for comprehensive wealth management services, we strengthened consultant and operation teams, and encouraged consultants to acquire asset management capabilities to provide all-round support to clients.

*Technology and Innovation*

CFSG successfully launched our Sector Trading Platform and Fintech Investment Platform during the year. The systems offer diverse and timely investment information to clients through big data analytics. In addition, we added Shenzhen A-share trading and A-share quotation services on both online trading platforms and as a mobile app.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Outlook and Corporate Strategy**

Given the clouds shrouding the times ahead in the global, political and economic arenas, local investment sentiment is likely to face on-going mood swings and pressure. More positively, the Mainland China economy expanded by 6.7% in 2016. Together with internationalisation of the RMB, Mainland China's launch of the "One Belt One Road" initiative and closer ties between Mainland and Hong Kong financial markets, Hong Kong's financial system and experience should still foster opportunities for the city to serve as a fund-raising and international asset management platform.

With the Hong Kong stock market trading at around 12 times prospective 2017 P/E, around 1.18 times P/B and around a 3.4% dividend yield for the Hang Seng Index, valuation is undemanding for long-term investors. However, the regulator's tightening of rules is expected to further dampen IPO activity and the stock market faces another tough year in 2017.

In the year ahead, CFSG will leverage our proven strategy to focus on both IPOs and corporate transactions and services to take us and our clients forward. CFSG will seek to extend our wealth management business by deepening relationships with existing partners in both Mainland China and Japan while building our product offerings and geographical reach. Meanwhile, FinTech continues to offer exciting possibilities for an innovative company such as ours. In 2017, our FinTech Investment Platform will be further enhanced to provide a new user interface delivering advanced strategies and other enhanced function. More customisations (such as allotment of investment capital for each strategy and setting risk control criteria) will be made available and we will seek to expand market share in the China region.

In volatile times, a balance between expansion and external risks alongside effective and leading-edge cost management are crucial and will be rigorously pursued. It is also part of the Group's long-term strategy to bring in synergistic value investors to develop our business further in Mainland China and Hong Kong.

## Retail Management Business — CRMG

**Industry Review**

In 2016, Hong Kong retailers were buffeted by the sluggish global economy and on-going slowdown in inbound tourism. Total retail sales value for the year dropped by 8.1%. The weak economic environment and Hong Kong government's property cooling measures affected registered sales in the private residential property market and customer sentiment for large-ticket spending, producing an overall decline in local consumption power. According to the data from the Hong Kong's Census and Statistics Department, the value of retail sales in the furniture and fixtures category fell by 1.6% while its volume dropped by 2.5%. However, demand for residential flats continued, along with an increasing supply of micro apartments.

**Business Review**

Despite the sluggish retail market in 2016, the Group remained committed to developing the home furnishing business in Hong Kong with a mission to become an innovative group for quality home furnishing, lifestyle products and services. Riding on the existing solid foundation of our retail management business, the Group has started investing for the transformation and expansion of our local furniture and household retailing business, so as to better cater the needs of different customer segments for quality home furnishing solutions. Given that creating a stylish comfortable home in a limited space poses a challenge for most local families, especially those who have just wedded, CRMG pursued its total smart home solutions strategic approach to build its multi-brand business, providing a wide range of products and services to help customers optimise their living area and improve their quality of life. This, combined with insightful local market knowhow and dedicated effort, led to CRMG's offerings being well received by the market, bringing single-digit sales growth in 2016 despite the difficult business environment.

**Pricerite — Smart, Local, Home Furnishing Solutions**

*Branding and Marketing*

Over the year, agile marketing strategies utilising different touch points enabled Pricerite to communicate its brand essences to a broader customer base. Pricerite sponsored popular Cable TV programme 「空間大改造」 to demonstrate space management ideas and inspire customers to try our products and solutions. In addition, Pricerite increased exposure and penetration among younger customers by sponsoring and cooperating with the popular social media "100Most" (100毛) and TV Most (毛記電視). The sponsorship campaign delivered outstanding results. Pricerite's promotional video recorded 1.2 million views in one week while our Facebook fans soared by more than 10% in one month, helping to rejuvenate the brand and make it more appealing to younger families.

In Summer 2016, Pricerite became the first home furnishing retail chain in Hong Kong to collaborate with Japanese art designer Tatsuya Tanaka to organise the "Miniature Calendar" exhibition. The "Pricerite x Miniature Calendar —「Small World Big Fun」" at Pricerite's Megabox flagship store showcase a collection of miniature dioramas using home furnishing products of Pricerite. The successful show attracted wide media coverage from online platforms and in print.

To celebrate Pricerite's 30th anniversary in Autumn 2016, the innovative 「Couple Universe — Newly-wedded Elect (倆人宇宙新婚選) 2016」 campaign was launched. In this promotional drive, the winning couple had the opportunity to live in a duplex apartment fully furnished with smart tailor-made home furnishing items. Through this campaign, we proved to customers how our full-suite of solutions create a functional, efficient and aesthetically pleasing home, maximised the power of digital marketing to engage audiences and target customers, and created massive user-generated content via online media, resulting in more than 300,000 views, over 10,000 engagements, and reaching 900,000 customers.

*Product Sourcing and Development*

Following the successful introduction of overseas product ranges in past years, Pricerite continued to expand international sourcing. Along with home storage solutions from Japan and Korea, we worked together with a Japanese designer brand (±0) to debut a stylish, high-performance vacuum cleaner in Hong Kong for small apartments and brought in quality Korean cookware to cater for the contemporary "cook & serve" lifestyle. Meanwhile, furniture series from Vietnam, India, and Malaysia gave customers a wider range of materials and styles.

In line with our corporate outlook that new technologies enable better living, Pricerite launched a number of innovative products during the year, including a household device with medical-grade NCCO air purification technology developed by the Hong Kong University of Science and Technology, and award-winning brands with fun and functional features including cable and power cord organisers, kitchenware, and desktop gadgets. During the fourth quarter of 2016, Pricerite launched an AR Alphabet Learning Play Mat, the first of its kind foam mats for kids using augmented reality (AR) technology. The Play Mat embeds interactive English learning tools into a domestically used floor mat for children, illustrating the many exciting possibilities of the Internet of Things (IoT) for home dwellers in the future.

*Retail Technology for Enhancing Customer Experience*

In the year under review, Pricerite brought in new retail technologies to enhance customers' shopping experience. We have been one of the front-runners in launching contactless payment, such as Apple Pay, Tap & Go, and TnG, to expedite payment. Touch-screen kiosks were also installed in stores to showcase top-selling merchandise and inform customers about product features and user benefits more effectively.

*Store Network Optimisation*

During the year, we continued to rationalise our strategic store network plan to improve the operating efficiency by opening new stores, closure of several non-performing ones and renovating certain strategically important ones such as Causeway Bay and Tai Po shops. In-store room settings and home storage section expansion provided space for more smart home ideas and tips for micro-apartments. Frontline staff became known as "Home Specialists" to emphasise our commitment to helping customers find the best way to optimise their living space through smart solutions.

**TMF — Reliable, Professional Tailor-Made Furniture Solutions**

TMF business continued to grow rapidly in 2016, recording a decent growth in year-on-year sales turnover. Various media exposures saw TMF participate in the provision of functional and smart tailor-made home designs for real-case scenarios in residential estates. For better visualisation of TMF solutions and an enjoyable customer experience, we adopted augmented reality (AR) and virtual reality (VR) technologies to provide three-dimensional presentation of fully furnished apartments. Such advances also enabled customers to view and interact with the smart features of individual furniture products.

Many other endeavours strengthened brand value and customer experience over the year. Our first stand-alone TMF store opened in North Point to better serve customers in need of tailor-made furniture. We also sponsored a Professional Diploma in Interior Design and partnered with Hong Kong Design Institute to support the training and talent development of interior design in Hong Kong. In addition, a revamp of the TMF official website featuring various client reference designs was launched.

**E-commerce Business — One-stop, Convenient Furnishing E-tailer**

Our online store enhanced the omni-channel experience by adding new functions, including expansion of products available for buying online and picking up at stores, a powerful search engine and one-page checkout, dramatically improving user experience. During the year, a revamp of the Macau and corporate sales websites took place to provide a one-stop online household and furniture shopping platform to better serve different customer segments. The corporate sales website was equipped with automatic quotation and invoicing functions to facilitate the procurement process. Data analytic modelling was effectively used to initiate remarketing schemes, personalised promotional messages and product recommendations to the relevant customer segments.

**Outlook and Strategy**

Amid the uncertainties in the economic environment and retail industry, CRMG will make every effort to build on our outstanding services, offer innovative product selections and sustain our efficient store network in the year ahead. With our distinctive focus on smart home solutions for local households, CRMG is well positioned to lead the home furnishing retail market and provide enhanced value to customers. We are confident that, with our in-depth knowledge about the competitive landscape across various market segments and understanding clearly customers' needs, CRMG will become the local leader offering a suite of brands in home furnishing retailing market in Hong Kong.

## Mobile Internet Services Business — Net2Gather

**Industry Review**

According to the research report jointly released by the China Audio-video and Digital Publishing Association (CADPA), Gamma Data and International Data Corporation (IDC), total revenue for gaming services in the China market in 2016 reached RMB165.57 billion, a year-on-year increase of 17.7%. Overseas sales of Chinese online games surged 36.2% to USD7.23 billion in 2016. Due to the increasingly intensified competition of the game publishing business, game publishers have been adjusting the operating model to solicit new avenues of growth. The value chain of the game publishing sector is further segmented in several divisions, including operation outsourcing, game localisation, technical implementation and maintenance, advertising and promotional support services, etc.

**Business Review and Outlook**

During the year under review, we have formed strategic partnerships and built a mobile game portfolio with over 60 mobile game development teams. We have provided full-fledged services to facilitate the game publishing processes in iOS AppStore, Google Play and other third-party distribution platforms in respective regions. Apart from the launch of "EDEN Online", we have formed a regional distribution partnership with a PRC gaming publisher. We will continue to explore collaboration and investment opportunities with game development teams and distribution partners, to enhance our product offerings and distribution capabilities in the mobile gaming market.

# Employee Information

# EMPLOYEE INFORMATION

At 31 December 2016, the Group had 1,155 employees, of which 186 were at the CFSG Group. Our employees were remunerated according to their performance, working experience and market conditions. The total amount of remuneration cost of employees of the Group for the year under review was approximately HK$275.6 million.

## BENEFITS

The Company and some of its subsidiaries provide employee benefits including mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for their staff. The Company also provides its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.

## TRAINING

The Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group including training in areas such as product knowledge, customer service, selling techniques, team building, communication, languages, presentation, coaching, quality management, listing rules and also professional regulatory training programs as required by regulatory bodies. The Group also arranges for relevant staff, who are licensed persons under the SFO, to attend the requisite training courses to fulfill/comply with the continuous professional training as prescribed in the SFO.

The Group conducts an initial staff orientation for new employees in order to familiarise them with the Group's history and strategy, corporate culture, quality management measures and rules and regulations. This orientation aims to prepare the new employees for the positions by establishing a sense of belongingness and cooperation; by supplying necessary information that resolves an employee's concerns; and by removing any potential barriers for job effectiveness and continuous learning.

# Board of Directors and Senior Management

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### Bankee Pak-hoo KWAN, JP

**Chairman & CEO**

*MBA, BBA, FFA, FHKSI, CPM(HK), MHKIM*

Mr Kwan, aged 57, joined the Board on 9 March 1998. He is responsible for the overall business strategy of the Group. Mr Kwan has extensive experience in corporate management, strategic planning, marketing management, financial advisory and banking. An MBA graduate from The Murdoch University of Perth, Australia and a BBA graduate from The Chinese University of Hong Kong, Mr Kwan is also a fellow of the Institute of Financial Accountants, UK and the Hong Kong Securities and Investment Institute, a Certified Professional Marketer (HK) and a member of the Hong Kong Institute of Marketing.

Mr Kwan is a firm believer in youth education and development. He is a John Harvard fellow of the Harvard University, US; a member of the Harvard University Asia Center Advisory Committee; a member of the Court of City University of Hong Kong; an honorary fellow of The Open University of Hong Kong; a trustee of New Asia College of The Chinese University of Hong Kong; and an advisory professor of Nanjing University. Mr Kwan is also an honorary advisor of several higher education institutions, including the LiPACE of The Open University of Hong Kong and the Academy of Oriental Studies of Peking University. Furthermore, Mr Kwan is appointed as an honorary advisor of the Fong Yun Wah Foundation and the China Charity Federation.

In addition to education, Mr Kwan is also active in serving the community. He is a member of the standing committee of the Chinese People's Political Consultative Conference (CPPCC), Shanghai Committee, and a Justice of Peace (JP) of the HKSAR; a member of the Election Committee for the Fourth and the Fifth Term of the Chief Executive Election of the HKSAR; and a board member, past chairman and honorary advisor of the Hong Kong Retail Management Association. Mr Kwan has also been a member of the Central Policy Unit of the Government of the HKSAR. Currently, he is a non-executive director of the Mandatory Provident Fund Schemes Authority, a member of the Minimum Wage Commission; the Small and Medium Enterprises Committee (SMEC), Trade and Industry Department; the Corporate Advisory Council of Hong Kong Securities Institute and the Business Facilitation Advisory Committee (BFAC). He is also the Convenor of the Wholesale and Retail Task Force (WRTF) of the BFAC. Mr Kwan is also an honorary advisor of the CEPA Business Opportunities Development Alliance and The Hong Kong Institute of Education Foundation, and a member of the Organising Committee of the HKMA/TVB awards for Marketing Excellence.

In December 2009, Mr Kwan was named "Entrepreneur of the Year 2009" in the Asia Pacific Entrepreneurship Awards as organised by Enterprise Asia, which recognised his outstanding entrepreneurial success and significant contributions to economic life and society. In April 2016, Mr Kwan was named "Man of the Year for Leadership in Asia" by IAIR, the world's leading financial magazine. The annual IAIR Awards recognise outstanding professionals who actively promote excellences in innovation and sustainability.

Mr Kwan is a substantial Shareholder of the Company and a member of the Remuneration Committee. He is also an executive director and chairman of CFSG, as well as a member of the remuneration committee of CFSG.

## Bernard Ping-wah LAW

**CFO**

*MBA, FCCA, FCPA, FHKSI*

Mr Law, aged 58, joined the Board on 9 March 1998. He is in charge of the Group's overall financial and accounting management. Mr Law has extensive experience in financial management and accountancy. He received a Master of Business Administration Degree from The University of Warwick, UK. He is a fellow member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities and Investment Institute. Mr Law is also an executive director and chief financial officer of CFSG.

## Eugene Ka-kin LAW

**Deputy CEO**

*BA, FHKSI*

Mr Law, aged 56, joined the Board on 2 November 2015. He is in charge of the Group's corporate management and business development. Mr Law has more than 30 years' experience in the financial services industry covering both buy and sell sides. He is an all-round management professional specialising in areas of investment advisory, strategic planning and business management. Mr Law received a Bachelor of Arts Degree in Economics from The City of London Polytechnic, UK and is a fellow of the Hong Kong Securities and Investment Institute.

## Elaine Lai-ling KWOK

**COO**

*BA, CPA, FCCA, CPA,CGA*

Ms Kwok, aged 48, joined the Board on 23 August 2016. She is in charge of the Group's operational management and control and internal audit functions. She is also the Executive Vice-Chairlady of CRMG and is in charge of the corporate development and management of CRMG. Ms Kwok has extensive experience in the field of corporate governance, risk control and operations management in the retailing and financial services industries. Ms Kwok received a Bachelor of Arts Degree (Hons) in Accountancy from The Hong Kong Polytechnic University. She is a member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants and a member of Chartered Professional Accountants of British Columbia.

## Derek Hin-sing NG

**ED**

*MBA, BA, CFP$^{CM}$*

Mr Ng, aged 48, joined the Board on 5 August 2013. He is also the CEO of CRMG and Pricerite, in charge of the business development and management of CRMG. Mr Ng has extensive experience in the field of retail operation and management. Mr Ng received a Master of Business Administration Degree from Southern Illinois University Carbondale, USA and a Bachelor of Arts Degree from Ottawa University, USA. He is a CERTIFIED FINANCIAL PLANNER$^{CM}$ professional. In 2014, Mr Ng was bestowed with the "Asia Pacific Entrepreneurship Awards 2014 – Outstanding Entrepreneurship Award", as organised by Enterprise Asia.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Johnny Ka-kui LEUNG

**INED**

*LL.B*

Mr Leung, aged 59, joined the Board on 25 October 2000. Mr Leung has extensive experience in the legal field and is the managing partner of a legal firm in Hong Kong. He received a Bachelor of Laws Degree (LL.B) from the University of London, UK. He is the chairman of the Audit Committee and the Remuneration Committee.

### Chuk-yan WONG

**INED**

*MSc (Business Administration), BBA, CFA, CPA,CGA*

Mr Wong, aged 55, joined the Board on 3 June 1998. Mr Wong has extensive investment management experience in the global financial markets and is a portfolio manager of a large renowned investment counsel in Toronto, Canada and is responsible for the company's global equity investments. He received a Master of Science Degree in Business Administration from the University of British Columbia, Canada and a Bachelor of Business Administration Degree from The Chinese University of Hong Kong. He is a Chartered Financial Analyst (CFA) charterholder and a Chartered Professional Accountant of Canada. He is also a member of the Audit Committee and the Remuneration Committee.

### Hak-sin CHAN

**INED**

*PhD, MBA, BBA*

Dr Chan, aged 55, joined the Board on 25 October 2000. Dr Chan has extensive experience in the academia in the US as professor, researcher and consultant in the fields of corporate finance and international marketing. He is a head of and an associate professor in the Department of Marketing at Hang Seng Management College. He received a Doctor of Philosophy Degree in Business, a Master of Business Administration Degree from the University of Wisconsin-Madison, US and a Bachelor of Business Administration Degree from The Chinese University of Hong Kong. He is also a member of the Audit Committee.

## SENIOR MANAGEMENT

### Majone Pui-lai CHENG

**Chief Executive Officer of CFSG**

*MSc, BEcon, MHKSI*

Ms Cheng, aged 44, joined the Group in March 1998. She oversees the business development and management of the CFSG Group. Ms Cheng has extensive relevant experiences in the financial services industry. She received a Master of Science Degree in Financial Management from The University of London, UK and a Bachelor of Economics Degree from The University of Hong Kong. She is a member of the Hong Kong Securities and Investment Institute. Ms Cheng is a responsible officer of Celestial Securities and Celestial Commodities.

### Jack Tsz-cheung HO

**Executive Director of CFSG**

*BBA*

Mr Ho, aged 35, joined the Group in September 2003. He is in charge of corporate and business development of the CFSG Group. Mr Ho has extensive experience in the fields of business development, operations and management. He received a Bachelor Degree of Business Administration from The Chinese University of Hong Kong. He is also the Director of Corporate and Strategic Investment of the Company in charge of the corporate management of the Group.

### James Siu-pong LEUNG

**Deputy Chief Executive Officer, Pricerite**

*MBA, BSocSc*

Mr Leung, aged 54, joined the Group in October 2001. Mr Leung is in charge of the operations management of the Group's retail business. He has extensive experience in the fields of banking and retail management businesses. He received a Master of Business Administration Degree from Heriot-Watt University, UK and a Bachelor of Social Sciences Degree from The University of Hong Kong.

## Amy Pui-kwan LEUNG

**Executive Director, Pricerite**

*MBA, BBA, PMP*

Ms Leung, aged 42, joined the Group in 2003. She is in charge of the product development, merchandising and quality assurance, as well as the e-commerce development of the Group's retail business. She has extensive experience in the field of project management and retail business. Ms Leung received a Master of Business Administration Degree from The Chinese University of Hong Kong and a Bachelor of Business Administration Degree in Marketing from The University of Hong Kong. She is also a Project Management Professional. In 2014, Ms Leung was bestowed with the Distinguished Marketing Leadership Award by HKMA/TVB for Marketing Excellence.

## Alfred Ka-chun MA

**Investment Director, CASH Algo Finance Group**

*PhD, MPhil, BSc, CFA, PRM, ASA*

Dr Ma, aged 37, joined the Group in August 2013. He is responsible for algo trading development. He has extensive experience in the field of financial engineering. He received a Doctor of Philosophy Degree in Operations Research from the Columbia University, a Master of Philosophy Degree in Mathematics and a Bachelor of Science Degree in Mathematics from The Chinese University of Hong Kong.

## Johnson Siu-kei SUN

**Managing Director, CASH Algo Finance Group**

*PhD, MSc, BSc*

Dr Sun, aged 37, joined the Group in March 2010. He is responsible for data analytics and trading strategies. He has extensive experience in the field of Statistical Modeling. He received a Doctor of Philosophy Degree in Statistics from The University of New Mexico, a Master of Science Degree in Mathematics and a Bachelor of Science Degree in Mathematics from The Hong Kong University of Science & Technology.

## Eric Di WU

**Managing Director, CASH Algo Finance Group**

*PhD, BCS*

Dr Wu, aged 33, joined the Group in February 2014. He is responsible for algorithm strategy development and trading operation. He has extensive experience in the field of quantitative trading and system development. He received a Doctor of Philosophy Degree in Systems Engineering and Engineering Management from The Chinese University of Hong Kong and a Bachelor of Engineering Degree in Computer Science & Technology from the University of Science and Technology of China.

## Caesar Shi-chang SHE

**Vice President, CASH Algo Finance Group**

*PhD, BSc*

Dr She, aged 30, joined the Group in September 2014. He is responsible for building and managing strategies and risk management. He has extensive experience in the field of statistical arbitrage strategies and portfolio management. He received a Doctor of Philosophy Degree in Mathematics and a Bachelor of Science (Hons) Degree in Computing Mathematics from the City University of Hong Kong.

## Hanh HUYNH HUU

**Chief Technology Officer, CASH Algo Finance Group**

*Dipl.– Ing (MEng)*

Mr Hanh Huynh Huu, aged 44, joined the Group in May 2015. He is in charge of technology operations of CASH Algo Finance Group. He has extensive experience in the field of system design and functional reactive application development. He received a Diplome D'Ingenieur from Ecole Nationale Superieure De L'Aeronautique Et De L'Espace, France.

## Suzanne Wing-sheung LUKE

**Company Secretary**

*FCIS, FCS*

Ms Luke, aged 48, joined the Group in May 2000. She has extensive listed company secretarial experience. She is a fellow of The Institute of Chartered Secretaries and Administrators, UK and The Hong Kong Institute of Chartered Secretaries. In addition to taking the role as company secretary of the Company, Ms Luke is also the company secretary of CFSG.

# Corporate Governance Report

# CORPORATE GOVERNANCE REPORT

The Directors of the Company have adopted various policies to ensure compliance with the code provisions of the CG Code under Appendix 14 of the Listing Rules. For the year ended 31 December 2016, the Company has complied with all the code provisions of the CG Code, except for the deviations with explanation described below:

(i) The Company does not have a nomination committee as provided for in code provision A.5.1 as its function has been performed by the Board as a whole. The Board under the leadership of the Chairman is responsible for reviewing the structure, size and composition of the Board and the appointment of new directors from time to time to ensure that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company, and the Board as a whole is also responsible for reviewing the succession plan for the directors.

(ii) Mr Kwan (Chairman of the Board) also acted as CEO of the Company during the underlying year. According to code provision A.2.1, the roles of Chairman and CEO of the Company should be separate. The dual role of Mr Kwan provides a strong and consistent leadership to the Board and is critical for efficient business planning and decisions of the Group. Mr Law Ka Kin Eugene (deputy CEO of the Company) assisted Mr Kwan in performing the CEO's responsibilities. The balance of power and authorities is also ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals.

## THE BOARD COMPOSITION

As at the date of this report, the Board comprised eight Directors (five EDs and three INEDs) who possess the skills, experience and expertise either in the same industry or relevant to the management of the business of the Group. The INEDs will also share their valuable impartial view on matters to be discussed at the board meetings. The biographies of the Directors are set out from pages 21 to 24 of this annual report under the "Board of Directors and Senior Management" section.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Kwan Pak Hoo Bankee, the Chairman of the Board and the CEO of the Company, is responsible for formulating the strategies and policies of the business development of the Group, and overseeing the functioning of the Board. Mr Law Ka Kin Eugene, the deputy CEO of the Company, is responsible for the Group's corporate management and business development. In addition, the three INEDs provide independent and impartial opinion on issues to be considered by the Board. The board is of the opinion that the current Board structure functions effectively.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs are all professionals with well recognised experience and expertise in professional and/or accounting fields who provide valuable advice to the Board. They are appointed for a term of one year and are subject to retirement from office and re-election at the AGM every year. The Company has received a confirmation of independence from each of the INEDs. The Board considers each of them to be independent by reference to the factors as set out in Rule 3.13 of the Listing Rules. The INEDs have been expressly identified as such in all corporate communications of the Company that disclose the names of the Directors.

## ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for the leadership and control of the Group and is responsible for promoting the success of the Group by directing and supervising the business operations of the Group in the interests of the Shareholders by formulating strategic directions and monitoring the financial and management performance of the Group.

# CORPORATE GOVERNANCE REPORT

## DELEGATION TO THE MANAGEMENT

The Management is led by the EDs of the Board and has delegated powers and authorities to carry out the day-to-day management and operation of the Group; formulate business policies and make decision on key business issues; and exercise power and authority delegated by the Board from time to time. The Management assumes full accountability to the Board for the operation of the Group.

There is a formal schedule of matters specifically reserved to and delegated by the Board. The Board had given clear directions to the Management that certain matters (including the followings) must be reserved to the Board:

— Publication of final and interim results of the Company

— Dividend distribution or other distribution

— Major issues of treasury policy, accounting policy and remuneration policy

— Review on risk management and internal control systems

— Corporate governance functions

— Review on the succession plan and consideration of the appointment, re-election and removal of the Directors

— Changes to major group structure or board composition requiring notification by announcement

— Notifiable transaction and non-exempted connected transaction/continuing connected transaction

— Proposed transaction requiring the Shareholders' approval

— Capital restructuring

— Joint venture with outside party involving substantial capital commitment from the Group that requires notification by announcement

— Financial assistance to the Directors

## RELATIONSHIP BETWEEN THE BOARD MEMBERS

None of the members of the Board has any relationship (including financial, business, family or other material/relevant relations) between each other.

## INDUCTION, SUPPORT AND PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

All the Directors have been given a Directors' handbook containing relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and corporate information of the Group. The Directors' handbook will be regularly updated to reflect the updated corporate information and new rules and regulations.

All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. During the year, all the Directors have participated in continuous professional development by attending seminars/training and program/in-house briefing/reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company.

| Name of Directors | Topics on training covered *(Notes)* |
|---|---|
| Kwan Pak Hoo Bankee | (a) to (e) |
| Law Ping Wah Bernard | (a), (b), (c), (e) |
| Law Ka Kin Eugene | (a), (b), (e) |
| Kwok Lai Ling Elaine (was appointed on 23 August 2016) | (a), (b), (d), (e) |
| Ng Hin Sing Derek | (b), (d) |
| Leung Ka Kui Johnny | (b), (c), (e) |
| Wong Chuk Yan | (b) |
| Chan Hak Sin | (b) |

Notes:

(a) Global and local financial market, investment business environment

(b) Regulatory and corporate governance

(c) Finance, law and taxation

(d) Leadership, management and language skills

(e) Other information relevant to the Company or its business

There is a procedure agreed by the Board to ensure the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code during the year.

## DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

## DIRECTORS' ATTENDANCE AND TIME COMMITMENT

The attendance of the Directors at the following meetings during the year is set out below:

| | Meetings attended/held | | | | | |
|---|---|---|---|---|---|---|
| **Name of Directors** | **Executive Committee Meeting** | **Full Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** | **Annual General Meeting** | **Special General Meeting** |
| ***EDs*** | | | | | | |
| Kwan Pak Hoo Bankee | 9/9 | 4/4 | N/A | 1/1 | 1/1 | 1/2 |
| Law Ping Wah Bernard | 9/9 | 4/4 | N/A | N/A | 1/1 | 2/2 |
| Law Ka Kin Eugene | 9/9 | 4/4 | N/A | N/A | 0/1 | 2/2 |
| Kwok Lai Ling Elaine (was appointed on 23 August 2016) | 4/4 | 1/1 | N/A | N/A | 0/0 | 1/1 |
| Ng Hin Sing Derek | 9/9 | 4/4 | N/A | N/A | 1/1 | 2/2 |
| ***INEDs*** | | | | | | |
| Leung Ka Kui Johnny | N/A | 3/4 | 4/4 | 1/1 | 0/1 | 0/2 |
| Wong Chuk Yan | N/A | 3/4 | 3/4 | 1/1 | 1/1 | 2/2 |
| Chan Hak Sin | N/A | 3/4 | 3/4 | N/A | 1/1 | 1/2 |
| **Total number of meetings held:** | 9 | 4 | 4 | 1 | 1 | 2 |

During the year, the Chairman of the Board held a meeting with the INEDs without the presence of the EDs.

Upon reviewing (i) the annual confirmation of the time commitment given by each Director; (ii) the directorships and major commitments of each Director; and (iii) the attendance rate of each Director on full Board and their executive committee meetings with the Management on their respective functional duties and responsibilities, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the year.

## BOARD MEETINGS AND PROCEEDINGS

Regular Board meetings were held at approximately quarterly interval. The Directors have access to the advice and services of the Company Secretary and key officers of the company secretarial team for ensuring that the Board procedures, and all applicable rules and regulations, are followed.

All Directors are consulted as to whether they wish to include any matter in the meeting agenda before the agenda for each board meeting is issued. Board meeting notice is sent to the Directors at least 14 days prior to each regular board meeting. Originals of the minutes of board meetings will be kept by the Company Secretary and are opened for inspection at any reasonable time on reasonable notice by any Director.

If 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 Director will abstain from voting on the relevant board resolution in which he/she or any of his/her associates have a material interest and that he/she shall not be counted in the quorum present at the board meeting.

## AUDIT COMMITTEE *(SET UP ON 28 JUNE 1999)*

The Audit Committee comprises three INEDs, namely Mr Leung Ka Kui Johnny (chairman of the committee), Mr Wong Chuk Yan and Dr Chan Hak Sin.

The specific written terms of reference of the Audit Committee was revised on 17 November 2015 and is available on the Company's website.

The Audit Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the external auditor, approving the remuneration and terms of engagement of external auditor, reviewing financial information and overseeing of the financial reporting system, risk management and internal control procedures. The Audit Committee held four meetings during the year.

A summary of work performed by the Audit Committee during the year is set out as follows:

i. reviewed the annual and interim financial statements and the quarterly business operation and development of the Group;

ii. discussed/met with the external auditor on general accounting issues of the Group, and reviewed their work and findings relating to the annual audit and the effectiveness of the audit process;

iii. reviewed the effectiveness of the risk management and internal control systems of the Group;

iv. annual review of the non-exempt continuing connected transactions of the Group; and

v. reviewed the external auditor's independence, approved the engagement and remuneration of external auditor and recommended the Board on the re-appointment of external auditor.

## REMUNERATION COMMITTEE *(SET UP ON 1 JUNE 2005)*

The Remuneration Committee comprises two INEDs, Mr Leung Ka Kui Johnny (chairman of the committee) and Mr Wong Chuk Yan, as well as Mr Kwan Pak Hoo Bankee (Chairman of the Board).

The specific written terms of reference of the Remuneration Committee (as re-adopted on 7 February 2012) is available on the Company's website. Pursuant to model B.1.2(c)(ii) and the terms of reference in the CG Code adopted by the Remuneration Committee, its primary duties are to make recommendation to the Board on the Company's policies and structure of the remuneration of Directors and senior management and the remuneration packages of individual EDs and senior management. Details of the remuneration of each of the Directors for the year are set out in note 11 to the consolidated financial statements. The Remuneration Committee held one meeting during the year.

A summary of the work performed by the Remuneration Committee during the year is set out as follows:

i. determined and endorsed to the remuneration policy and structure for the Directors and senior management; and

ii. assessed the performance of executive Directors and reviewed their current level and remuneration structure/package and approved their specific remuneration package of executive Directors.

## NOMINATION POLICY FOR THE DIRECTORS

**Nomination of the Directors**

The Company had adopted a nomination policy incorporating the diversity policy for the criteria, procedures, and process of the appointment and removal of the Directors. The criteria to select candidates for directorship is based on a range of diversity perspectives, including gender, age, culture and educational background, professional skill, experience in relevant areas, personal qualities, and whether the candidate can demonstrate his commitment, competence and integrity required for the position of the Director, and in case of INEDs, the independence requirements set out in the Listing Rules and their time commitment to the Company. Nomination of new Director(s) will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for our business model and specific needs from time to time. External consultants may be engaged, if necessary, to access a wider range of potential candidate(s).

During the year, the Board as a whole regularly reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The independence of the INEDs was assessed according to the relevant rules and requirements under the Listing Rules.

During the year under review, 1 meeting was held by the executive Directors in resolving appointment of an ED and COO of the Company.

### Remuneration policy of the Directors

The Company adopted a remuneration policy providing guideline for the Directors' remuneration.

Under the remuneration policy, the Directors' remuneration should be based on internal equity factors and external market conditions and will be reviewed from time to time.

The remuneration of EDs generally consists of:

- fixed monthly salary/allowance — which is set in accordance to the Director's duties, responsibilities, skills, experiences and market influences;
- pension — which is based on the local Mandatory Provident Fund Contribution Scheme;
- short term variable incentive — which may include discretionary cash bonus depending on the achievement of short-term corporate objectives and/or personal targets;
- long term variable incentive — which may include share options designed to encourage long-term commitment.

The remuneration of the non-executive Director(s) of the Company (if any) and the INEDs will be a lump sum of Directors' remuneration made annually.

The remuneration paid to and/or entitled by each of the Directors for the year under review is set out in note 11 to the consolidated financial statements in this annual report.

The share options granted to and/or entitled by the Directors during the year under review are set out in the section headed "Directors' Interests in Securities" in the Directors' report of this annual report.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance functions of the Group. The specific written terms of reference of the corporate governance functions is available on the Company's website. The primary duties of the corporate governance functions are (a) reviewing the policies and practices on (i) corporate governance and (ii) compliance with legal and regulations requirements of the Company; (b) reviewing and monitoring the training and continuous professional development of the Directors and senior management; and (c) reviewing the Company's compliance with code and disclosure in this report.

During the year, the Board reviewed the policies and practices on corporate governance, the training and continuous professional development of Directors and senior management and the Company's compliance with code and disclosure in this report.

## SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions of Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to the Directors of the Company, all of them confirmed that they have complied with the required standard of dealings and the code of conduct throughout the year.

# CORPORATE GOVERNANCE REPORT

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge that it is their responsibilities to prepare the financial statements of the Group and other financial disclosures required under the Listing Rules and the Management has provided such explanation and information to the Board to enable it to make an informed assessment of the financial and other Board decisions. The Directors believe that they have selected suitable accounting policies and applied them consistently, made judgment and estimates that are prudent and reasonable and ensured the financial statements are prepared on a "going concern" basis. The auditor of the Company has made a statement about their reporting responsibilities in the Independent Auditor's Report.

The Management has provided all members of the Board with monthly internal financial statements so as to give the Directors a balanced and understandable assessment of the Company's performance, position and prospects.

## INTERNAL CONTROLS

The Board acknowledges its responsibilities for establishing and maintaining an appropriate and effective risk management and internal control systems, and for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. The Management is primarily responsible for the design, implementation and monitoring of the risk management and internal control systems.

Procedures have been designed for safeguarding the Group's assets against unauthorised use or disposal, maintaining proper accounting records, ensuring the reliability and usefulness of financial information for internal business use or for publication, and monitoring the compliance with applicable laws, rules and regulations. Furthermore, they are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatements or losses.

The key risk management and internal control procedures include the following:

**(i) Delegation of authority within limits set by the Board**

The managements of business units and corporate head office departments have been delegated powers and authorities by the Board to carry out the day-to-day management, operation, and maintenance of the internal control systems that are appropriate to their business or function. The Group has adopted a tailored governance structure with defined lines of responsibility and appropriate delegation of authority.

**(ii) Risk identification and monitoring**

System and procedures are in place to identify, evaluate, manage, and report on the material risk types facing the Group including financial, operational and compliance risks. Exposure to these risks is monitored by the Risk Management Committee. Risk Management Committee oversees and defines the Group overall risk management framework, formulates the Group's risk management policy and guideline, determines the overall risk acceptance level, assesses the Group's risk profile, prioritises top risks for the Group, and promotes risk awareness and management knowledge.

**(iii) Changes in market condition/external environment**

Processes are in place to identify new risks arising from changes in market conditions or external environment which could expose the Group to heightened risk of loss or reputational damage. The Management is primarily accountable for measuring, monitoring, mitigating and managing the risks and controls in their areas of responsibility.

### (iv) Financial reporting

The Management monitors the business activities closely and reviews monthly financial results of operations against budgets or forecast. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. In addition, regular reviews and statutory audits are performed by our external auditor, Deloitte Touche Tohmatsu to ensure that the preparation of the Group's financial statements are carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

### (v) Internal audit

The establishment of the Group's internal audit function is to provide management with an independent and impartial view on the adequacy, efficiency and effectiveness of the Group's risk management, internal control and governance system and to provide recommendations for improvement. The Group's internal audit function is undertaken by the Internal Audit Department. To preserve the independence, Internal Audit Department reports directly to the Audit Committee on audit matters and to the Board on administrative matters. Audit activities are reported to the Audit Committee on a semi-annually basis. The annual internal audit plan is reviewed and endorsed by the Audit Committee.

### (vi) Inside information

There are internal procedures and controls for the handling and dissemination of inside information. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcement or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

### (vii) Whistle-blowing channels

Employees at all levels are expected to achieve the highest possible standards of ethical conduct, and to conduct themselves with integrity, impartiality and honesty. Whistle-blowing policy has been implemented to provide a reliable channel to all staff for reporting any suspected misconduct contrary to ethical belief.

### Overall assessment

The Board, through the Audit Committee, has conducted an annual review of the effectiveness of our risk management and internal controls systems covering all material controls, including financial, operational and compliance controls, and the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

During the year ended 31 December 2016, the Board is not aware of any material internal control deficiency or significant areas of concern that may affect Shareholders' interests.

In addition, the Board has received confirmation from the Management that the Group's risk management and internal controls systems are in place and functioning effectively, and the Group had complied with the code provisions on internal control as set out in the CG Code under Appendix 14 of the Listing Rules.

## COMMUNICATION WITH SHAREHOLDERS

The Directors consider communication with the Shareholders are mainly in the following ways: (i) the holding of AGMs and SGMs, if any, which may be convened for specific purpose and can provide opportunities for the Shareholders to communicate directly to the Board; (ii) the publication of announcements, annual reports, interim reports and/or circulars as required under the Listing Rules and press releases of the Company providing updated information of the Group; (iii) the holding of press briefings and media interviews from time to time; and (iv) the upkeeping of the latest information of the Group on the Company's website at www.cash.com.hk. The Shareholders and investors are welcome to visit such website.

In order to protect the environment and save costs for the benefit of the Shareholders, the Company has introduced electronic means for receiving corporate communication materials by the Shareholders. The Shareholders may choose to receive printed or electronic copies. In line with our social caring policies, the Shareholders are encouraged to get access to corporate communication materials of the Company through the Company's website.

Separate resolutions are proposed at each general meetings of the Company. The Company's notice to the Shareholders for the AGM was sent to Shareholders at least 20 clear business days before the meeting and notices of the SGMs were sent to shareholders at least 10 clear business days before such meetings in year 2016.

## CONSTITUTIONAL DOCUMENTS

There are no significant changes in the Company's constitutional documents during the year.

## SHAREHOLDERS' RIGHTS

### Convening a SGM and putting forward proposals at general meetings

Pursuant to the Bye-laws of the Company, Shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition requiring a SGM to be called by the Board.

The written requisition (i) must state the object(s) of the meeting, and (ii) must be signed by the requisitionists and deposited at the registered office of the Company for attention of the Company Secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. Such requisitions will be verified with the Company's share registrar and upon its confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice to all Shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, the SGM will not be convened as requested.

If Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a SGM for a day within two months after the date of deposit of such requisition, the requisitionists or any of them representing more than one-half of the total voting rights of all of them may convene a SGM, but any SGM so convened shall not be held after the expiration of 3 months from the said date of deposit of the requisition. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

Pursuant to the Bermuda Companies Act 1981, either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("Requisitionists"), or not less than 100 of such registered Shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the Requisitionists must be deposited at the registered office of the Company with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if an AGM is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

### Enquiries from Shareholders

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or tel: (852) 2980 1333 or email: cash1049@cash.com.hk.

Other Shareholders' enquiries can be directed to the Group Public Affairs Department of the Company at 28/F Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong or tel: (852) 2287 8888 or fax: (852) 2287 8000 or email: inquiry@cash.com.hk.

## AUDITOR'S INDEPENDENCE AND REMUNERATION

The Audit Committee is mandated to review and monitor the independence of the auditor to ensure objectivity and the effectiveness of the audit process of the financial statements in accordance with applicable standard. Members of the Committee were of the view that the Company's auditor, Messrs. Deloitte Touche Tohmatsu is independent and has recommended the Board to re-appoint it as the Company's auditor at the forthcoming annual general meeting. During the year, Messrs. Deloitte Touche Tohmatsu has rendered audit services and certain non-audit services to the Company and the remuneration paid/payable to it by the Company are set out as follows:

| **Services rendered** | **Fees paid/payable** HK$ |
|---|---|
| Audit services | 4,793,000 |
| Non-audit services: | |
| Preparation for very substantial disposal circular | 2,500,000 |
| Consulting on common reporting standard operations | 559,000 |
| Application for licences | 553,000 |
| Consulting on PRC tax | 360,000 |
| Advisory on environmental, social and governance report preparation | 150,000 |
| Review of the continuing connected transactions | 65,000 |
| Review of the preliminary results announcement | 22,000 |
| | 9,002,000 |

On behalf of the Board
**Bankee P. Kwan, JP**
*Chairman & CEO*

Hong Kong, 24 March 2017

# Environmental, Social and Governance Report

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

According to the requirements set forth in the ESG Guide under Appendix 27 of the Listing Rules, the Group hereby presents the Environmental, Social and Governance ("ESG") report for the year ended 31 December 2016 ("Reporting Period").

## SCOPE OF REPORT

This report covers the Group's principal businesses in Hong Kong, which represent the major investment and income sources of the Group, including:

a) Financial services business carried out via CFSG including online and traditional brokerage of securities, futures and options contracts as well as mutual funds and insurance-linked investment products, principal investments of securities and options, margin financing, money lending and corporate finance services; and

b) Retail management business including sales of furniture, household items and electrical appliances through chain stores under the brand name "Pricerite" in Hong Kong.

The ESG data that the Group has direct access to and is under the Group's direct operational control has been included in this report.

## MATERIALITY ASSESSMENT

To identify the ESG issues relevant to the Group, we engaged our management and staff to review our operations. Subsequently, the identified ESG issues have been assessed by considering their importance to our stakeholders as well as our Group. The ESG issues considered to be material are listed below:

| ESG aspects as set forth in ESG Guide | Material ESG issues for the Group |
|---|---|
| **A. Environmental** | |
| A1 Emissions | Waste management and carbon emissions |
| A2 Use of resources | Use of electricity and packaging material |
| A3 The environment and natural resources | Light pollution |
| **B. Social** | |
| B1 Employment | Equal opportunity and diversity |
| B2 Health and safety | Workplace health and safety |
| B3 Development and training | Staff development and training |
| B4 Labour standards | Anti-child and forced labour |
| B5 Supply chain management | Supply chain management |
| B6 Product responsibility | Customer service, quality assurance, safeguarding customer assets, and handling of personal data |
| B7 Anti-corruption | Anti-corruption and money laundering |
| B8 Community investment | Supporting local community |

The Group has complied with the "comply or explain" provisions set out in the ESG Guide for the Reporting Period.

## A. Environmental

The Group upholds the belief of "GREEN CASH" in our business activities. The purpose of "GREEN CASH" is to promote the practice of minimising the depletion of natural resources (i.e. timber, electricity, etc.), while saving part of the operating cost of the Group. The Group advocates the corporate social responsibility to be aware of environmental protection and natural resources conservation, and bring mutual advantages to both the society and the Group.

Pricerite and CFSG received Silver Award and Certificate of Merit of 2016 Hong Kong Awards presented by Environmental Excellence from Environmental Campaign Committee of HKSAR Government respectively. The Company, CFSG, and Pricerite were also granted with HSBC Living Business 2016 – Green Achievement Award in Certificate of Merit by Business Environment Council. The awards recognised our efforts on environmental management, with continuously improving the performance on environmental protection.

During the Reporting Period, the Group did not note any cases of non-compliance relating to environmental laws and regulations in Hong Kong.

### A1 Emissions

*Waste management*

Considering the principal business activities of the Group (i.e. financial service and retail management business), we have not produced a notable level of air or water pollutants.

We established environmental policies that introduce the desired environmental practices, and measurable objectives to our employees. To mitigate the impact of waste, the principles "reduce", "reuse" and "recycle" are applied. We are committed to promoting waste reduction at source, in the offices and retail stores. Waste should be properly handled and disposed by an authorised party to central waste processing facilities. Categorisation of waste is encouraged to facilitate efficient recycling.

Paper is considered the major form of waste generated by our offices and retail stores, of which, we consumed approximately 14,802.28 kg[1] during the Reporting Period.

To enhance our waste management techniques, we always monitor the latest environmental regulations, as well as market trends on new environmental practices. We continuously seek opportunities on improving the effectiveness of our current practices.

In our offices, we have set up waste separation facilities. We place recycle bags and tailor-made recycle bins designated for the collection of scrap paper, plastic bottles, aluminium cans, and recyclable toner cartridges. All of which, is later delivered to the recycling agents for further processing.

1 Paper consumption intensity is not considered as an applicable performance indicator due to our nature of business.

In Pricerite retail stores, recycling bins are implemented to facilitate recycling for customers, and we have engaged qualified service providers for the collection and recycling on a regular basis. Pallets used in logistics' activities are collected and reused by our non-governmental organisation partner.

The amount of recycling at our collection points in the Reporting Period is summarised as follows:

| **Item** | **Recycled amount** | **Unit** |
|---|---|---|
| Paper | 17,581 | kg |
| Aluminium cans | 2,317 | Pieces |
| Plastic bottles | 2,007 | Pieces |
| Toner cartridges | 514 | Pieces |
| Battery | 196.12 | kg |
| Lighting tube | 1,720 | Pieces |
| Light bulb | 3,030 | Pieces |
| Pallet | 12,050 | kg |

Apart from recycling, a series of programmes and activities have been launched to encourage the participation of our stakeholders towards waste management, which include:

- Implementing Green Information and Communication Technology (ICT) Platform including systems such as E-workflow and CASHARE (Group's intranet) to build a highly efficient "paperless, IT-driven and systematic" working environment;

- Achieving waste reduction goals set under Wastewi$e Certificate recognition scheme;

- Purchasing paper made from the Programme for the Endorsement of Forest Certification (PEFC) and Forest Stewardship Council (FSC) certified plantations to minimise logging in natural forest;

- Posting a "Green message" as a reminder around the office;

- Using e-channels to disseminate corporate information;

- Installing electronic product catalogues and promotions in retail stores;

- Providing reusable utensils to office staff to reduce the use of disposable utensils;

- Recommending duplex or 2-on-1 page copying on recycled paper; and

- Applying used envelopes for internal document circulation.

No particular hazardous waste was noted in our business activities during the Reporting Period.

In recognising our achievement in waste reduction, the Group and its subsidiaries, including CFSG and Pricerite, were awarded the Wastewi$e Certificate (Excellence Level) by Environmental Campaign Committee.

*Carbon emissions*

The major source of our carbon emissions is the use of electricity. There were 4,970.79 tonnes of carbon dioxide equivalent ($CO_2e$) generated[1] from our operations during the Reporting Period[2]. In order to reduce our carbon footprint, we have launched a series of programmes and activities. Please refer to the "A2 Use of resources" section below.

In the retail management business, transportation and deliveries of products are provided by external transportation service providers. To reduce the carbon emissions from the mobile transportation activities of our business partners, we aim to optimise the number of deliveries, which includes:

- Working closely with logistic partners in developing a better fuel-efficient transportation practice;
- Packing and loading products more efficiently to reduce the number of delivery journeys; and
- Continuously improving our transportation management system to achieve more efficient journey planning.

1 The carbon emission was calculated with reference to the Greenhouse Gas Protocol, and the carbon conversion factors published by CLP Holdings Limited and HK Electric Investment Limited.

2 Carbon emission intensity is not considered as an applicable performance indicator due to our nature of business.

## A2 Use of resources

*Use of electricity*

Electricity is consumed during daily business operations in our offices and retail stores, through the use of indoor lighting, air-conditioning, functioning of office equipment, etc. During the Reporting Period, the total electricity consumption of the Group was 8,484,256 kWh[1].

The Group has established guidelines on implementing green measures towards energy conservation:

1) Lighting

- T5 energy-efficient lighting tubes have been installed in offices and retail stores;
- Staff are encouraged to switch off lighting while they are off duty;
- "Light-out" during lunch hour is highly recommended;
- A lighting and energy conservation programme is implemented in retail stores, which strictly switches off all power after business or operating hours; and
- Indoor lighting should be switched off if sufficient sunlight is available.

2) Office equipment

- Computers and other electronic equipment should be switched off while they are not in use for energy conservation; and
- Security guards patrol the offices at night to ensure all non-use equipment is switched off.

In addition to the aforesaid measures, Caring Committee sends messages related to "Green information" to staff with the aim to raise the consciousness of environmental protection. Furthermore, green posters have been framed along the corridor/pantries through which, the "green theme" of the environmental friendly atmosphere is promoted throughout the working space.

To enhance employee's awareness on low-carbon office and energy saving practices, we participated in "Earth Hour" events by turning off all non-essential lights for one hour at our retail stores and encouraged all staff to adopt the same practice at home.

*Use of water*

We do not consume significant amounts of water through our business activities. The majority of the water supply facilities are provided and managed by property managers on our rental premises, and the usage have been included in the management fees.

Although the water consumption is considered minimal, we also encourage saving by driving behavioural changes in the workplace. Green messages are posted in pantries and washrooms as reminders for using water efficiently.

1 Energy intensity is not considered as an applicable performance indicator due to our nature of business.

*Use of packaging material*

In the retail management business (i.e. Pricerite), packaging material is used for delivery of goods. The major packaging material used in the business is plastic bag, which is offered to customers upon request.

We strictly implement the Plastic Shopping Bag Charging enforced by the Government. Customers are required to pay a levy in requesting a plastic bag, hence restricting the consumption of plastic bags. Furthermore, promotion material of BYOB – Bring Your Own Bag is displayed in our retail stores to raise customer awareness in order to reduce plastic bag usage.

**A3 The environment and natural resources**

The Group is committed to controlling its operations' impact on the environment and natural resources. In addition to complying with environment-related laws and incorporating the concept of environmental protection into internal management and daily operation activities, we continuously assess and control the potential impacts of our business activities on the environment.

*Light pollution*

Due to the high building density in Hong Kong, external lighting at night may disturb nearby residents.

To reduce the impact of light pollution, Pricerite strictly follows the "Charter on External Lighting" which has been in effect since April 2016. Certain Pricerite's stores are committed to switching off decorative, promotional or advertising lighting, which affects the outdoor environment during the preset time (i.e. midnight to 7 am). This measure also helps reduce energy wastage.

## B. Social

### B1 Employment

Respect for the rights of everyone who works for us is fundamental to the sustainability of the Group and the communities in which we operate. Our commitment to operating with respect for individuals is reflected in all aspects of the Group's business operations and is integrated in our policies and relevant procedures. We are committed to providing a happy and family–friendly workplace.

The Employee Handbook is formulated to stipulate general practices and policies related to employment, compensation and benefits. To stay competitive, our base salaries are within industry norms, contributing to our ability to attract and retain highly skilled and motivated staff.

The Group is committed to developing, maintaining and supporting a culture of equality and diversity in employment, on the basis of age, race, colour, nationality, religious belief, disability, sexual orientation, political opinion and any other status protected by applicable legislations and ordinances. We believe that the diversity can enrich all employees by providing a more rewarding and less stressful environment. No one shall be discriminated at recruitment, selection, employment, compensation, transfers, promotion, training or development. Qualified individuals are employed to carry out our fiduciary duties based on their education, experience, and ability without discrimination.

Meanwhile, the Group introduces family-friendly employment practices, including offering family leave benefits and employee support schemes, providing fresh fruits, and organising health talks and joggling classes to promote employee well-being.

The Group received HSBC Living Business 2016 – Caring for People Award presented by Business Environment Council, which recognised our efforts on maintaining communication with employees, offering equal opportunities, providing employee welfare, and promoting work-life balance and family-friendly practices.

There were no non-compliance cases noted in relation to employment laws and regulations during the Reporting Period.

The total workforce of the Group is summarised as follows:

| **Gender** | **No. of staff** |
|---|---|
| Male | 490 |
| Female | 489 |
| **Total** | 979 |

| **Employment type** | **No. of staff** |
|---|---|
| Full-time | 757 |
| Part-time | 165 |
| Temporary and contract | 57 |
| **Total** | 979 |

| Age | No. of staff |
|---|---|
| <30 | 309 |
| 30-50 | 512 |
| >50 | 158 |
| **Total** | 979 |

Note: The above statistics represents the number of employees at the end of the Reporting Period.

**B2 Health and safety**

Ensuring the health and safety of our employees is an integral part of our business activities. Therefore, we are dedicated to maintaining a safe, hygienic and productive workplace by minimising the potential risk of accidents, injuries and exposure in relation to health risks. We ensure all employees are competent at work, and are given adequate training to comply with all local legislations and ordinances with regard to health and safety.

The Group did not violate any health and safety laws and regulations of Hong Kong during the Reporting Period.

Occupational health and safety record is maintained to ensure that a healthy and safe workplace is provided for our employees at all times. Preventive measures were undertaken with the use of appropriate office equipment as well as performing periodic office risk assessment to enhance workplace safety. We also regularly arrange flu vaccination, and free medical and dental check-ups for our employees.

**B3 Development and training**

We are committed to ensuring that the talents, skills and abilities of our employees are recognised and are utilised to their full capacity. The Group has implemented various training policies and organised a number of training programmes aiming specifically at improving the skills and developing the talents of our employees and generally increasing the competitiveness, productivity and efficiency of the Group.

Our training programmes are developed based on business needs and development goals of employees. During the Reporting Period, we organised 71 in-house training classes, and invited external trainers and regulators to deliver 19 training classes. Categories of the training classes included language proficiency, knowledge on products, operational techniques, customer services, marketing skills, career orientation, Continuous Professional Training (CPT) of professional qualifications, and professional license examinations preparation.

**B4 Labour standards**

Our Group prohibits the use of all forms of forced labour. All legal regulations regarding employment of young persons whose age ranged between 15 and 18 shall be followed by the Group.

There were no material non-compliance issues noted regarding labour standards as required by related laws and regulations during the Reporting Period.

## B5 Supply chain management

To support sustainability, our Green Supply Chain initiative applies strict environmental, social and ethical criteria to the suppliers of our business. We place high demands on suppliers and request them to comply with the same standards that have been set by the Group.

We have incorporated sustainability considerations into our sourcing and outsourcing practices, requiring suppliers to meet the basic standards. For example, all suppliers are expected to adhere to these basic principles:

- Operating as an equal opportunity employer and recognising the right to collective bargaining as well as minimum and prevailing wages and benefits;
- Maintaining probity and accountability standards;
- Minimising discrimination against small and medium-sized enterprises or local vendors;
- Providing a healthy and safe working environment, not employing forced or child labour, and refraining from harassment or abuse of employees; and
- Supporting sustainable development, acting responsibly with regard to the environment, observing environmental criteria to conserve resources, minimising the negative environmental effects of the production, application and disposal of products, and reducing the use of hazardous products as much as possible.

In the procurement process, we communicate with suppliers on their environmental and social responsibilities. The environmental friendliness of suppliers' practices and products are examined. Selected suppliers' performance is monitored through onsite factory assessments, quality reviews of products and customer feedback. Areas that do not adhere to the standard set forth by the Group are evaluated with the suppliers to identity opportunities to improve their current environmental and social practices.

## B6 Product responsibility

The Group is committed to providing reliable products and services, by acting responsibly and protecting the interests of various stakeholder groups. We take responsibility in offering reliable products and services, through our principal activities of financial service and retail management businesses, in meeting stakeholders' expectations on quality and sustainability.

*Customer service*

Satisfying our clients is our central focus. This principle guides all our activities and applies to all business divisions. The key elements are transparency and high-quality advice, which enable us to improve client satisfaction and achieve customer loyalty in the long term.

We aim to customise our solutions based on the unique needs of customers, in delivering sustainable value and fostering long-term relationship with our customers. During advertising, we ensure information and marketing materials are easily understood and provide all relevant information in facilitating the decision making of customers.

*Quality assurance*

In the sales of furniture and household items, we strive to achieve the highest standard in terms of quality, safety, and consistency. To safeguard our baseline, we involve an independent Quality Assurance Team in assuring the product quality and safety. The team assures the satisfaction of customer expectations by the following means:

- Product development – review of new designs, examination of product specifications, analysis of customer expectation conformance;
- Supplier assessment – inspection of suppliers' capability in satisfying quality requirements, solving supply problem by establishing communication channels with suppliers;
- Pre-shipment inspection – inspection of functionality and safety of finished goods in conforming with required specifications; and
- Complaint handling – review of product defects and mismatch in customer expectation, provision of improvement plan on product quality.

Pricerite has received Q-Mark Service Certification from Hong Kong Q-Mark Council since 2006. The certification recognises our competency on providing high standards of service to customers. CFSG has been certified on the requirements of ISO 9001:2008 Quality Management Systems for the provision of financial services. The quality management system enhances the ability to provide services that meet customer and regulatory requirements, which leads to customer satisfaction.

*Safeguarding customer assets*

Certain subsidiaries of the Group via CFSG are licensed and regulated under the SFC. As a custodian of customers' investment and assets, we strictly comply with the relevant laws and regulations on handling and safeguarding of customer assets. We implement the necessary controls to ensure customer assets are accounted for properly and promptly, and adequately safeguarded.

Segregated accounts are maintained in keeping customer assets. Payment of customer assets out of the segregated accounts should only be executed when customer consensus is received, or customer obligation is required to be met on agreed contracts. Adequate audit trail is maintained to enable investigation of suspected irregularities. Regular compliance reviews and audits are conducted to detect any non-compliance with regulatory requirements. Any irregularities should be immediately reported to management.

*Handling of personal data*

The Group strictly adheres to regulatory requirements of data privacy, through fulfilling high security and confidentiality. We are committed to maintaining and protecting personal data.

Internal policy has been established to govern the collection and handling of personal data received from a data subject. Under our data protection principles, a Privacy Policy Statement ("PPS") is acknowledged to enable the public to ascertain the data user's general policies and practices in relation to the collection, holding and use of individual personal data.

Furthermore, in accordance with our data protection principles, a Personal Information Collection Statement ("PICS") is acknowledged whenever there is collection of personally identifiable information from individuals to notify data subjects of certain matters in relation to specific collections of personal information from them. The Group will not use or provide personal data to any person for use in direct marketing unless we have obtained the data subject's consent in writing. Meanwhile, the Group maintains a sound safety system and protective measures to prevent unauthorised use of personal data.

There were no material non-compliance issues noted regarding product responsibility as required by related laws and regulations during the Reporting Period.

**B7 Anti-corruption**

The Group strives to promote and maintain the highest standard of honesty, integrity and fairness. All of our staff must ensure that the Group's reputation is not tarnished by dishonesty, disloyalty or corruption.

Apart from the internal guidelines for monitoring anti-money laundering, counter-terrorist financing as well as gifts or advantages received from or given to clients or suppliers, the Group has established an assessment form to evaluate high risk customers and whistle-blowing channels to enable staff to report on suspicious transactions. Any reporting suspicious transactions will be followed up timely and investigated by independent personnel.

During the Reporting Period, no legal case regarding corruption was brought against the Group or its employees. In addition, the Group was not aware of any cases of non-compliance with laws and regulations relating to anti-money laundering.

**B8 Community investment**

People-centric is one of our core corporate values that guide our business and day-to-day operation. We therefore care about the interests of the communities and people that we serve. We and our employees are dedicated to working hand-in-hand with the local communities in a variety of initiatives ranging from job creation to youth education and disaster reliefs.

In particular, it is the Group's belief that the future of our community lies in the hands of the next generation, which we have obligations to provide a good learning environment and quality education for. Therefore, during the Reporting Period, the Group donated a total sum of HK$563,600, of which more than 90% was donated on education purpose. The Group is also dedicated to nurturing young talents in the financial technology (FinTech) industry, by holding the first inter-university algo trading contest in 2016 with several renowned universities in Hong Kong.

During the Reporting Period, the Group also partnered with charitable organisations, and organised volunteering and donation programmes, such as "Toys, Books & Used Clothes Recycling", "Mooncake Donation", "Christmas Gift Donation", "Organics Products Charity Sales", etc, in which our Group contributed over 800 voluntary service hours to our local community.

# Directors' Report

# DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group during the year consisted of (a) the financial services business carried out via CFSG (stock code: 510) that includes online and traditional brokerage of securities, futures and options contracts as well as mutual funds and insurance-linked investment products, margin financing, money lending and corporate finance services; (b) retail management business including sales of furniture and household items and electrical appliances through the chain stores under the brand names of "Pricerite" in Hong Kong; (c) mobile internet services business including provision of mobile internet (to include content, operations and distribution activities) services and online game (sales of online game auxillary products and licensing) services; and (d) investment holding.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 70 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

## BUSINESS REVIEW

A review of the business of the Group during the year, a discussion on the Group's future business development and possible risks and uncertainties that the Group may be facing are provided in the section of "Financial Review", "Management Discussion and Analysis" and "Chairman's Letter" of this annual report and note 39 to the consolidated financial statements.

The financial risk management objectives and policies of the Group are shown in note 39 to the consolidated financial statements.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the section of "Financial Review" of this annual report.

Save as disclosed in this annual report, there is no important event affecting the Group that have occurred since the end of the financial year ended 31 December 2016.

## RELATIONSHIPS WITH STAKEHOLDERS

We fully understand that our business is built on the long-term well-being of the "people" in our service areas at large. Throughout the course of our business development, we care about the needs of our key stakeholders, inter alia, our shareholders, our employees, our customers, our suppliers and our community. As such, we strive to become a "Total Caring Organisation" to embrace the all-round needs of our key stakeholders.

The Group upholds the "People-oriented" principle as our core belief and this forms the essence of our corporate culture. We respect the various needs of these "people" as our stakeholders and we strive to balance the different spectrum of interests for the development of a better future.

Our five core values namely "People", "Customers", "Quality", "Teamwork" and "Change" serve as the guiding principles for the whole team to move ahead.

We are dedicated to creating an enjoyable work environment to highly engage our employees so as to maximise their potential, meeting the needs of our customers with quality products and innovative services and enhancing cooperation with our suppliers so as to provide high-quality products and services to our customers so as to ensure our sustainable development.

# DIRECTORS' REPORT

**Shareholders**

The Group is committed to communicating with our shareholders and the financial community proactively, transparently and effectively, and thereby ensuring consistent and timely dissemination of information to shareholders and potential investors.

We have established effective channels of communication with our shareholders to ensure that the corporate information is readily accessible. Corporate communications materials with regard to regulatory disclosures and notices of the Company, such as financial reports, results announcements, corporate announcements and circulars will be distributed according to the principles of continuous disclosure, and complies with the legal and regulatory requirement applicable to the Company. Corporate communications and other general information concerning the Company and its businesses such as press releases will be posted on the corporate website (www.cash.com.hk) and distributed to the media as soon as practicable. The Company adheres to its corporate policy of not disclosing unpublished or potentially price-sensitive information such as sales and profit forecasts.

**Employees**

Our staff is regarded as the most important resource of the Group. We offer a competitive remuneration package and great opportunities for career advancement based on performance-linked appraisal system. Our passion in fostering a learning culture is recognised. The Group has been honoured as "Manpower Developer" at this year's Employees Retraining Board ("ERB") Manpower Developer Award Scheme in recognition of the Group's efforts and commitment to training and development. We also provide our staff with regular trainings, including internal trainings and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market, industry and various businesses. Pricerite was once again honoured with a variety of awards, demonstrating the company's caring corporate culture and drive to lead by example. Staff members received the Distinguished Salesperson Award from the Hong Kong Management Association and Outstanding Performance accolade in the Service & Courtesy Award, organised by the Hong Kong Retail Management Association. In addition, the company gained the Distinguished Trainer Award, under the Hong Kong Management Association's Award for Excellence in Training and Development. The recognitions, individually and collectively, strengthened the Pricerite's reputation in training and development and boosted the company's profile with the public and business community.

The Group is committed to the well-being of our employees as we believe that a healthy body and soul will have a positive impact on people's professional and personal lives.

Along with initiatives designed to improve the health, safety and well-being of our employees, the Group also offers recreational and educational activities in different topics such as professional growth, work-life balance, health and safety, rewards and recognitions, employees' families, amazing occasions to help staff to pursue their interests, explore their full potential and recharge after work. The Group has been awarded as "Family-Friendly Employer" during the year by the Home Affairs Bureau and the Family Council in recognition of our family-friendly employment policies and practices which have positive impact to the Company and employees' family life.

We sincerely care about our employees' retirement needs and have gone the extra mile to provide additional retirement benefits for them. We have been awarded the accolade of "Good MPF Employer Award" by the Mandatory Provident Fund Schemes Authority (MPFA).

**Customers**

We value the customers' interests as the first priority. It is our mission to provide customers with a meaningful experience when utilising our services.

We value the feedback from customers and always try to understand their thoughts through Internet, daily communication, customer services and after-sale services etc. In addition, we also set up website, e-portal, email, Facebook and customer service hotline to respond to the feedback of customers.

CFSG won Bronze Award in the Internet Finance Award (financial institution category) organised by Internet Professional Association and co-organised by Hong Kong Internet Finance Association and Shenzhen Internet Finance Association in recognition of CFSG's outstanding contribution to the development of financial technology in Hong Kong and Mainland China.

We obtained ISO 9001:2008 Certification, with zero non-conformity, a testimony to our commitment of effective quality management which meets with the international best practice.

CFSG was awarded Hong Kong Top Service Brand Award by Hong Kong Brand Development Council in recognition of its excellent service quality and brand management. Also, CFSG gained the Hong Kong Outstanding Securities Service — FinTech Innovation Gold Award from Wen Wei Po, which proves the Group's excellent performance in financial technology.

Pricerite was awarded Best.hk Website Award — Silver Prize by Hong Kong Internet Registration Corporation for its website which brings convenience to its customers for better online shopping experience. Also Hong Kong Institute of Marketing awarded Pricerite the Market Leadership Award to recognise its excellent performance in marketing which is adored by the market and customers.

Recognising the heartfelt service provided by Pricerite in all these years, Hong Kong Brand Development Council awarded the company the Hong Kong Top Service Brand Ten Year Achievement Award. Pricerite also gained the Q-Mark Elite Brand Award from the Hong Kong Q-Mark Council, which proves that the service provided by the company is excellent and well received by the public.

### Suppliers

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

### Community

The Group is devoted to supporting the community in which we operate through donation, education, volunteering and encourage others to give.

Over the past 10 years, we show our care about the community with unsparing support for wide-ranging community services and charities. We have also been encouraging our employees and their family members to take part in voluntary services after work and serve the disadvantaged in the community.

Showing the sustainability and breadth of our corporate social responsibility efforts, we have been awarded the accolade of "10 Years Plus Caring Company" by the Hong Kong Council of Social Service (HKCSS) in recognition of our achievements in "Caring for the Community", "Caring for the Employee" and "Caring for the Environment". It serves as a recognition for our contribution to community services and commitment to employee engagement.

This year, CFSG was awarded the 2016 Social Capital Builder Logo Award by the Labour and Welfare Bureau in recognition of our active role in promoting cross-sectoral partnership and sustainable supportive network.

# DIRECTORS' REPORT

## ENVIRONMENTAL POLICY AND PERFORMANCE

As a total caring organisation, the Group is dedicated to keeping the environmental impact of our operations to a minimum, balancing business needs with conservation.

The Group adopted "Green Office Policy" with various measures regarding minimisation of energy and paper consumption and recycling being implemented. We also execute different types of "Green Office Campaign" in our office to enhance staff awareness and participation for environmental protection.

Over the years, the Group has participated in various environmental protection programmes and campaigns organised by reputable institutions and have been recognised with awards. In year 2016, we received Sliver award in Shops and Retailers and Certificate of Merit in Servicing and Trading at Hong Kong Awards for Environmental Excellence, Wastewi$e Certificate (Excellence Level) from Environmental Campaign Committee and Certificate of Merit in HSBC Living Business Awards (Green Achievement) respectively. The achievements highlighted the Group's total caring culture and commitment to responsible business.

## COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. During the year, the Group has complied with the relevant laws and regulations on corporate level as well as those that have a significant impact on the operations of the Group namely, among other things, the Listing Rules, the Companies Ordinance, Cap. 622 of the laws of Hong Kong, the Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong, the Trade Descriptions Ordinance, Cap. 362 of the laws of Hong Kong, the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, Cap. 615 of the laws of Hong Kong and the Competition Ordinance, Cap. 619 of the laws of Hong Kong.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the last five financial years ended 31 December 2016 is set out on pages 164 to 165 of this annual report.

## PROPERTY AND EQUIPMENT

Details of movements during the year in the property and equipment of the Group are set out in note 16 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 45 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

## RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity" of the consolidated financial statements on pages 73 to 74 of this annual report.

Details of movements in the reserves of the Company during the year are shown in note 47 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

## CONTINUING CONNECTED TRANSACTIONS

**Margin Financing Arrangement for three financial years up to 31 December 2018**

Celestial Securities entered into the following margin financing agreements with each of the connected clients:

Margin financing agreements all dated 24 November 2015 (as disclosed in the Company's announcement dated 24 November 2015 and circular dated 15 December 2015, and was approved by the independent Shareholders at a SGM held on 31 December 2015)

(a) Mr Kwan Pak Hoo Bankee

(b) Mr Law Ping Wah Bernard

(c) Ms Cheng Pui Lai Majone

(d) Mr Ng Kung Chit Raymond

(e) Mr Lam Man Michael

(f) Mr Law Ka Kin Eugene

(g) Mr Ng Hin Sing Derek

(h) Mr Kwan Pak Leung Horace

(i) Ms Chan Siu Fei Susanna

(j) Cash Guardian

Pursuant to the respective margin financing agreements, Celestial Securities granted margin financing facilities to each of the above connected clients at an annual cap of up to HK$30 million (which represents the maximum outstanding balance, including accrued outstanding interests of the margin financing facility) for each of the three financial years ending 31 December 2018. Each of the margin financing facilities granted to the connected client was a stand alone facility and will not be aggregated. The interest rates charged are in any event no more favourable than the rates charged by Celestial Securities to independent third parties for similar services.

As at the date of the respective margin financing agreements, the above connected clients were either directors or substantial Shareholders of the Group or their respective associates or family members and were connected persons (as defined under the Listing Rules) of the Company. The granting of margin financing facilities by the Group under the margin financing arrangement constituted continuing connected transactions relating to financial assistance for the Company under the Listing Rules.

As at 31 December 2016, Mr Ng Kung Chit Raymond (item (d) above) had resigned as director of the CFSG Group, he still remained as a connected person of the Group within 12 months of his resignation as defined under the Listing Rules.

The margin financing agreements for the above connected clients were approved by the independent Shareholders at a SGM held on 31 December 2015. Details of the transactions were disclosed in the Company's announcement dated 24 November 2015 and circular dated 15 December 2015.

During the year ended 31 December 2016, the maximum amount of margin financing facilities utilised by each of the above connected clients did not exceed the annual cap of HK$30 million. Details of the maximum amounts of the margin financing facilities granted to the above connected clients during the year under review are set out in note 24 to the consolidated financial statements. The commission and interest income received from the above connected clients during the year under review are disclosed in note 43 to the consolidated financial statements.

The aforesaid continuing connected transactions of the Company for the financial year ended 31 December 2016 have been reviewed by the INEDs. The INEDs have confirmed that the continuing connected transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the aforesaid Group's continuing connected transactions of the Company for the financial year ended 31 December 2016 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. Based on the work performed, the auditor of the Company has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the auditor and the Company to the Stock Exchange.

## RELATED PARTIES TRANSACTIONS

The Group has entered into related parties transactions under the applicable accounting standards as disclosed in note 43 to the consolidated financial statements. Such related party transactions were either (i) not connected transaction of the Group; or (ii) related to the continuing connected transactions of the Group as disclosed in the above section; or (iii) connected transactions exempted from reporting, announcement, annual review and independent shareholders' approval requirements of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to the related party transactions of the Group during the year.

## RAISING OF FUNDS AND USE OF PROCEEDS

The Company did not have any fund raising activity during the year under review.

## MAJOR CUSTOMERS AND SUPPLIERS

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

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

## DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were as follows:

**Executive Directors:**

Kwan Pak Hoo Bankee
Law Ping Wah Bernard
Law Ka Kin Eugene
Kwok Lai Ling Elaine (was appointed on 23 August 2016)
Ng Hin Sing Derek

**Independent Non-executive Directors:**

Leung Ka Kui Johnny
Wong Chuk Yan
Chan Hak Sin

The following Directors shall retire and, being eligible, offer themselves for re-election at the forthcoming AGM:

(i) Mr Kwan Pak Hoo Bankee and Mr Law Ping Wah Bernard, being EDs, shall retire at least once in every 3 years at the AGM in accordance with their terms of office of directorship;

(ii) Ms Kwok Lai Ling Elaine, being newly appointed ED, shall retire at the AGM in accordance with the bye-laws of the Company; and

(iii) Mr Leung Ka Kui Johnny, Mr Wong Chuk Yan and Dr Chan Hak Sin, all being INEDs, shall retire at the AGM in each year in accordance with their terms of office of directorship.

## DISCLOSURE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as margin financing arrangement as disclosed under the heading of "Continuing Connected Transactions" in this section above, no Director had a materially interested in, either directly or indirectly, any transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party subsisting during or at the end of the financial year under review.

# DIRECTORS' REPORT

## RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 41 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2016, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were recorded in the register required to be kept under section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### A. The Company

#### 1. Long positions in the Shares

| Name | Capacity | Number of Shares | | Shareholding |
|---|---|---|---|---|
| | | Personal | Corporate interest | (%) |
| Kwan Pak Hoo Bankee | Beneficial owner and interested in a controlled corporation | 4,260,000 | 281,767,807* | 34.41 |
| Law Ping Wah Bernard | Beneficial owner | 27,345,312 | — | 3.29 |
| | | 31,605,312 | 281,767,807 | 37.70 |

* The Shares were held by Cash Guardian. Mr Kwan Pak Hoo Bankee was deemed to be interested in all these Shares as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

## 2. Long positions in the underlying Shares

*Options under share option scheme*

| Name | Date of grant | Option period | Exercise price per Share (HK$) | Notes | Number of options outstanding as at 1 January 2016 | Number of options outstanding as at 31 December 2016 | Percentage to issued Shares as at 31 December 2016 (%) |
|---|---|---|---|---|---|---|---|
| Kwan Pak Hoo Bankee | 2/9/2014 | 2/9/2014–31/8/2018 | 0.478 | (1) & (3) | 6,480,000 | 6,480,000 | 0.77 |
| | 18/12/2015 | 18/12/2015–31/12/2019 | 0.460 | (1), (2) & (3) | 8,000,000 | 8,000,000 | 0.96 |
| Law Ping Wah Bernard | 2/9/2014 | 2/9/2014–31/8/2018 | 0.478 | (3) | 6,480,000 | 6,480,000 | 0.77 |
| | 18/12/2015 | 18/12/2015–31/12/2019 | 0.460 | (2) & (3) | 4,800,000 | 4,800,000 | 0.57 |
| Law Ka Kin Eugene | 18/12/2015 | 18/12/2015–31/12/2019 | 0.460 | (2) & (3) | 4,800,000 | 4,800,000 | 0.57 |
| Ng Hin Sing Derek | 2/9/2014 | 2/9/2014–31/8/2018 | 0.478 | (3) | 5,184,000 | 5,184,000 | 0.62 |
| | 18/12/2015 | 18/12/2015–31/12/2019 | 0.460 | (2) & (3) | 4,800,000 | 4,800,000 | 0.57 |
| | | | | | 40,544,000 | 40,544,000 | 4.83 |

Notes:

(1) Mr Kwan Pak Hoo Bankee is also the substantial Shareholder of the Company.

(2) The options are vested in 4 tranches as to 25% each exercisable from 18 December 2015 (the date of grant), 1 January 2017, 1 January 2018 and 1 January 2019 respectively and is subject to the vesting conditions as set out in (4) below.

(3) The vesting of the options is subject to the achievement of agreed milestones/performance indicators as determined at the sole discretion of the Board. The options must be exercised within one month from the date on which the Board's approval of the vesting of the options.

(4) No option was granted, exercised, lapsed or cancelled during the year.

(5) The options were held by the Directors in the capacity of beneficial owners.

## B. Associated corporations (within the meaning of SFO)

**CFSG**

*(a) Long positions in the ordinary shares of HK$0.02 each*

| Name | Capacity | Number of shares Corporate interest | Shareholding (%) |
|---|---|---|---|
| Kwan Pak Hoo Bankee | Interest in a controlled corporation | 1,667,821,069* | 40.34 |

* The shares were held by CIGL, a wholly-owned subsidiary of Praise Joy Limited (which was 100% beneficially owned by the Company). The Company was beneficially owned as to approximately 34.41% by Mr Kwan Pak Hoo Bankee, details of which were disclosed in the "Substantial Shareholders" below. Pursuant to the SFO, Mr Kwan Pak Hoo Bankee was deemed to be interested in all the shares held by CIGL in CFSG.

*(b) Long positions in the underlying shares – options under share option scheme*

| | | | | | Number of options | | |
|---|---|---|---|---|---|---|---|
| Name | Date of grant | Option period | Exercise price per share (HK$) | Notes | outstanding as at 1 January 2016 | outstanding as at 31 December 2016 | Percentage to issued shares as at 31 December 2016 (%) |
| Kwan Pak Hoo Bankee | 3/12/2015 | 3/12/2015–31/12/2019 | 0.315 | (1) | 40,000,000 | 40,000,000 | 0.96 |
| Law Ping Wah Bernard | 3/12/2015 | 3/12/2015–31/12/2019 | 0.315 | (1) | 40,000,000 | 40,000,000 | 0.96 |
| Law Ka Kin Eugene | 3/12/2015 | 3/12/2015–31/12/2019 | 0.315 | (1) | 20,000,000 | 20,000,000 | 0.48 |
| Ng Hin Sing Derek | 3/12/2015 | 3/12/2015–31/12/2019 | 0.315 | (1) | 16,000,000 | 16,000,000 | 0.38 |
| | | | | | 116,000,000 | 116,000,000 | 2.78 |

Notes:

(1) The options are vested in 4 tranches as to 25% each exercisable from 3 December 2015 (the date of grant), 1 January 2017, 1 January 2018 and 1 January 2019 respectively, and is subject to the achievement of agreed milestones/performance indicators as determined at the sole discretion of the CFSG Board. The options must be exercised within one month from the date on which the CFSG Board's approval of the vesting of the options.

(2) No option was granted, exercised, lapsed or cancelled during the year.

(3) The options were held by the Directors in the capacity of beneficial owners.

Save as disclosed above, as at 31 December 2016, none of the Directors, chief executive or their associates had any interests and short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## THE SHARE OPTION SCHEMES

### (A) The Company

The Share Option Scheme was adopted pursuant to an ordinary resolution passed at an AGM held on 21 May 2012. Particulars of the terms of the Share Option Scheme are set out in note 40(A) to the consolidated financial statements.

Details of the movements in the share options to subscribe for the Shares granted under the Share Options Scheme during the year are set out below:

| | | | | | Number of options | | |
|---|---|---|---|---|---|---|---|
| **Name of scheme** | **Date of grant** | **Option period** | **Exercise price per share** (HK$) | **Notes** | **outstanding as at 1 January 2016** | **lapsed during the year** (Note (6)) | **outstanding as at 31 December 2016** |
| **Directors** | | | | | | | |
| The Share Option Scheme | 2/9/2014 | 2/9/2014–31/8/2018 | 0.478 | (1) | 18,144,000 | — | 18,144,000 |
| | 18/12/2015 | 18/12/2015–31/12/2019 | 0.460 | (1) | 22,400,000 | — | 22,400,000 |
| | | | | | 40,544,000 | — | 40,544,000 |
| **Employees and consultants** | | | | | | | |
| The Share Option Scheme | 2/9/2014 | 2/9/2014–31/8/2018 | 0.478 | (2) & (4) | 22,548,000 | (2,460,000) | 20,088,000 |
| | 18/12/2015 | 18/12/2015–31/12/2019 | 0.460 | (3) & (4) | 26,200,000 | — | 26,200,000 |
| | 18/12/2015 | 18/12/2015–31/12/2019 | 0.460 | (5) | 6,800,000 | — | 6,800,000 |
| | | | | | 55,548,000 | (2,460,000) | 53,088,000 |
| | | | | | 96,092,000 | (2,460,000) | 93,632,000 |

Notes:

(1) Details of the options granted to the directors are set out in the section headed "Directors' Interests in Securities".

(2) The options are vested in 4 tranches period as to 25% each exercisable from 2 September 2014 (the date of grant), 1 September 2015, 1 September 2016 and 1 September 2017 respectively and is subject to the vesting conditions as set out in (4) below.

(3) The options are vested in 4 tranches period as to 25% each exercisable from 18 December 2015 (the date of grant), 1 January 2017, 1 January 2018 and 1 January 2019 respectively and is subject to the vesting conditions as set out in (4) below.

(4) The vesting conditions of the options is the achievement of agreed milestones/performance indicators as determined at the sole discretion of the Board. The options must be exercised within one month from the date on which the Board's approval of the vesting of the options.

(5) The options must be exercised within one month from the date on which the Board's approval of the vesting of the options and upon satisfactory delivery of services.

(6) The lapsed options were due to cessation of employment of participants with members of the Group.

(7) No option was granted, exercised or cancelled during the year.

### (B) The subsidiary

#### (i) CFSG

The CFSG Option Scheme was adopted pursuant to an ordinary resolution passed at a special general meeting of CFSG held on 22 February 2008, which took effect on 3 March 2008. Particulars of the terms of the CFSG Option Scheme are set out in note 40(B) to the consolidated financial statements.

Details of the movements in the share options to subscribe for shares of HK$0.02 each in CFSG granted under the CFSG Option Scheme during the year are set out below:

| | | | | | Number of options | |
|---|---|---|---|---|---|---|
| **Name of scheme** | **Date of grant** | **Option period** | **Exercise price per share** (HK$) | **Notes** | **outstanding as at 1 January 2016** | **outstanding as at 31 December 2016** |
| **Directors** | | | | | | |
| CFSG Option Scheme | 3/12/2015 | 3/12/2015–31/12/2019 | 0.315 | (1) | 116,000,000 | 116,000,000 |
| **Employees and consultants** | | | | | | |
| CFSG Option Scheme | 3/12/2015 | 3/12/2015–31/12/2019 | 0.315 | (2) & (3) | 192,000,000 | 192,000,000 |
| | 3/12/2015 | 3/12/2015–31/12/2019 | 0.315 | (4) | 30,000,000 | 30,000,000 |
| | | | | | 222,000,000 | 222,000,000 |
| | | | | | 338,000,000 | 338,000,000 |

Notes:

(1) Details of the options granted to the Directors are set out in the section headed "Directors' interests in securities" above.

(2) The options are vested in 4 tranches as to 25% each exercisable from 3 December 2015 (the date of grant), 1 January 2017, 1 January 2018 and 1 January 2019 respectively and is subject to the vesting conditions as set out in (3) below.

(3) The vesting of the options is subject to the achievement of agreed milestones/performance indicators as determined at the sole discretion of the CFSG Board. The options must be exercised within one month from the date on which the CFSG Board's approval of the vesting of the options.

(4) The options must be exercised within one month from the date on which the CFSG Board's approval of the vesting of the options and upon satisfactory delivery of services.

(5) No option was granted, exercised, lapsed or cancelled during the year.

#### (ii) Netfield

The share option scheme of Netfield was adopted on 6 June 2008. Particulars of the terms of the share option scheme of Netfield are set out in note 40(C) to the consolidated financial statements. No option has been granted under the share option scheme of Netfield since the adoption of the scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, so far as is known to the Directors and chief executive of the Company, the persons/companies (other than a Director or chief executive of the Company) who had, or were deemed or taken to have an interest or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

| **Name** | **Capacity** | **Number of Shares** | **Shareholding** (%) |
|---|---|---|---|
| Hobart Assets Limited (Notes (1) & (2)) | Interest in a controlled corporation | 281,767,807 | 33.89 |
| Cash Guardian (Notes (1) & (2)) | Interest in a controlled corporation | 281,767,807 | 33.89 |
| Mr Wang Shui Ming (Note (3)) | Beneficial owner, interest in a controlled corporation and other interest | 77,404,926 | 9.31 |

Notes:

(1) This refers to the same number of the Shares held by Cash Guardian, a wholly-owned subsidiary of Hobart Assets Limited, which in turn was 100% beneficially owned by Mr Kwan Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan Pak Hoo Bankee and Hobart Assets Limited were deemed to be interested in the Shares held by Cash Guardian.

(2) Mr Kwan Pak Hoo Bankee (a Director whose interests is not shown in the above table) was interested and/or deemed be interested in a total of 286,027,807 Shares (34.41%), which were held as to 281,767,807 Shares by Cash Guardian and as to 4,260,000 Shares in his personal name. Detail of his interest is set out in the section "Directors Interests in Securities" above.

(3) The Shares were held as to 19,631,226 in his personal name, as to 42,114,150 held by Mingtak Holdings Limited (a 100%-owned controlled corporation of Mr Wang), and 15,659,550 held by him as nominee under a power of attorney. Pursuant to the SFO, Mr Wang was deemed to be interested in all these Shares.

Save as disclosed above, as at 31 December 2016, the Directors and chief executive of the Company were not aware of any other parties or corporation (other than a Director or chief executive of the Company) who had, or were deemed or taken to have, any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of not less than 25% of its Shares in the hands of the public in accordance with the Listing Rules as at the latest practicable date prior to the issue of this annual report.

# DIRECTORS' REPORT

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2016.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the Directors is currently in force and was in force throughout the financial year.

## DONATIONS

During the year, the Group made charitable donations amounted to approximately HK$563,600.

## CONFIRMATION OF INDEPENDENCE

The Company has received a written confirmation in respect of independence from each of the INEDs in compliance with rule 3.13 of the Listing Rules, and the Company still considers that each of them to be independent.

## AUDITOR

There have been no changes of auditor in the preceding three years.

The consolidated financial statements of the Company for the year were audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
**Bankee P. Kwan, JP**
*Chairman & CEO*

Hong Kong, 24 March 2017

# Independent Auditor's Report

Deloitte. 德勤

**TO THE MEMBERS OF CELESTIAL ASIA SECURITIES HOLDINGS LIMITED**
*(incorporated in Bermuda with limited liability)*

**Opinion**

We have audited the consolidated financial statements of Celestial Asia Securities Holdings Limited ("Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 70 to 162, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 disclosure requirements of the Hong Kong Companies Ordinance.

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("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.

100 Making another century of impact
德勤百年慶 開創新紀元

# Independent Auditor's Report (continued)

**Key Audit Matters**

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Control over CASH Financial Services Group Limited ("CFSG")* | |
| We identified the control over CFSG as a key audit matter due to the critical accounting judgement of determining the continuous control over CFSG as a subsidiary of the Group under HKFRS 10 by considering the three elements of control since the Group's shareholding in CFSG was approximately 40.34% and remained unchanged throughout the year ended 31 December 2016. Judgement is made on the basis of all the relevant facts and circumstances, including the Group's dominant voting interest relative to the size and dispersion of holdings compared to the other vote holders, participation rates of shareholders and voting patterns in previous shareholders' meetings to determine whether the Group has practical ability to direct the relevant activities of CFSG unilaterally and also control over CFSG.<br><br>Details of the control over CFSG are set out in notes 4 and 45 to the consolidated financial statements respectively. | Our procedures in relation to control over CFSG included:<br><br>• examining the broker statement to check the Group's shareholding in CFSG;<br><br>• checking, on a sample basis, using the Central Clearing and Settlement System the shareholdings of vote holders other than the Group;<br><br>• examining the voting results in the shareholders' meetings of CFSG conducted during the year ended 31 December 2016; and<br><br>• challenging and assessing management's judgement in applying HKFRS 10 to CFSG by considering the three elements of control and the conclusion about whether or not the consolidation criteria is met. |
| *Revenue recognition on sales of furniture and household goods and electrical appliances* | |
| We identified revenue recognition on sales of furniture and household goods and electrical appliances as a key audit matter as it is quantitatively significant to the consolidated statement of profit or loss and other comprehensive income. In addition, due to the significant volume of transactions and the heavy reliance on the supporting computer systems, minor errors could, in aggregate, have a material impact on the consolidated financial statements<br><br>Revenue from sales of furniture and household goods and electrical appliances for the current year amounting to HK$1,440,493,000 as set out in note 5 to the consolidated financial statements. | Our procedures in relation to revenue recognition on sales of furniture and household goods and electrical appliances included:<br><br>• understanding the revenue business process of the Group regarding the retailing segment;<br><br>• testing key controls on the recognition of sales of furniture and household goods and electrical appliances;<br><br>• assessing general automated controls surrounding major technology applications and critical interfaces of computer systems related to the sales of furniture and household goods and electrical appliances and testing the completeness and accuracy of information captured; and<br><br>• using regression analysis techniques based on historical data on sales and cost of sales to perform substantive analytical procedures on revenue. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Allowance for individual impairment losses on accounts receivable from clients arising from the business of dealing in securities* | |
| We identified the allowance for individual impairment losses on accounts receivable from clients arising from the business of dealing in securities as a key audit matter due to the significance of accounts receivable from clients arising from the business of dealing in securities amounting to HK$275,607,000 as at 31 December 2016, the significant judgement in determining whether objective evidence of impairment exists and the related estimation uncertainty in the measurement of individual impairment losses.<br><br>The accounts receivable from clients arising from the business of dealing in securities which give rise to the greatest estimation uncertainty are typically those with exposures that are not fully secured or are subject to potential cash flows or collateral shortfalls. For further details, we refer to the disclosure of estimation uncertainty in note 4 to the consolidated financial statements and credit quality and credit risk in notes 24 and 39 to the consolidated financial statements respectively. | Our procedures in relation to allowance for individual impairment losses on accounts receivable from clients arising from the business of dealing in securities included:<br><br>• understanding through enquiry with the management the established policies and procedures on credit risk management of the Group and assessing and evaluating the process with respect to identification of accounts receivable from clients with indicators of impairment and the measurement of the impairment allowance;<br><br>• examining whether the master client agreements contain the right to dispose the securities collateral for settlement of clients' obligations;<br><br>• checking, on a sample basis, the existence and accuracy of the recoverable amount of the securities collateral, to supporting documents and with reference to closing market price;<br><br>• checking, on a sample basis, the calculation of the shortfall of accounts receivable from clients after deduction of the recoverable amount of the securities collateral; and<br><br>• assessing the sufficiency of the impairment loss recognised with respect to the above shortfall, after taking into account other factors like credit worthiness and past collection history. |

## Other Information

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

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

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

# Independent Auditor's Report (continued)

**Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

# Independent Auditor's Report (continued)

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lui Chi Wang, Andrew Robert.

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

24 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

| | Notes | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **1,592,971** | 1,634,613 |
| Cost of inventories | 13 | **(821,073)** | (791,344) |
| Other income | 7 | **11,561** | 9,867 |
| Other gains and losses | 8 | **71,349** | 175,367 |
| Salaries, allowances and related benefits | 9 | **(275,572)** | (334,390) |
| Commission expense | | **(51,373)** | (85,163) |
| Other operating, administrative and selling expenses | | **(521,853)** | (527,752) |
| Depreciation of property and equipment | 16 | **(35,644)** | (39,616) |
| Finance costs | 10 | **(11,545)** | (15,775) |
| Fair value change on investment properties | 17 | **(13,593)** | 155 |
| Share of results of an associate | 21 | **—** | 95 |
| **(Loss) profit before taxation** | | **(54,772)** | 26,057 |
| Income tax expense | 12 | **(4,395)** | (7,852) |
| **(Loss) profit for the year** | 13 | **(59,167)** | 18,205 |
| **Other comprehensive income (expense) for the year, net of income tax** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference on translation of foreign operations | | **1,591** | (5,179) |
| **Total comprehensive (expense) income for the year** | | **(57,576)** | 13,026 |
| **(Loss) profit for the year attributable to:** | | | |
| Owners of the Company | | **(31,139)** | 15,229 |
| Non-controlling interests | | **(28,028)** | 2,976 |
| | | **(59,167)** | 18,205 |
| **Total comprehensive (expense) income for the year attributable to:** | | | |
| Owners of the Company | | **(28,833)** | 12,245 |
| Non-controlling interests | | **(28,743)** | 781 |
| | | **(57,576)** | 13,026 |
| **(Loss) earnings per share** | 14 | | |
| Basic (HK cents) | | **(3.75)** | 2.03 |
| Diluted (HK cents) | | **(3.75)** | 2.00 |

# Consolidated Statement of Financial Position

At 31 December 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property and equipment | 16 | **63,911** | 83,751 |
| Investment properties | 17 | **16,508** | 188,583 |
| Goodwill | 18 | **60,049** | 60,049 |
| Intangible assets | 19 | **53,212** | 53,212 |
| Available-for-sale financial assets | 22 | **8,415** | 8,415 |
| Rental and utilities deposits | | **43,138** | 32,963 |
| Other assets | 23 | **5,039** | 5,039 |
| Deferred tax assets | 12 | **5,550** | 6,200 |
| | | **255,822** | 438,212 |
| **Current assets** | | | |
| Inventories — finished goods held for sale | | **56,605** | 63,382 |
| Accounts receivable | 24 | **598,612** | 774,449 |
| Loans receivable | 25 | **7,881** | 4,509 |
| Other assets | 23 | **3,528** | 5,240 |
| Prepayments, deposits and other receivables | 26 | **46,496** | 57,130 |
| Tax recoverable | | **1,948** | 29 |
| Investments held for trading | 27 | **33,317** | 68,871 |
| Financial assets designated at fair value through profit or loss | 28 | **—** | 13,161 |
| Bank deposits subject to conditions | 29 | **66,601** | 44,000 |
| Bank balances — trust and segregated accounts | 26 | **819,803** | 946,810 |
| Bank balances (general accounts) and cash | 26 | **629,553** | 636,632 |
| | | **2,264,344** | 2,614,213 |
| **Current liabilities** | | | |
| Accounts payable | 30 | **1,168,913** | 1,638,408 |
| Accrued liabilities and other payables | 31 | **168,064** | 156,975 |
| Taxation payable | | **14,968** | 21,513 |
| Obligations under finance leases — amount due within one year | 32 | **407** | 396 |
| Financial liabilities designated at fair value through profit or loss | 28 | **—** | 13,161 |
| Borrowings — amount due within one year | 33 | **395,055** | 318,571 |
| | | **1,747,407** | 2,149,024 |
| **Net current assets** | | **516,937** | 465,189 |
| **Total assets less current liabilities** | | **772,759** | 903,401 |

# Consolidated Statement of Financial Position (continued)

At 31 December 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 34 | **83,122** | 83,122 |
| Reserves | | **378,798** | 406,777 |
| Equity attributable to owners of the Company | | **461,920** | 489,899 |
| Non-controlling interests | 35 | **293,270** | 322,013 |
| **Total equity** | | **755,190** | 811,912 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 12 | **6,689** | 12,435 |
| Obligations under finance leases — amount due after one year | 32 | **235** | 642 |
| Borrowings — amount due after one year | 33 | **10,645** | 78,412 |
| | | **17,569** | 91,489 |
| | | **772,759** | 903,401 |

The consolidated financial statements on pages 70 to 162 were approved and authorised for issue by the board of directors on 24 March 2017 and are signed on its behalf by:

**KWAN PAK HOO BANKEE**
*DIRECTOR*

**LAW PING WAH BERNARD**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital HK$'000 | Share premium HK$'000 (Note (a)) | Contributed surplus HK$'000 (Notes (b)&(c)) | General reserve HK$'000 | Other reserve HK$'000 (Note (d)) | Translation reserve HK$'000 | Share option reserve HK$'000 | Revaluation reserve HK$'000 (Note (e)) | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 (Note 38) | Total HK$'000 |
| At 1 January 2015 | | 55,415 | 510,677 | 88,926 | 1,160 | 59,110 | 12,390 | 3,604 | 11,164 | (375,820) | 366,626 | 324,926 | 691,552 |
| Profit for the year | | — | — | — | — | — | — | — | — | 15,229 | 15,229 | 2,976 | 18,205 |
| Other comprehensive expense for the year | | — | — | — | — | — | (2,984) | — | — | — | (2,984) | (2,195) | (5,179) |
| Total comprehensive (expense) income for the year | | — | — | — | — | — | (2,984) | — | — | 15,229 | 12,245 | 781 | 13,026 |
| Recognition of equity-settled share-based payments | 40 | — | — | — | — | — | — | 854 | — | — | 854 | — | 854 |
| Transfer to accumulated losses upon cancellation of CFSG's share options | 40 | — | — | — | — | — | — | — | — | 1,168 | 1,168 | (1,168) | — |
| Issue of new shares | 34 | 27,707 | 83,122 | — | — | — | — | — | — | — | 110,829 | — | 110,829 |
| Transaction costs attributable to issue of new shares | | — | (2,362) | — | — | — | — | — | — | — | (2,362) | — | (2,362) |
| Purchase of non-controlling interest of a non-wholly owned subsidiary of CFSG | 36 | — | — | — | — | — | — | — | — | — | — | (4,855) | (4,855) |
| Change in shareholding in subsidiaries without losing control | (d) | — | — | — | — | 1,709 | — | — | — | — | 1,709 | 4,125 | 5,834 |
| Acquisition on additional interest in CFSG | (d) | — | — | — | — | (1,518) | — | — | — | — | (1,518) | (1,448) | (2,966) |
| Acquisition of a non-wholly owned subsidiary of CFSG | (d) | — | — | — | — | 348 | — | — | — | — | 348 | (348) | — |
| At 31 December 2015 | | 83,122 | 591,437 | 88,926 | 1,160 | 59,649 | 9,406 | 4,458 | 11,164 | (359,423) | 489,899 | 322,013 | 811,912 |
| Loss for the year | | — | — | — | — | — | — | — | — | (31,139) | (31,139) | (28,028) | (59,167) |
| Other comprehensive income (expense) for the year | | — | — | — | — | — | 2,306 | — | — | — | 2,306 | (715) | 1,591 |
| Total comprehensive income (expense) for the year | | — | — | — | — | — | 2,306 | — | — | (31,139) | (28,833) | (28,743) | (57,576) |
| Recognition of equity-settled share-based payments | 40 | — | — | — | — | — | — | 854 | — | — | 854 | — | 854 |
| Effect of lapsed share options | 40 | — | — | — | — | — | — | (280) | — | 280 | — | — | — |
| **At 31 December 2016** | | **83,122** | **591,437** | **88,926** | **1,160** | **59,649** | **11,712** | **5,032** | **11,164** | **(390,282)** | **461,920** | **293,270** | **755,190** |

# Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2016

Notes:

(a) Under the Companies Act 1981 of Bermuda, the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(b) Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contribution surplus, if:

  (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

  (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(c) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation in 1994 and the nominal value of the issued share capital of the Company issued in exchange thereof, and the net amount arising from the reduction of share premium account, capital reduction and the amounts transferred to set-off accumulated losses.

(d) The other reserve of the Group represents the reserve arising from the distribution of shares of CASH Financial Services Group Limited ("CFSG") (formerly known as CASH on-line Limited) in year 2000 and the effect arising from the change in the Group's ownership interest in existing subsidiaries without losing control.

Movement of other reserves in 2015 arose from the effect due to changes in the Group's ownership interests in existing subsidiaries without losing control. Details of change in shareholding in subsidiaries without losing control during the year ended 31 December 2015 are disclosed in note 36.

(e) Revaluation reserve of HK$11,164,000 represented the adjustment to the fair value of trademark (included in the intangible assets) related to previously held interest in an associate when the Group acquired additional interest and obtained control over the associate.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss) profit before taxation | | **(54,772)** | 26,057 |
| Adjustments for: | | | |
| Write back of impaired loans receivable, net | 8 | **–** | (4,519) |
| Allowance for impaired accounts receivable, net | 8 | **1,553** | 1,431 |
| Impairment on other receivables | 8 | **1,632** | – |
| Depreciation of property and equipment | 16 | **35,644** | 39,616 |
| Share-based payments | | **854** | 854 |
| Write-down of inventories | 13 | **4,540** | 6,500 |
| Fair value change on investment properties | 17 | **13,593** | (155) |
| Interest expense | 10 | **11,545** | 15,775 |
| Interest income | | **(18,811)** | (27,116) |
| Dividend income | 7 | **(1,231)** | (1,539) |
| Loss on disposal/written off of property and equipment | 8 | **2,592** | 97 |
| Gain on disposal of a subsidiary | 8 | **(2,623)** | – |
| Gain on disposal of available-for-sale financial assets | 8 | **–** | (14,381) |
| Gain on disposal of an intangible asset | 8 | **–** | (12,094) |
| Share of results of an associate | 21 | **–** | (95) |
| Operating cashflow before movements in working capital | | **(5,484)** | 30,431 |
| Decrease (increase) in inventories | | **2,237** | (13,486) |
| Decrease in other assets | | **1,712** | 1,830 |
| Decrease (increase) in accounts receivable | | **174,284** | (68,021) |
| (Increase) decrease in loans receivable | | **(32)** | 45,249 |
| Increase in prepayments, deposits and other receivables | | **(1,323)** | (5,271) |
| Decrease (increase) in listed investments held for trading | | **35,554** | (24,326) |
| Decrease (increase) in financial assets designated at FVTPL | | **13,161** | (13,161) |
| Decrease (increase) in bank balances – trust and segregated accounts | | **127,007** | (154,693) |
| (Decrease) increase in accounts payable | | **(469,495)** | 351,220 |
| (Decrease) increase in accrued liabilities and other payables | | **(29,956)** | 53,965 |
| Decrease in financial liabilities held for trading | | **–** | (1,055) |
| (Decrease) increase in financial liabilities designated at FVTPL | | **(13,161)** | 13,161 |
| Net cash (used in) from operations | | **(165,496)** | 215,843 |
| Interest income received | | **18,225** | 26,639 |
| Income taxes refunded | | **23** | 1,167 |
| Income taxes paid | | **(14,601)** | (4,991) |
| Net cash (used in) from operating activities | | **(161,849)** | 238,658 |

# Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Interest received | | **426** | 395 |
| Dividend received | | **1,231** | 1,539 |
| Placement of bank deposits subject to conditions | | **(26,601)** | – |
| Refund of bank deposits subject to conditions | | **4,000** | 20,155 |
| Advance of loans receivable | | **(4,000)** | (3,400) |
| Repayment of loans receivable | | **820** | 2,685 |
| Proceeds from disposal of property and equipment | | **48** | – |
| Purchase of property and equipment | | **(24,434)** | (45,349) |
| Net proceeds from disposal of an intangible asset | | **–** | 12,094 |
| Net proceeds from disposal of available-for-sale financial assets | | **–** | 26,997 |
| Proceeds from disposal of an investment property | | **17,103** | 22,961 |
| Capital distributed from an associate | | **–** | 1,529 |
| Deposit received from disposal of subsidiary | 31 | **50,000** | – |
| Net cash outflow from disposal of a subsidiary | 42 | **139,765** | – |
| Net cash from investing activities | | **158,358** | 39,606 |
| **Financing activities** | | | |
| Proceeds on issue of shares of CFSG | 36 | **–** | 5,834 |
| Purchase of non-controlling interest of a non-wholly owned subsidiary of CFSG | 36 | **–** | (4,855) |
| Decrease in bank borrowings for margin financing | | **(14,571)** | (50,156) |
| Drawdown of other bank borrowings | | **635,888** | 513,522 |
| Repayment of other bank borrowings | | **(612,600)** | (476,543) |
| Repayment of other borrowings | | **–** | (16,224) |
| Repayment of obligations under finance leases | | **(396)** | (385) |
| Purchase of additional interests in CFSG | 36 | **–** | (2,966) |
| Interest paid on obligations under finance leases | | **(22)** | (83) |
| Interest paid on borrowings | | **(11,523)** | (15,692) |
| Proceeds on issue of shares of the Company | | **–** | 110,829 |
| Expenses directly attributable to issue of shares | | **–** | (2,362) |
| Net cash (used in) from financing activities | | **(3,224)** | 60,919 |
| Net (decrease) increase in cash and cash equivalents | | **(6,715)** | 339,183 |
| Cash and cash equivalents at beginning of year | | **636,632** | 300,299 |
| Effect of foreign exchange rate changes | | **(364)** | (2,850) |
| Cash and cash equivalents at end of year | | **629,553** | 636,632 |
| Being: | | | |
| Bank balances (general accounts) and cash | | **629,553** | 636,632 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of this annual report.

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 45.

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

**Amendments to HKFRSs that are mandatorily effective for the current year**

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

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | 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 HKFRSs | Annual improvements to HKFRSs 2012–2014 cycle |

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

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

**Amendments to HKAS 1 "Disclosure initiative"**

The Group has applied the amendments to HKAS 1 "Disclosure initiative" for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The Group has applied these amendments retrospectively. Certain disclosure notes are reordered following the order of the line items in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position.

Other than the above disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in the consolidated financial statements.

**New and amendments to HKFRSs in issue but not effective**

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

| | |
|---|---|
| HKFRS 9 | Financial instruments[1] |
| HKFRS 15 | Revenue from contracts with customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| Amendments to HKFRS 2 | Classification and measurement of share-based payment transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[3] |
| Amendments to HKAS 7 | Disclosure initiative[4] |
| Amendments to HKAS 12 | Recognition of deferred tax assets for unrealised losses[4] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2014–2016 cycle[5] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

**HKFRS 9 "Financial instruments"**

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial instruments: Recognition and measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management polices as at 31 December 2016, application of HKFRS 9 in the future may have material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments of carrying amount of HK$8,415,000, which are stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of that effect of HKFRS 9 until the Group performs a detailed review.

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

**HKFRS 15 "Revenue from contracts with customers"**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may not have material impact on the amounts reported. However, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

**HKFRS 16 "Leases"**

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lease accounting, and is replaced a single model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

**HKFRS 16 "Leases" (continued)**

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

Under HKAS 17, the Group has already recognised an asset and a related finance lease lability for finance lease arrangement. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitment of HK$367,980,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company performs a detailed review.

**Amendments to HKAS 7 "Disclosure initiative"**

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as disclosed above, the directors of the Company anticipate that the application of the other amendments to HKFRSs will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. For non-financial assets, the Group takes into account the Group's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another parties that would use the asset in its highest and best use. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

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

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

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

The principal accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation**

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

- has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affect its returns.

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation (continued)**

***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investment in an associate**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost, and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Revenue or income arising from financial services are recognised on the following basis:

- Commission income for broking business is recorded as income on a trade date basis;
- Underwriting commission income, sub-underwriting income and placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed;
- Advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

Revenue from the sale of goods arising from retailing business is recognised when the goods are delivered and titles have passed.

Service income from online game business are recognised when services are provided.

Other interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Leasing**

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

***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Retirement benefit costs**

Payments to defined contribution plans including state-managed benefit scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term employee benefits**

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

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

**Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the amount as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the ending of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation (continued)**

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Property and equipment**

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets**

***Intangible assets acquired separately***

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

***Research and development expenditures***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets (continued)**

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

**Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

***Financial assets***

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on nature and purpose of financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

Income is recognised on an effective interest basis for loans and receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***Financial assets (continued)***

*Financial assets at fair value through profit or loss*

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

A financial asset is classified as held for trading if:

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

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

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

The Group's financial assets at FVTPL comprise investments held for trading and financial assets designated at fair value through profit or loss. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 39.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***Financial assets (continued)***

*AFS financial assets*

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

Dividends on AFS equity instruments are recognised in profit or loss when the Group's rights to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

*Loans and receivables*

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

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

***Impairment of financial assets***

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

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of loans and receivables, such as loans receivable and accounts receivable, amounts that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***Impairment of financial assets (continued)***

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

For financial assets carried at cost, including AFS equity investments carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial assets. Such impairment loss will not be reversed in subsequent periods.

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

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

***Financial liabilities and equity instruments***

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

*Equity instruments*

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

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***Financial liabilities and equity instruments (continued)***

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 39.

*Financial liabilities at amortised cost*

Other financial liabilities (including accounts payable, other payables and borrowings) are subsequently measured at amortised cost using the effective interest method.

*Derivative financial instruments*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)**

***Derecognition***

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

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

**Equity-settled share-based payment transactions**

***Share options granted to employees of the Group for their services to the Group***

The fair value of services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of share options granted at the grant date without taking into account any service and non-market performance vesting conditions. Services and non-market performance vesting conditions are included in assumptions about the number of share options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are cancelled after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Equity-settled share-based payment transactions (continued)**

***Share options granted to employees of the Group for their services to the Group (continued)***

In case of share options granted by a subsidiary, the share option reserve of the subsidiary is classified as and grouped under non-controlling interests by the Group on consolidation. At the time when share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium of that subsidiary. The Group will account for the dilution as an equity transaction in accordance with HKFRS 10 "Consolidated financial statements" if the exercise of share options does not constitute a loss of the Group's control over the subsidiary. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits of the Group and non-controlling interests' share of net assets of that subsidiary according to the proportion of interests held by the Group and non-controlling shareholders on consolidation.

***Share options granted to consultants***

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the counterparty renders the service. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Critical judgements in applying the entity's accounting policies

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

***Control over CFSG***

As disclosed in note 45, CFSG is considered as a subsidiary of the Group although the Group's shareholding in CFSG was approximately 40.34% (2015: varies from 40.10% to 40.71%) during the year ended 31 December 2016. The directors of the Company assessed whether the Group has control over CFSG based on whether the Group has the practical ability to direct the relevant activities of CFSG unilaterally. In making their judgement, the directors of the Company considered the Group's dominant voting interest relative to the size and dispersion of holdings of the other vote holders and participation rates of shareholders and voting patterns in previous shareholders' meetings and concluded that the Group has control over CFSG despite its voting rights has been less than 50% and that CFSG qualified as a subsidiary of the Group under HKFRS 10 for the year ended 31 December 2016 and 2015.

On 8 September 2016, the Group entered into a sale and purchase agreement with an independent third party ("Offeror") pursuant to which the Group agreed to sell 36.28% equity interest in CFSG ("Disposal") for a total consideration of HK$765,000,000. Details for the Disposal are set out in the announcements issued by the Company on 14 September 2016, 23 September 2016, 30 December 2016, 23 January 2017 and 1 March 2017 (collectively, the "Announcements") and the circular issued by the Company on 12 October 2016 ("Circular"). The completion of the sale and purchase agreement is conditional upon fulfilling or waiving all the conditions as set out in the Announcements and Circular. Up to the date of approval for issuance of the consolidated financial statements, the Disposal is not completed as certain preceding conditions are not met. Accordingly, the Group does not consider that it has lost control over CFSG and continues to consolidate CFSG as a subsidiary under HKFRS 10 during the year ended 31 December 2016.

### Key sources of estimation uncertainty

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

***Allowance for impairment of accounts receivable and loans receivable***

The policy for allowance for impairment of accounts receivable and loans receivable of the Group is based on the evaluation of collectability, aging analysis of accounts, the values of underlying collateral and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of those clients in default of settlement. If the financial conditions of debtors and their ability to make payments worsen, additional allowance may be required. As at 31 December 2016, the aggregate carrying amount of accounts receivable and loans receivable, net of allowance for impairment, are HK$598,612,000 and HK$7,881,000 (2015: HK$774,449,000 and HK$4,509,000) respectively.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

**Key sources of estimation uncertainty (continued)**

***Income taxes***

No deferred tax asset was recognised in the Group's consolidated statement of financial position in relation to the remaining deductible temporary differences and estimated unused tax losses of approximately HK$51,474,000 and HK$872,028,000 respectively (2015: HK$48,311,000 and HK$844,586,000) due to the unpredictability of future profit streams of the relevant subsidiaries and the Company. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are different to expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, future recognition of deferred tax assets in relation to deductible temporary differences and unutilised tax losses may arise, which would be recognised in profit or loss for the period in which such a recognition takes place.

***Estimated impairment of goodwill and intangible assets with indefinite life***

Determining whether goodwill and intangible assets with indefinite life is impaired requires an estimation of recoverable amounts of relevant intangible assets and the respective cash generating units ("CGU") in which the goodwill and intangible assets with indefinite life have been allocated, which is the higher of value in use and fair value less costs of disposal. If there is any indication that an asset may be impaired, recoverable amount shall be estimated for individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the CGU to which the asset belongs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the assets or CGU and a suitable discount rate in order to calculate the present value. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset or CGU for which the future cash flow estimates have not been adjusted. Where the actual future cash flows are less than expected or there is a downward revision of future estimated cash flows due to unfavourable changes in facts and circumstances, a material impairment loss may arise. Details of the recoverable amount calculation of assets or CGU are disclosed in note 20.

## 5. REVENUE

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| An analysis of the Group's revenue for the year is as follows: | | |
| Fee and commission income | **131,691** | 217,258 |
| Interest income — financial services | **18,225** | 26,639 |
| Sales of furniture and household goods and electrical appliances, net of discounts and returns | **1,440,493** | 1,390,312 |
| Online game subscription income and licensing income | **2,562** | 404 |
| | **1,592,971** | 1,634,613 |

## 6. SEGMENT INFORMATION

**Segment information**

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's operating and reportable segments are as follows:

| | |
|---|---|
| Financial services | Broking, financing, corporate finance services and securities trading |
| Retailing | Sales of furniture and household goods and electrical appliances |
| Online game services | Provision of online game services, sales of online game auxiliary products and licensing services |

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by operating and reportable segment:

***For the year ended 31 December 2016***

| | Financial services HK$'000 | Retailing HK$'000 | Online game services HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue | 149,916 | 1,440,493 | 2,562 | 1,592,971 |
| Segment (loss) profit | (67,262) | 34,475 | (1,996) | (34,783) |
| Unallocated other income | | | | 618 |
| Corporate expenses | | | | (9,615) |
| Gain on disposal of a subsidiary | | | | 2,623 |
| Fair value change on investment properties | | | | (13,593) |
| Unallocated finance costs | | | | (22) |
| Loss before taxation | | | | (54,772) |

## 6. SEGMENT INFORMATION (continued)

**Segment revenue and results (continued)**

*For the year ended 31 December 2015*

| | Financial services HK$'000 | Retailing HK$'000 | Online game services HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Revenue | 243,897 | 1,390,312 | 404 | 1,634,613 |
| Segment profit (loss) | 18,368 | 32,743 | (2,269) | 48,842 |
| Unallocated other income | | | | 605 |
| Corporate expenses | | | | (46,813) |
| Gain on disposal of available-for-sale financial assets | | | | 14,381 |
| Gain on disposal of an intangible asset | | | | 12,094 |
| Fair value change on investment properties | | | | 155 |
| Share of results of an associate | | | | 95 |
| Unallocated finance costs | | | | (3,302) |
| Profit before taxation | | | | 26,057 |

All the segment revenue is derived from external customers.

Segment result represents the loss incurred/profit earned by each segment without allocation of certain other income, corporate expenses, gain on disposal of a subsidiary, gain on disposal of available-for-sale financial assets, gain on disposal of an intangible asset, fair value change on investment properties, share of results of an associate and certain finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

## 6. SEGMENT INFORMATION (continued)

**Segment assets and liabilities**

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

***As at 31 December 2016***

| | Financial services HK$'000 | Retailing HK$'000 | Online game services HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Segment assets | 1,925,990 | 491,309 | 2,140 | 2,419,439 |
| Investment properties | | | | 16,508 |
| Unallocated property and equipment | | | | 206 |
| Available-for-sale financial assets | | | | 8,415 |
| Tax recoverable | | | | 1,948 |
| Deferred tax assets | | | | 5,550 |
| Unallocated prepayments, deposits and other receivables | | | | 9,921 |
| Unallocated bank balances and cash | | | | 58,179 |
| Total assets | | | | 2,520,166 |
| LIABILITIES | | | | |
| Segment liabilities | 1,227,805 | 450,589 | 3,539 | 1,681,933 |
| Unallocated accrued liabilities and other payables | | | | 60,744 |
| Taxation payable | | | | 14,968 |
| Deferred tax liabilities | | | | 6,689 |
| Obligations under finance leases | | | | 642 |
| Total liabilities | | | | 1,764,976 |

## 6. SEGMENT INFORMATION (continued)

**Segment assets and liabilities (continued)**

*As at 31 December 2015*

| | Financial services HK$'000 | Retailing HK$'000 | Online game services HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Segment assets | 2,350,955 | 475,823 | 2,527 | 2,829,305 |
| Investment properties | | | | 188,583 |
| Unallocated property and equipment | | | | 397 |
| Available-for-sale financial assets | | | | 8,415 |
| Tax recoverable | | | | 29 |
| Deferred tax assets | | | | 6,200 |
| Unallocated prepayments, deposits and other receivables | | | | 5,673 |
| Unallocated bank balances and cash | | | | 13,823 |
| Total assets | | | | 3,052,425 |
| LIABILITIES | | | | |
| Segment liabilities | 1,728,899 | 462,106 | 4,021 | 2,195,026 |
| Unallocated accrued liabilities and other payables | | | | 10,501 |
| Taxation payable | | | | 21,513 |
| Deferred tax liabilities | | | | 12,435 |
| Obligations under finance leases | | | | 1,038 |
| Total liabilities | | | | 2,240,513 |

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable and operating segment other than investment properties, certain property and equipment, deferred tax assets, certain prepayments, deposits and other receivables, available-for-sale financial assets and certain bank balances and cash; and

- all liabilities are allocated to reportable and operating segment other than certain accrued liabilities and other payables, taxation payable, obligations under finance leases and deferred tax liabilities.

## 6. SEGMENT INFORMATION (continued)

**Other segment information**

***For the year ended 31 December 2016***

| | **Financial services HK$'000** | **Retailing HK$'000** | **Online game services HK$'000** | **Unallocated HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Additions of property and equipment | **4,770** | **13,640** | **—** | **100** | **18,510** |
| Interest income | **18,302** | **227** | **—** | **282** | **18,811** |
| Depreciation of property and equipment | **12,685** | **22,625** | **43** | **291** | **35,644** |
| Finance costs | **5,231** | **6,292** | **—** | **22** | **11,545** |
| Net gain on investments held for trading | **83,176** | **—** | **—** | **—** | **83,176** |
| Write-down on inventories | **—** | **4,540** | **—** | **—** | **4,540** |
| Loss on disposal/written-off of property and equipment | **662** | **1,930** | **—** | **—** | **2,592** |
| Allowance for impaired accounts receivable, net | **1,553** | **—** | **—** | **—** | **1,553** |
| Impairment on other receivables | **1,632** | **—** | **—** | **—** | **1,632** |

*For the year ended 31 December 2015*

| | Financial services HK$'000 | Retailing HK$'000 | Online game services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Additions of property and equipment | 6,543 | 42,297 | 18 | 172 | 49,030 |
| Interest income | 26,652 | 270 | 6 | 188 | 27,116 |
| Depreciation of property and equipment | 13,457 | 25,413 | 69 | 677 | 39,616 |
| Finance costs | 6,765 | 5,708 | — | 3,302 | 15,775 |
| Net gain on investments held for trading | 158,926 | — | — | — | 158,926 |
| Write-down on inventories | — | 6,500 | — | — | 6,500 |
| Loss on disposal/written-off of property and equipment | — | 97 | — | — | 97 |
| Allowance for impaired accounts receivable, net | 1,431 | — | — | — | 1,431 |
| Write back of impaired loans receivable, net | 4,519 | — | — | — | 4,519 |

## 6. SEGMENT INFORMATION (continued)

**Revenue from major products and services**

The following is an analysis of the Group's revenue from its major products and services:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Brokerage commission from dealing on securities, futures and wealth management products | **117,347** | 189,804 |
| Interest income from margin financing | **18,255** | 26,639 |
| Advisory fee on corporate finance | **14,314** | 27,454 |
| Sales of furniture and household goods | **1,276,098** | 1,209,698 |
| Sales of electrical appliances | **164,395** | 180,614 |
| Income from online game services | **2,562** | 404 |
| | **1,592,971** | 1,634,613 |

**Geographical information**

The Group's operations are located in Hong Kong and the People's Republic of China ("PRC").

The Group's segment revenue from external customers determined based on location of operation and information about its non-current assets (excluding available-for-sale financial assets and deferred tax assets) by geographical location of the assets are detailed below:

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | 2016 HK$'000 | 2015 HK$'000 | 2016 HK$'000 | 2015 HK$'000 |
| Hong Kong | **1,590,386** | 1,634,131 | **224,093** | 389,558 |
| PRC | **2,585** | 482 | **17,764** | 34,039 |
| | **1,592,971** | 1,634,613 | **241,857** | 423,597 |

No customers individually contributed over 10% of the Group's revenue during both years.

## 7. OTHER INCOME

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Dividends from listed investments held for trading | **1,231** | 1,539 |
| Consulting fee income | **512** | 526 |
| Other interest income | **586** | 477 |
| Sundry income | **9,232** | 7,325 |
| | **11,561** | 9,867 |

## 8. OTHER GAINS AND LOSSES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Net gain on investments held for trading | **83,176** | 158,926 |
| Loss on disposal/written off of property and equipment | **(2,592)** | (97) |
| Net foreign exchange loss | **(8,673)** | (13,025) |
| Allowance for impaired accounts receivable, net (Note 24) | **(1,553)** | (1,431) |
| Write back of impaired loans receivable, net (Note 25) | **—** | 4,519 |
| Impairment on other receivables | **(1,632)** | — |
| Gain on disposal of a subsidiary (Note 42) | **2,623** | — |
| Gain on disposal of available-for-sale financial assets (Note 22) | **—** | 14,381 |
| Gain on disposal of an intangible asset (Note) | **—** | 12,094 |
| | **71,349** | 175,367 |

Note: During the year ended 31 December 2015, the Group disposed of trading rights that confer eligibility of the Group to trade on The Chinese Gold & Silver Exchange Society to an independent third party at a consideration of HK$13,000,000. As this intangible asset was fully impaired in previous years, the disposal resulted in a gain of HK$12,094,000, net of transaction cost.

## 9. SALARIES, ALLOWANCES AND RELATED BENEFITS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Salaries, allowances and related benefits represent the amounts paid and payable to the directors of the Company and employees comprises of: | | |
| Salaries and allowances | **228,644** | 290,519 |
| Sales commission | **33,142** | 30,986 |
| Contributions to retirement benefits schemes | **12,932** | 12,031 |
| Share-based payments | **854** | 854 |
| | **275,572** | 334,390 |

## 10. FINANCE COSTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| — Bank overdrafts and borrowings | **11,256** | 15,124 |
| — Finance lease | **22** | 83 |
| — Others | **267** | 568 |
| | **11,545** | 15,775 |

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION

### Directors' and chief executive's remuneration

Directors' and Chief Executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

| | Executive directors | | | | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Kwan Pak Hoo Bankee HK$'000 (Note (1)) | Law Ping Wah Bernard HK$'000 | Law Ka Kin Eugene HK$'000 | Kwok Lai Ling Elaine HK$'000 (Note (2)) | Ng Hin Sing Derek HK$'000 | Leung Ka Kui Johnny HK$'000 | Chan Hak Sin HK$'000 | Wong Chuk Yan HK$'000 | Total HK$'000 |
| **2016** | | | | | | | | | |
| Fee | — | — | — | — | — | 150 | 150 | — | 300 |
| Other remuneration: | | | | | | | | | |
| Salaries and allowances | 1,791 | 1,488 | 2,858 | 764 | 1,470 | — | — | — | 8,371 |
| Performance related bonuses | — | — | 460 | — | 260 | — | — | — | 720 |
| Contributions to retirement benefit scheme | 90 | 74 | 120 | 38 | 77 | — | — | — | 399 |
| Total remuneration | 1,881 | 1,562 | 3,438 | 802 | 1,807 | 150 | 150 | — | 9,790 |

Notes:

(1) Mr Kwan Pak Hoo Bankee is also the Company's chief executive and his remunerations disclosed above include those for services rendered by him as chief executive.

(2) Ms Kwok Lai Ling Elaine was appointed as executive director of the Company on 23 August 2016.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION (continued)

**Directors' and chief executive's remuneration (continued)**

| | Executive directors | | | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|
| | Kwan Pak Hoo Bankee HK$'000 (Note (1)) | Law Ping Wah Bernard HK$'000 | Law Ka Kin Eugene HK$'000 (Note (2)) | Ng Hin Sing Derek HK$'000 | Leung Ka Kui Johnny HK$'000 | Chan Hak Sin HK$'000 | Wong Chuk Yan HK$'000 | Total HK$'000 |
| 2015 | | | | | | | | |
| Fee | — | — | — | — | 150 | 150 | — | 300 |
| Other remuneration: | | | | | | | | |
| Salaries and allowances | 1,560 | 1,320 | 300 | 1,260 | — | — | — | 4,440 |
| Performance related bonuses | 15,000 | — | — | — | — | — | — | 15,000 |
| Contributions to retirement benefit scheme | 78 | 66 | 15 | 63 | — | — | — | 222 |
| Total remuneration | 16,638 | 1,386 | 315 | 1,323 | 150 | 150 | — | 19,962 |

Notes:

(1) Mr Kwan Pak Hoo Bankee is also the Company's chief executive and his remunerations disclosed above include those for services rendered by him as chief executive.

(2) Mr Law Ka Kin Eugene was appointed as executive director of the Company on 2 November 2015.

The emoluments of executive directors were for their services in connection with the management of the affairs of the Company and the Group. The emoluments of independent non-executive directors were mainly for their services as directors of the Company.

During both years, no remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

The performance related bonuses (if any) of executive directors are based on the review and recommendation from the remuneration committee of the Company with reference to the performance in discharging their duties and responsibilities within the Group, the Group's performance and prevailing market situation.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION (continued)

**Employees' remuneration**

The five highest paid employees of the Group during the year included two directors (2015: one director), details of whose remuneration are set out in the disclosures above. Details of the remuneration for the year of the remaining three (2015: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and allowances | **4,110** | 5,160 |
| Contributions to retirement benefit scheme | **282** | 275 |
| Performance related bonuses (Note) | **1,294** | 9,288 |
| | **5,686** | 14,723 |

Note: The performance related bonuses are based on the performance of individuals and market trends.

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

| | **Number of Employees** | |
|---|---|---|
| | **2016** | 2015 |
| HK$1,500,001 to HK$2,000,000 | **2** | 3 |
| HK$2,000,001 to HK$2,500,000 | **1** | — |
| HK$9,000,001 to HK$9,500,000 | **—** | 1 |

## 12. INCOME TAX EXPENSE

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax: | | |
| — Hong Kong Profits Tax | **6,700** | 10,020 |
| Overprovision in prior years | **(586)** | (94) |
| Deferred tax credit, net | **(1,719)** | (2,074) |
| | **4,395** | 7,852 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. No provision for the PRC income tax has been made as they incurred tax losses in both years.

## 12. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| (Loss) profit before taxation | **(54,772)** | 26,057 |
| Tax at domestic income tax rate of 16.5% (2015: 16.5%) | **(9,037)** | 4,299 |
| Tax effect of share of results of an associate | **—** | (16) |
| Overprovision in prior years | **(586)** | (94) |
| Tax effect of expenses not deductible for tax purpose | **14,775** | 3,833 |
| Tax effect of income not taxable for tax purpose | **(13,093)** | (5,336) |
| Tax effect of deductible temporary difference not recognised | **522** | — |
| Tax effect of utilisation of deductible temporary difference previously not recognised | **—** | (72) |
| Tax effect of estimated tax losses not recognised | **14,802** | 11,451 |
| Tax effect of utilisation of estimated tax losses previously not recognised | **(3,274)** | (2,882) |
| Others | **286** | (3,331) |
| Income tax expense | **4,395** | 7,852 |

The following are the major deferred tax assets and liabilities recognised and the movements thereon during the current and prior years:

**Deferred tax assets**

| | **Decelerated tax depreciation** |
|---|---|
| | HK$'000 |
| At 1 January 2015 and 31 December 2015 | 6,200 |
| Charge to profit or loss for the year | (650) |
| **At 31 December 2016** | 5,550 |

## 12. INCOME TAX EXPENSE (continued)

**Deferred tax liabilities**

| | Revaluation of investment properties | Fair value adjustment on intangible assets under business combination | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2015 | (7,860) | (6,649) | (14,509) |
| Credit to profit or loss for the year | 2,074 | — | 2,074 |
| At 31 December 2015 | (5,786) | (6,649) | (12,435) |
| Derecognised on disposal of a subsidiary (Note 42) | 3,377 | — | 3,377 |
| Credit to profit or loss for the year | 2,369 | — | 2,369 |
| **At 31 December 2016** | (40) | (6,649) | (6,689) |

As at 31 December 2016, the Group has deductible temporary differences and estimated unused tax losses of approximately HK$51,474,000 and HK$872,028,000 (2015: HK$48,311,000 and HK$844,586,000) available for offset against future profits, while HK$39,134,000 (2015: HK$88,507,000) of estimated unused tax losses from certain subsidiaries operating in the PRC expired and HK$3,290,000 (2015: nil) was reduced due to disposal of a subsidiary during the year ended 31 December 2016. No deferred tax asset has been recognised as at 31 December 2016 and 31 December 2015 in respect of these deductible temporary differences and estimated unused tax losses as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised, and it is also uncertain whether sufficient future taxable profits will be available in future to offset the amount.

For certain subsidiaries operating in the PRC, unrecognised tax losses of HK$174,682,000 (2015: HK$207,794,000) will expire in various dates up to 2020 (2015: 2019). The remaining unrecognised tax losses of the Group can be carried forward indefinitely.

## 13. (LOSS) PROFIT FOR THE YEAR

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| (Loss) profit for the year has been arrived at after charging: | | |
| Auditor's remuneration | **4,000** | 3,820 |
| Operating lease rentals in respect of land and buildings: | | |
| Minimum lease payments | **254,753** | 251,338 |
| Contingent rents (Note) | **2,203** | 1,722 |
| Handling expenses for securities dealing | **34,916** | 27,419 |
| Advertising and promotion expenses | **36,854** | 43,687 |
| Utilities expenses | **28,231** | 28,667 |
| Telecommunication expenses | **28,533** | 34,873 |
| Legal and professional fees | **25,269** | 23,649 |
| Other selling and distribution expenses | **52,706** | 55,552 |
| Cost of inventories in retailing business | **821,073** | 791,344 |
| Write-down of inventories (included in cost of inventories in retailing business) | **4,540** | 6,500 |

Note: The contingent rents are determined based on certain percentage of the gross sales of the relevant shops when the sales meet certain specified level.

## 14. (LOSS) EARNINGS PER SHARE

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

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| **(Loss) earnings** | | |
| (Loss) earnings for the purpose of basic (loss) earnings per share | **(31,139)** | 15,229 |
| Effect of dilutive potential ordinary shares: | | |
| Decrease in share of profits in CFSG | **—** | (2) |
| (Loss) earnings for the purpose of diluted (loss) earnings per share | **(31,139)** | 15,227 |

| | **2016**<br>**'000** | 2015<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **831,222** | 751,090 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **—** | 11,542 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | **831,222** | 762,632 |

The weighted average number of ordinary shares for the purposes of basic and diluted earnings per share for the years ended 31 December 2015 has been adjusted to reflect the impact of the bonus element of rights issue on 17 September 2015.

The incremental shares from assumed exercise of share options granted by the Company are excluded in calculating the diluted loss per share during the year ended 31 December 2016 because they are antidilutive in calculating the diluted loss per share.

## 15. DIVIDENDS

No dividend was paid or proposed during 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

## 16. PROPERTY AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2015 | 127,261 | 107,437 | 4,237 | 238,935 |
| Additions | 31,937 | 15,693 | 1,400 | 49,030 |
| Disposals/written off | (1,819) | (413) | — | (2,232) |
| Exchange adjustments | (204) | (573) | — | (777) |
| At 31 December 2015 | 157,175 | 122,144 | 5,637 | 284,956 |
| Additions | 10,048 | 8,047 | 415 | 18,510 |
| Disposals/written off | (15,449) | (32,701) | (1,992) | (50,142) |
| Exchange adjustments | (125) | (367) | — | (492) |
| **At 31 December 2016** | 151,649 | 97,123 | 4,060 | 252,832 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | |
| At 1 January 2015 | 86,750 | 74,072 | 3,627 | 164,449 |
| Provided for the year | 26,293 | 12,679 | 644 | 39,616 |
| Eliminated on disposals/written off | (1,819) | (316) | — | (2,135) |
| Exchange adjustments | (202) | (523) | — | (725) |
| At 31 December 2015 | 111,022 | 85,912 | 4,271 | 201,205 |
| Provided for the year | 22,423 | 12,786 | 435 | 35,644 |
| Eliminated on disposals/written off | (13,832) | (31,678) | (1,992) | (47,502) |
| Exchange adjustments | (125) | (301) | — | (426) |
| **At 31 December 2016** | 119,488 | 66,719 | 2,714 | 188,921 |
| **CARRYING AMOUNTS** | | | | |
| **At 31 December 2016** | 32,161 | 30,404 | 1,346 | 63,911 |
| At 31 December 2015 | 46,153 | 36,232 | 1,366 | 83,751 |

The above property and equipment are depreciated on a straight-line basis over the following years:

| | |
|---|---|
| Leasehold improvements | The shorter of the lease terms and 5 years |
| Furniture, fixtures and equipment | 3 to 7 years |
| Motor vehicles | 3 to 5 years |

The carrying amounts of motor vehicles include amounts of approximately HK$972,000 (2015: HK$1,234,000) in respect of assets held under finance leases as at 31 December 2016.

## 17. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2015 | 213,666 |
| Disposal | (22,961) |
| Net decrease in fair value recognised in profit or loss | 155 |
| Exchange adjustments | (2,277) |
| At 31 December 2015 | 188,583 |
| Disposal | (17,103) |
| Net decrease in fair value recognised in profit or loss | (13,593) |
| Disposals arising from disposal of a subsidiary (Note 42) | (140,400) |
| Exchange adjustments | (979) |
| **At 31 December 2016** | 16,508 |
| Unrealised gain (loss) on property revaluation included in fair value change on investment properties: | |
| **For the year ended 31 December 2016** | 1,215 |
| For the year ended 31 December 2015 | (1,726) |

The Group's property interests held under operating leases to earn rental income or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties as at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out on the respective dates by CS Surveyors Limited for Hong Kong property and Peak Vision Appraisals Limited for PRC properties, independent qualified professional valuers not connected to the Group who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group uses market-observable data to the extent it is available. The Group engages third party qualified valuers to perform the valuation. Management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the management's findings to the board of directors of the Company every half year to explain the cause of fluctuations in the fair value of the investment properties.

The fair value of properties, which are all classified as level 3 fair value hierarchy was determined based on the direct comparison approach assuming sale of the property interest in its existing state with the benefit of vacant procession and by making reference to recent comparable sales evidence as available in the relevant market. There was no change on the valuation technique used from the prior year.

## 17. INVESTMENT PROPERTIES (continued)

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| **Investment properties held by the Group** | **Fair value hierarchy** | **Valuation techniques and key inputs** | **Significant unobservable inputs** | **Relationship of unobservable inputs to fair value** |
|---|---|---|---|---|
| **At 31 December 2016 and 2015** | | | | |
| Residential and commercial property units | Level 3 | Direct comparison method based on market observable transactions of the same location and adjust to reflect the conditions of the subject properties<br><br>The key inputs are:<br>(1) Level adjustment<br>(2) View adjustment | Level adjustment on individual floors of the property: 1% (2015: range of 0.4% to 3%)<br><br>View adjustment on the site view of the property: 0% (2015: 3%) | The higher level, the higher the fair value<br><br>The better view, the higher the fair value |

There were no transfers into or out of Level 3 during the both years.

The carrying value of investment properties shown above are situated:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| In Hong Kong | **—** | 155,000 |
| Outside Hong Kong | **16,508** | 33,583 |
| | **16,508** | 188,583 |

## 18. GOODWILL

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2015, 31 December 2015 and 31 December 2016 | 261,707 |
| **IMPAIRMENT** | |
| At 1 January 2015, 31 December 2015 and 31 December 2016 | 201,658 |
| **CARRYING AMOUNTS** | |
| At 31 December 2016 and 31 December 2015 | 60,049 |

The carrying amounts of goodwill allocated to the CGUs are as follows:

| | **2016 & 2015** HK$'000 |
|---|---|
| Financial services | 20,606 |
| Retailing | 39,443 |
| | 60,049 |

Particulars regarding impairment testing on goodwill as at 31 December 2016 and 2015 are disclosed in note 20.

## 19. INTANGIBLE ASSETS

| | Trading rights HK$'000 (Note (a)) | Club debenture HK$'000 (Note (b)) | Online game development costs HK$'000 | Domain name HK$'000 (Note (c)) | Trademarks HK$'000 (Note (d)) | Gaming licences HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2015, 31 December 2015 and 31 December 2016 | 9,392 | 660 | 63,271 | 5,460 | 38,000 | 40,295 | 157,078 |
| **AMORTISATION AND ACCUMULATED IMPAIRMENT** | | | | | | | |
| At 1 January 2015, 31 December 2015 and 31 December 2016 | 300 | — | 63,271 | — | — | 40,295 | 103,866 |
| **CARRYING AMOUNTS** | | | | | | | |
| At 31 December 2016 and 31 December 2015 | 9,092 | 660 | — | 5,460 | 38,000 | — | 53,212 |

Notes:

(a) At 31 December 2016, intangible assets amounting to HK$9,092,000 (2015: HK$9,092,000) represent trading rights that confer eligibility of the Group to trade on the Stock Exchange and the Hong Kong Futures Exchange. The trading rights have no foreseeable limit to the period over which the Group can use to generate net cash flows. As a result, the trading rights is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trading right will not be amortised until its useful life is determined to be finite. Instead these will be tested for impairment annually and whenever there is an indication that they may be impaired.

(b) At 31 December 2016, intangible assets amounting to HK$660,000 (2015: HK$660,000) represent club debenture. The management of the Group determined that there was no impairment of the club debenture and the amount is recoverable.

(c) At 31 December 2016, intangible assets with carrying amounts of HK$5,460,000 (2015: HK$5,460,000) represent domain name. It represents the legal and beneficial ownership of domain name "www.shanghai.com" and has indefinite useful life. The domain name is considered by management of the Group as having an indefinite useful life because it is expected to be used indefinitely. The domain name will not be amortised until its useful life is determined to be finite, instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing on domain name at 31 December 2016 and 2015, the recoverable amount has been determined based on fair value less costs of disposal. The fair value less costs of disposal is arrived at by market approach, with reference to the desirability of the domain name through recent sales or offering of similar domain name currently on the market in order to arrive at an indication of the most probable selling price for the domain name. The fair value less costs of disposal at 31 December 2016 and 2015 was supported by a valuation carried out by Peak Vision Appraisals Limited, an independent qualified professional valuer not connected with the Group.

(d) At 31 December 2016, trademark amounting to HK$38,000,000 (2015: HK$38,000,000) represents the perpetual right for the use of the brand name 'Pricerite' in Hong Kong which takes the form of a sign, symbol, name, logo design or any combination thereof arising from acquisition of retail business. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars regarding impairment testing on trademark are disclosed in note 20.

## 20. IMPAIRMENT ASSESSMENT ON GOODWILL AND INTANGIBLE ASSETS

For the purpose of impairment testing, goodwill, trading rights and trademarks set out in notes 18 and 19 have been allocated to the following CGUs respectively. The carrying amount of goodwill, trading rights and trademarks as at 31 December 2016 and 2015 allocated to these units are as follows:

| | **Goodwill 2016 & 2015** | **Trading rights 2016 & 2015** | **Trademarks 2016 & 2015** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Financial services | 20,606 | 9,092 | — |
| Retailing | 39,443 | — | 38,000 |
| | 60,049 | 9,092 | 38,000 |

**Financial services CGU**

Goodwill of HK$20,606,000 (2015: HK$20,606,000) and trading rights of HK$9,092,000 (2015: HK$9,092,000) are allocated to CGU of broking of securities. The recoverable amount of the CGU of broking of securities as at 31 December 2016 has been determined by reference to a fair value less cost of disposal calculation. The fair value is determined based on the consideration of HK$765,000,000 of the Disposal as disclosed in note 4 in which the fair value measurement is categorised as Level 2. No impairment on this CGU is made for the year ended 31 December 2016.

The recoverable amount of the CGU of broking of securities as at 31 December 2015 had been determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management of the Group covering a one-year period, and discount rate of 8%. The cash flows beyond the one-year period were extrapolated for two years using a zero growth rate. The zero growth rate was determined by reference to management's expectations for the Group's development. No impairment on this CGU was made for the year ended 31 December 2015 as the recoverable amount exceeded the carrying amount.

**Retailing CGU**

Goodwill of HK$39,443,000 (2015: HK$39,443,000) and trademark of HK$38,000,000 (2015: HK$38,000,000) are allocated to CGU of retailing business in Hong Kong. The recoverable amount of the CGU of retailing business has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management of the Group covering a five-year period having an annual growth rate of 3% and discount rate of 12% (2015: five-year period, annual growth rate of 8% and discount rate of 11%) and projection of terminal value using the perpetuity method at a growth rate of 3% (2015: 4%). A key assumption for the value in use calculation is the budgeted growth rate, which is determined based on past performance and management's expectations for the market development in Hong Kong. No impairment on this CGU is made for both years as the recoverable amount exceeded the carrying amount. Management of the Group believes that any reasonably possible change in any of the assumptions would not cause the carrying amount of the above CGU to exceed the recoverable amount of the above CGU.

## 21. INTEREST IN AN ASSOCIATE

| | **2015** |
|---|---|
| | HK$'000 |
| Cost of investment in an associate | |
| Unlisted shares | 1,434 |
| Share of post-acquisition profits and other comprehensive income | 95 |
| | 1,529 |
| Capital distribution from associate | (1,529) |
| | — |

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted investments | | |
| — equity securities (at cost) | **8,415** | 8,415 |

At 31 December 2016 and 31 December 2015, the unlisted investment represents equity interest in Infinity Investment Holding Group ("Infinity Holding").

Infinity Equity Management Company Limited ("Infinity") is a private entity incorporated in Hong Kong and is engaged in the business of venture capital and private equity management in PRC. At the date of acquisition of Infinity in 2013, the Group obtained 20% equity interest in Infinity and the Group signed an agreement with Infinity under which the Group surrendered its rights to vote at both meetings of shareholders and directors relating to financial and operating decisions of Infinity. The directors of the Company consider that the Group does not have significant influence on Infinity as the board of directors of Infinity. In December 2013, the Group's equity interest was diluted to 18% as a result of capital injection from a new third party investor to Infinity. On 3 February 2015, the 18% shareholding in Infinity was swapped into shares of Infinity Holding, a company incorporated in Cayman Islands and is the new holding company of Infinity pursuant to a group restructuring. The Group's equity interest in Infinity Holding dropped to 7.2% as a result of disposal of 10.8% equity interest in Infinity Holding at a consideration of HK$26,997,000, resulting in a gain on disposal of HK$14,381,000 for the year ended 31 December 2015.

The unlisted investment is measured at cost at 31 December 2016 and 31 December 2015 because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that fair value cannot be measured reliably.

## 23. OTHER ASSETS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Statutory and other deposits with exchanges and clearing houses | | |
| — current portion | **3,528** | 5,240 |
| — non-current portion | **5,039** | 5,039 |
| | **8,567** | 10,279 |

The above deposits are non-interest bearing.

## 24. ACCOUNTS RECEIVABLE

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Accounts receivable arising from the business of dealing in securities: | | |
| Clearing houses, brokers and dealers | **59,469** | 275,930 |
| Cash clients | **42,336** | 55,373 |
| Margin clients | **233,271** | 170,624 |
| Accounts receivable arising from the business of dealing in futures and options: | | |
| Clients | **150** | 159 |
| Clearing houses, brokers and dealers | **258,330** | 266,452 |
| Commission receivable from brokerage of mutual funds and insurance-linked investment products | **1,521** | 2,247 |
| Accounts receivable arising from the business of provision of corporate finance services | **540** | 1,046 |
| Accounts receivable arising from the business of provision of online game services | **—** | 50 |
| Accounts receivable arising from the business of retailing | **2,995** | 2,568 |
| | **598,612** | 774,449 |

## 24. ACCOUNTS RECEIVABLE (continued)

The credit quality of accounts receivable is summarised as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired: | | |
| — Margin clients | **227,565** | 170,624 |
| — Other non-margin clients | **19,315** | 32,849 |
| — Clearing houses, brokers and dealers | **317,799** | 536,235 |
| — Online game services customers | **—** | 50 |
| — Retail business customers | **1,885** | 1,817 |
| Past due but not impaired | **24,187** | 32,874 |
| Impaired | **11,161** | 3,497 |
| | **601,912** | 777,946 |
| Less: Allowance for impairment | **(3,300)** | (3,497) |
| | **598,612** | 774,449 |

The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

Accounts receivable from margin and cash clients arising from the business of dealing in securities are repayable on demand subsequent to settlement date. No ageing analysis is disclosed as in the opinion of directors of the Company, the ageing analysis does not give additional value in view of the nature of broking business.

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances and intends either to settle on a net basis, or to realise the balances simultaneously. Details are set out in note 39.

The Group allows a credit period of 30 days for commission receivable from brokerage of mutual funds and insurance-linked investment products as well as accounts receivable arising from the business of provision of corporate finance services. The ageing analysis (from the completion date of the services) of such receivables is as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| 0–30 days | **415** | 1,969 |
| 31–60 days | **125** | 126 |
| 61–90 days | **—** | 274 |
| Over 90 days | **2,421** | 924 |
| | **2,961** | 3,293 |

For accounts receivable from margin clients that are included in "Neither past due nor impaired" category as at 31 December 2016 and 2015, the fair value of each client's listed securities is higher than the carrying amount of each individual loan to margin client in this category.

The clients' listed securities can be sold at the Group's discretion to settle any margin call requirements imposed by their respective securities transactions. The Group is able to use client's securities up to the amount of 140% of the accounts receivable from margin clients as collateral of the Group's borrowing (with client's consent). The accounts receivable from margin clients are repayable on demand and bear interest at commercial rates.

## 24. ACCOUNTS RECEIVABLE (continued)

For accounts receivable from cash clients that are included in "Neither past due nor impaired" category as at 31 December 2016 and 2015, the amounts are not yet due for settlement as at the reporting date.

The Group allows an average credit period of 30 days to its corporate customers on retailing business. The ageing analysis based on the invoice date, which is approximately the revenue recognition date, is as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| 0–30 days | **1,885** | 1,817 |
| 31–60 days | **226** | 420 |
| 61–90 days | **74** | 56 |
| Over 90 days | **810** | 275 |
| | **2,995** | 2,568 |

Included in the Group's accounts receivable are debtors (excluding margin clients), with a carrying amount of HK$23,077,000 (2015: HK$32,123,000) from financial services business and HK$1,110,000 (2015: HK$751,000) from retailing business which are past due at the end of the reporting period for which the Group has not provided for impairment as there has not been a significant change in credit quality. The Group believes that the amounts are still considered recoverable given the amount is fully secured by clients' listed securities or the substantial settlement after the end of the reporting period.

In respect of accounts receivable which are past due but not impaired at the respective reporting date, the ageing analysis (from due date) is as follows:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| 0–30 days | **12,866** | 14,060 |
| 31–60 days | **8,540** | 10,560 |
| 61–90 days | **—** | 274 |
| Over 90 days | **1,671** | 7,229 |
| Total accounts receivable from financial services | **23,077** | 32,123 |
| 0–30 days | **226** | 420 |
| 31–60 days | **74** | 56 |
| 61–90 days | **16** | 12 |
| Over 90 days | **794** | 263 |
| Total accounts receivable from retailing business | **1,110** | 751 |
| | **24,187** | 32,874 |

As at 31 December 2015, in connection with the business of dealing in futures and options account, an amount of HK$6,147,000 was held with MF Global Hong Kong Limited ("MFG HK") (which was in liquidation) on behalf of a client. The amount was fully settled by the liquidator of MFG HK in 2016.

Accounts receivable due from margin and past due cash clients of approximately HK$11,161,000 (2015: HK$3,497,000) which are not fully secured by the respective clients' listed securities, are considered impaired and included in "Impaired" category as at 31 December 2016 and 2015.

Accounts receivable are netted off by allowance for impairment of HK$3,300,000 (2015: HK$3,497,000) which included individual allowance of HK$2,933,000 (2015: HK$3,126,000) and collective allowance of HK$367,000 (2015: HK$371,000) respectively.

## 24. ACCOUNTS RECEIVABLE (continued)

Movements in the allowance for impairment are as follows:

| | **2016** HK$'000 | 2015 HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **3,497** | 2,632 |
| Charge for the year (Note 8) | **1,553** | 1,431 |
| Amounts written off during the year | **(1,750)** | (566) |
| Balance at the end of the year | **3,300** | 3,497 |

The Group has a policy for determining the allowance for impairment based on the evaluation of collectability and ageing analysis of accounts and on management's judgement, including the current creditworthiness, collateral and the past collection history of each client.

In addition to the individually assessed allowance for impairment, the Group has also provided, on a collective basis, impairment allowance for accounts receivable arising from the business of dealing in securities and equity options that are individually insignificant or accounts receivable where no impairment has been identified individually. Objective evidence of the collective impairment includes the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that no further allowance for impairment is required.

Included in accounts receivable from margin clients arising from the business of dealing in securities are amounts due from certain related parties and connected parties, the details of which are as follows:

| **Name** | **Balance at 1 January** HK$'000 | **Balance at 31 December** HK$'000 | **Maximum amount outstanding during the year** HK$'000 | **Market value of pledged securities at fair value at 31 December** HK$'000 |
|---|---|---|---|---|
| **Directors of the Company** | | | | |
| Mr Kwan Pak Hoo Bankee and associates (Notes (1) and (4)) | | | | |
| 2015 | — | — | 2,345 | — |
| 2016 | — | — | 231 | — |
| Mr Law Ping Wah Bernard and associates (Note (1)) | | | | |
| 2015 | — | — | 18,036 | — |
| 2016 | — | — | 6,909 | — |
| Mr Ng Hin Sing Derek and associates (Note (1)) | | | | |
| 2015 | — | — | 16,546 | — |
| 2016 | — | — | — | — |

## 24. ACCOUNTS RECEIVABLE (continued)

| Name | Balance at 1 January HK$'000 | Balance at 31 December HK$'000 | Maximum amount outstanding during the year HK$'000 | Market value of pledged securities at fair value at 31 December HK$'000 |
|---|---|---|---|---|
| **A substantial shareholder with significant influence over the Company** | | | | |
| Cash Guardian Limited (Note (2)) | | | | |
| 2015 | — | — | 4,058 | — |
| 2016 | — | — | — | — |
| **Directors of CFSG** | | | | |
| Ms Cheng Pui Lai Majone and associates (Note (1)) | | | | |
| 2015 | — | — | 26,197 | — |
| 2016 | — | — | 8,637 | — |
| Mr Ng Kung Chit Raymond and associates (Notes (1) and (3)) | | | | |
| 2015 | — | — | 18,200 | — |
| 2016 | — | — | 10,364 | — |
| **Other connected clients** | | | | |
| Mr Kwan Pak Leung Horace and associates (Notes (1) and (4)) | | | | |
| 2015 | — | — | 24,818 | — |
| 2016 | — | — | 6,000 | — |
| Ms Chan Siu Fei Susanna and associates (Notes (1) and (4)) | | | | |
| 2015 | — | — | 16,559 | — |
| 2016 | — | — | 5,182 | — |

Notes:

(1) Associates are defined in accordance with the Rules Governing the Listing of Securities on the Stock Exchange.

(2) Cash Guardian Limited ("Cash Guardian") is solely owned by Mr Kwan Pak Hoo Bankee, who is the director of the Company.

(3) Mr Ng Kung Chit Raymond resigned as an executive director of CFSG during the year ended 31 December 2016.

(4) Mr Kwan Pak Leung Horace and Ms Chan Siu Fei Susanna are associates of Mr Kwan Pak Hoo Bankee.

Balances with the above parties, if any, are repayable on demand and bear interest at commercial rates which are similar to the rates offered to other margin clients.

## 25. LOANS RECEIVABLE

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loans receivable denominated in Hong Kong dollars | **7,881** | 4,509 |

The credit quality of loans receivable is summarised as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **7,480** | 4,108 |
| Past due but not impaired | **401** | 401 |
| | **7,881** | 4,509 |

The loans receivable bear variable-rate interest of Hong Kong Prime Rate plus a spread for both years.

The Group has policy for assessing the impairment on loans receivable that are unsecured, those that are secured but without sufficient collateral and those with default or delinquency in interest or principal payment, on an individual basis. The assessment also includes evaluation of collectability and ageing analysis of accounts and on management's judgment, including the current creditworthiness, collateral and the past collection history of each client.

At the end of each reporting date, the Group's loans receivable were individually assessed for impairment. In determining the recoverability of the loans receivable, the Group considers any change in the credit quality of the loans receivable from the date of the credit was initially granted up to the reporting date. As at 31 December 2016 and 2015, management of the Group considered no impairment allowance is necessary.

Movements in the allowance for impairment are as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at the beginning of the year | **—** | 30,595 |
| Amount written back during the year | **—** | (4,519) |
| Amount written off during the year | **—** | (26,076) |
| Balance at the end of the year | **—** | — |

The loans receivable included a total carrying amount of HK$7,480,000 (2015: HK$4,108,000) which is neither past due nor impaired at end of the reporting period, which the Group believes is recoverable. The loans receivable are unsecured except for an amount of HK$455,000 (2015: HK$545,000) which is fully secured by a residential property at a fair value of approximately HK$2,100,000 (2015: HK$2,100,000). There is no recent history of default from the borrowers.

## 25. LOANS RECEIVABLE (continued)

The Group has concentration of credit risk from five highest borrowers of HK$7,483,000 (2015: HK$4,271,000) in total at 31 December 2016.

The carrying amount of variable-rate loans receivable has remaining contractual maturity dates as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| On demand or within one year | **7,881** | 4,509 |

## 26. OTHER CURRENT ASSETS

**Prepayments, deposits and other receivables**

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Prepayments | **11,403** | 10,727 |
| Rental and other deposits | **28,625** | 37,221 |
| Other receivables | **6,468** | 9,182 |
| | **46,496** | 57,130 |

The above deposits and other receivables are non-interest bearing and repayable on demand or within one year.

**Bank balances — trust and segregated accounts**

The Group receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities of its ordinary business. Such monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding liabilities to respective clients and other institutions as accounts payable (note 30). However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

**Bank balances (general accounts) and cash**

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates with an original maturity of three months or less.

## 27. INVESTMENTS HELD FOR TRADING

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong (Note (a)) | **20,311** | 19,120 |
| Equity securities listed outside Hong Kong (Note (a)) | **766** | 12,271 |
| Unlisted investment fund (Note (b)) | **12,240** | 37,480 |
| | **33,317** | 68,871 |

Notes:

(a) The fair values of the listed equity securities are determined based on the quoted market bid prices available on the relevant exchanges.

(b) The fair value of the unlisted investment fund is based on broker's quotes which reflect the Group's share of fair value of the net asset value of the fund, being the price that the fund will be willing to pay to redeem the units in the fund at 31 December 2016.

## 28. FINANCIAL ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Financial assets designated at FVTPL | | |
| Unlisted investment fund (Note (i)) | **—** | 13,161 |
| Financial liabilities designated at FVTPL | | |
| Return swap (Note (ii)) | **—** | 13,161 |

Notes:

(i) The fair value of the unlisted investment fund is based on the Group's share of fair value of the net asset value of the fund, which invests in equity and commodity futures in the PRC. The unlisted investment fund was liquidated during the year ended 31 December 2016.

(ii) During the year the Group invested in an unlisted fund in PRC as mentioned in (i) above, and at the same time the Group further issued a return swap to an independent third party whereby the financial obligation of the Group is determined with reference to the fair value of the invested unlisted investment fund. The return swap was terminated during the year ended 31 December 2016.

## 29. BANK DEPOSITS SUBJECT TO CONDITIONS

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Pledged bank deposits | **66,601** | 44,000 |

The bank deposits subject to conditions carried floating rate at prevailing market rate per annum, which was the effective interest rate on the Group's bank deposits. Pledged bank deposits of HK$64,025,000 (2015: HK$44,000,000) and HK$2,576,000 (2015: nil) are pledged to secure short-term loan and short-term undrawn facilities, respectively and are therefore classified as current assets.

The pledged bank deposits will be released upon the repayment of relevant bank borrowings or expiration of the facilities. During the year ended 31 December 2016, certain facilities expired and certain pledge bank deposits are released accordingly.

## 30. ACCOUNTS PAYABLE

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Accounts payable arising from the business of dealing in securities: | | |
| Clearing houses | **7,370** | 9,432 |
| Cash clients | **582,997** | 947,082 |
| Margin clients | **117,043** | 160,949 |
| Accounts payable to clients arising from the business of dealing in futures and options | **251,147** | 312,364 |
| Trade creditors arising from retailing business | **210,064** | 208,190 |
| Accounts payable arising from the online game services | **292** | 391 |
| | **1,168,913** | 1,638,408 |

The settlement terms of accounts payable, except for margin clients, arising from the business of dealing in securities are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. Accounts payable to cash clients are repayable on demand subsequent to settlement date. Accounts payable to margin clients are repayable on demand. No ageing analysis is disclosed as in the opinion of directors of the Company, the ageing analysis does not give additional value in view of the nature of this business.

Accounts payable to clients arising from the business of dealing in futures and options are margin deposits received from clients for their trading of these contracts. The required margin deposits are repayable upon the closure of the corresponding futures and options position. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand.

## 30. ACCOUNTS PAYABLE (continued)

Accounts payable amounting to HK$819,803,000 (2015: HK$946,810,000) were payable to external clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

Trade creditors arising from retailing business principally comprise amount outstanding for trade purpose and ongoing cost. The credit period taken for trade purchases ranges from 30 to 90 days.

The following is an ageing analysis (from invoice date) of trade creditors arising from retailing business at reporting date:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0–30 days | **74,679** | 137,193 |
| 31–60 days | **57,146** | 17,531 |
| 61–90 days | **50,588** | 18,015 |
| Over 90 days | **27,651** | 35,451 |
| | **210,064** | 208,190 |

The accounts payable arising from online game services are aged (from the invoice date) over 90 days (2015: within 30 days).

## 31. ACCRUED LIABILITIES AND OTHER PAYABLES

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accrued liabilities | | |
| — Salaries and commission payables | **42,639** | 53,164 |
| — Other accrued liabilities | **33,033** | 46,176 |
| Deposits received (Note) | **50,000** | — |
| Other payables | **42,392** | 57,635 |
| | **168,064** | 156,975 |

Note: The Group has received a deposit of HK$50,000,000 from the Offeror related to the Disposal. The deposits are refundable upon the termination of the sale and purchase agreement and classified as current liabilities as at 31 December 2016.

## 32. OBLIGATIONS UNDER FINANCE LEASES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Analysed for reporting purpose as: | | |
| Current liabilities | **407** | 396 |
| Non-current liabilities | **235** | 642 |
| | **642** | 1,038 |

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is four years (2015: four years) for the year ended 31 December 2016. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.5% to 2.7% (2015: 2.5% to 2.7%) per annum. No arrangements had been entered into for contingent rental payments.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2016 HK$'000** | 2015 HK$'000 | **2016 HK$'000** | 2015 HK$'000 |
| Amount payable under finance leases | | | | |
| Within one year | **418** | 418 | **407** | 396 |
| Within a period of more than one year but not more than two years | **223** | 418 | **215** | 407 |
| Within a period of more than two years but not more than five years | **15** | 238 | **20** | 235 |
| Less: Future finance charges | **(14)** | (36) | **—** | — |
| Present value of lease obligations | **642** | 1,038 | **642** | 1,038 |
| Less: Amount due for settlement within one year (shown under current liabilities) | | | **(407)** | (396) |
| Amount due for settlement after one year | | | **235** | 642 |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 33. BORROWINGS

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Secured bank overdrafts | **431** | 2 |
| Secured bank borrowings | **212,690** | 242,816 |
| Unsecured bank borrowings | **60,809** | 10,249 |
| Secured trust receipt loans | **68,274** | 78,835 |
| Unsecured trust receipt loans | **63,496** | 65,081 |
| | **405,700** | 396,983 |
| Carrying amount repayable based on scheduled repayment terms: | | |
| Within one year | **135,457** | 219,256 |
| More than one year but not exceeding two years | **3,351** | 6,502 |
| More than two years but not exceeding five years | **7,294** | 20,510 |
| More than five years | **—** | 51,400 |
| | **146,102** | 297,668 |
| Carrying amount of borrowings (shown under current liabilities) containing a repayment on demand clause: | | |
| Within one year | **255,598** | 86,026 |
| More than one year but not exceeding two years | **1,600** | 9,289 |
| More than two years but not exceeding five years | **2,400** | 4,000 |
| | **405,700** | 396,983 |
| Less: Amount due within one year shown under current liabilities | **(395,055)** | (318,571) |
| Amount shown under non-current liabilities | **10,645** | 78,412 |

As at 31 December 2016, the Group's secured bank borrowings of HK$281,395,000 (2015: HK$321,653,000) were secured by:

(a) corporate guarantees from the Company for both years;

(b) corporate guarantees from certain subsidiaries of the Company and CFSG for both years;

(c) marketable securities of the Group's clients with fair value of HK$296,169,000 at 31 December 2016 (2015: HK$212,602,000) (with clients' consent);

(d) investment properties of the Group as disclosed in note 17 with carrying amount of approximately HK$188,583,000 at 31 December 2015 (2016: nil); and

(e) pledged bank deposits of HK$64,025,000 (2015: HK$44,000,000) for short-term bank borrowings as disclosed in note 29.

## 33. BORROWINGS (continued)

Pursuant to a letter of undertaking given by the Group to a bank, the Group undertook to maintain deposits of not less than HK$25,000,000 with a bank as a condition precedent to the granting of banking facilities by the bank (see note 29).

As at 31 December 2016, bank loans amounting to approximately HK$273,499,000 (2015: HK$253,065,000) are at variable-rate borrowings which carry interest at either Hong Kong Interbank Offered Rate ("HIBOR") or Hong Kong Prime Rate plus a spread. Bank overdrafts amounting to HK$431,000 (2015: HK$2,000) carry interest at Hong Kong Prime Rate. Trust receipts loans amounting to HK$131,770,000 (2015: HK$143,916,000) carry interest at either HIBOR or Hong Kong Prime Rate plus a spread.

The unsecured bank borrowings amounting to approximately HK$60,809,000 (2015: HK$10,249,000) and unsecured trust receipt loans amounting to approximately HK$63,496,000 (2015: HK$65,081,000) are guaranteed by the Company.

The effective interest rates on the Group's borrowings ranged from 1.25% to 5.25% (2015: 2.2% to 5.25%) per annum.

## 34. SHARE CAPITAL

| | **Par value of each ordinary share** | **Number of shares** | **Amount** |
|---|---|---|---|
| | HK$ | '000 | HK$'000 |
| Ordinary shares | | | |
| Authorised: | | | |
| At 1 January 2015, 31 December 2015 and 31 December 2016 | 0.1 | 3,000,000 | 300,000 |
| Issued and fully paid: | | | |
| At 1 January 2015 | 0.1 | 554,148 | 55,415 |
| Issue of new shares (Note) | | 277,074 | 27,707 |
| At 31 December 2015 and 31 December 2016 | 0.1 | 831,222 | 83,122 |

Note: On 17 September 2015, 277,073,892 shares of HK$0.10 each were issued by way of rights issue at a subscription price of HK$0.40 per share.

All the shares issued during the year ended 31 December 2015 rank pari passu in all respects with the other shares in issue.

## 35. NON-CONTROLLING INTERESTS

| | Share of net assets of subsidiaries | Share option reserve of subsidiaries | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2015 | 319,075 | 5,851 | 324,926 |
| Share of profit and total comprehensive income for the year | 781 | — | 781 |
| Purchase of non-controlling interest of a non-wholly owned subsidiary of CFSG (Note 36) | (4,855) | — | (4,855) |
| Transfer to accumulated losses upon expiration of CFSG's share options | 1,745 | (2,913) | (1,168) |
| Change in shareholding in CFSG without losing control (Note 36) | 7,063 | (2,938) | 4,125 |
| Acquisition on additional interest in CFSG (Note 36) | (1,448) | — | (1,448) |
| Acquisition of a non-wholly owned subsidiary of CFSG | (348) | — | (348) |
| At 31 December 2015 | 322,013 | — | 322,013 |
| Share of loss and total comprehensive expense for the year | (28,743) | — | (28,743) |
| **At 31 December 2016** | 293,270 | — | 293,270 |

## 36. CHANGE IN SHAREHOLDING OF SUBSIDIARIES WITHOUT LOSING CONTROL

Year ended 31 December 2015

During the year, CFSG acquired 50% equity interest of CASH Dynamic Opportunities Investment Limited ("DOI"), a non-wholly owned subsidiary of CFSG, from the non-controlling shareholder at a consideration of HK$4,855,000. DOI became the wholly owned subsidiary of CFSG upon acquisition. The consideration paid is equal to the share of net assets attributable to non-controlling interests of DOI.

During the year, the Group's equity interest in CFSG was decreased from 40.71% to 40.10% due to exercise of share options of CFSG with net proceeds of HK$5,834,000. The difference of HK$1,709,000 between the increase in the non-controlling interests, being proportionate share of carrying amount of net assets of CFSG amounting to HK$4,125,000 and the proceeds paid for share purchases was credited to other reserve.

On 30 June 2015, Celestial Investment Group Limited ("CIGL"), the immediate holding company of CFSG and the wholly-owned subsidiary of the Group, completed the acquisition of the entire equity interest in Confident Profits Limited ("CPL") from CFSG at a cash consideration of HK$1,549,000. Upon the completion of the acquisition, the Group's equity interest over CPL increased from 40.10% to 100%. The non-controlling interest attributable to CFSG of HK$348,000 was transferred to other reserve and accumulated in equity.

In December 2015, CIGL acquired 10,020,000 shares on CFSG at a consideration of HK$2,966,000. Upon the completion of the acquisition, the Group's equity interest over CFSG increased from 40.10% to 40.34%. The difference between the proportionate share of net assets attributable to non-controlling interests of CFSG and the consideration paid by CIGL is HK$1,518,000 and was debited to other reserve and accumulated in equity.

## 37. OPERATING LEASE COMMITMENTS

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

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **169,415** | 157,817 |
| In the second to fifth year inclusive | **191,476** | 150,201 |
| Over five years | **7,089** | 21,051 |
| | **367,980** | 329,069 |

Operating lease commitments represent rental payable by the Group for office premises, warehouse and retail shops at the end of both reporting periods. Leases are mainly negotiated for lease term of one to five years and rentals are fixed over the relevant lease terms. In addition to the fixed rentals, pursuant to the terms of certain rental agreements, the Group paid rental of approximately HK$2,203,000 (2015: HK$1,722,000), based on certain percentage of the gross sales of the relevant shop when the sales meets certain specified level.

## 38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the borrowings disclosed in note 33 and equity attributable to owners of the Company, comprising issued share capital disclosed in note 34, reserves and accumulated losses as disclosed in consolidated statement of changes in equity. The management of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the issue of new shares as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Certain group entities are regulated by the Hong Kong Securities and Futures Commission ("SFC") and are required to comply with the financial resources requirements according to the Hong Kong Securities and Futures (Financial Resources) Rules ("SF(FR)R"). The Group's regulated entities are subject to minimum paid-up share capital requirements and liquid capital requirements under the SF(FR)R. Management of the Group closely monitors, on a daily basis, the liquid capital level of these entities to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Group's regulated entities have complied with the capital requirements imposed by the SF(FR)R throughout both years.

## 39. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Financial assets | | |
| FVTPL | | |
| — held for trading | **33,317** | 68,871 |
| — financial assets designated at FVTPL | **—** | 13,161 |
| Available-for-sale financial assets | **8,415** | 8,415 |
| Loans and receivables (including cash and cash equivalents) | **2,144,054** | 2,482,785 |
| Financial liabilities | | |
| FVTPL | | |
| — financial liabilities designated at FVTPL | **—** | 13,161 |
| Amortised cost | **1,667,005** | 2,093,026 |
| Obligations under finance leases | **642** | 1,038 |

**Financial risk management objectives and policies**

The Group's major financial instruments include accounts receivable and payable, deposits and other receivables, financial assets/liabilities at FVTPL, available-for-sale financial assets, bank balances, bank deposits, loans receivable, other payables, obligations under finance leases and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*Equity price risk*

The Group has a portfolio of held-for-trading investments which are carried at fair value and expose the Group to price risk. In both years, the directors of the Company manage the exposure by closely monitoring the portfolio of investments and imposing trading limits on individual trades.

In addition, the Group is exposed to equity price risk as a result of changes in fair value of its unlisted equity investments classified as available-for-sale financial assets. No sensitivity analysis on equity price risk has been presented in relation to unlisted equity investment classified as available-for-sale financial assets because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that fair value cannot be measured reliably.

## 39. FINANCIAL INSTRUMENTS (continued)

**Financial risk management objectives and policies (continued)**

***Market risk (continued)***

*Equity price sensitivity*

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. The analysis is prepared assuming the listed equity investments and unlisted investment fund outstanding at the end of reporting period were outstanding for the whole year.

As at 31 December 2016, if the quoted prices of the Group's listed equity investments and unlisted investment fund had been 15 percent (2015: 15 percent) higher/lower, the Group's loss after tax would decrease/increase by approximately HK$4,173,000 (2015: profit after tax increase/decrease HK$8,626,000). This is attributable to the changes in fair values of the listed equity investments and unlisted investment fund.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year.

*Interest rate risk*

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings, loans receivable, loans to margin clients, accounts payable to cash and margin clients and bank balances. The Group currently does not have a cash flow interest rate hedging policy. However, management of the Group closely monitors its exposure arising from margin financing and other lending activities undertaken by allowing an appropriate margin on the interest received and paid by the Group. A 50 basis points (2015: 50 basis points) change is used and represents management's assessment of the reasonably possible change in interest rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate and HIBOR arising from the Group's variable interest rate instruments. The Group's interest rate exposure on financial assets is considered insignificant.

The sensitivity analysis is prepared assuming the variable-rate financial instruments outstanding at the end of the reporting period were outstanding for the whole year. Bank balances are excluded from sensitivity analysis as these are subject to minimal interest rate fluctuation for both years. As at 31 December 2016, if the interest rate had been 50 basis points (2015: 50 basis points) higher/lower and all other variables were held constant, the Group's loss after tax would increase/decrease by HK$478,000 (2015: profit after tax decrease/increase HK$926,000). This is mainly attributable to the Group exposure to the interest rates on variable-rate borrowings, loans receivable and loans to margin clients.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the cash flow interest rate risk as the year end exposure does not reflect the exposure during the year.

## 39. FINANCIAL INSTRUMENTS (continued)

**Financial risk management objectives and policies (continued)**

***Market risk (continued)***

*Foreign currency risk*

The group entities have financial assets and liabilities denominated in currencies other than their respective functional currencies. Consequently, the Group is exposed to risks that the exchange rate of functional currencies relative to other currencies may change in a manner that has an adverse effect on the value of the position of the Group's assets and liabilities denominated in foreign currencies.

The exposure primarily arises from the receivables from foreign brokers, foreign currency deposits with banks, equity securities listed outside Hong Kong and accounts payable to clients denominated in United Stated dollars ("USD") and Renminbi ("RMB"). The management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exposure should the need arises. The directors of the Company do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the Hong Kong dollar pegged system to the USD.

The carrying amounts of the major foreign currency denominated monetary assets and monetary liabilities of the Group at the end of the reporting period are as follows:

| | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| USD | **172,287** | 199,494 | **263,304** | 274,179 |
| RMB | **8,844** | 6,924 | **157,744** | 109,268 |

As at 31 December 2016, if RMB had strengthened/weakened by 5% (2015: 5%) against HK$ and all other variables were held constant, the Group's loss after tax would decrease/increase by HK$6,217,000 (2015: profit after tax increase/decrease HK$4,273,000). Under the pegged exchange rate system, the financial impact in exchange difference between HK$ and USD is considered to be immaterial and therefore no sensitivity analysis has been prepared.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

***Credit risk***

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has delegated a team responsible for determination of credit limits and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

## 39. FINANCIAL INSTRUMENTS (continued)

**Financial risk management objectives and policies (continued)**

***Credit risk (continued)***

In order to minimise the credit risk on brokerage, financing and corporate finance operations, the Credit and Risk Management Committee is set up by CFSG to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on delinquent receivables. In addition, the Credit and Risk Management Committee reviews the recoverable amount of accounts receivable and loans receivable as disclosed in notes 24 and 25 respectively on an individual and collective basis at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk as the exposure spread over a number of counterparties and customers, except for the loans receivable as disclosed in note 25.

Bank balances and deposits are placed in various authorised institutions with good reputation and the directors of the Company consider the credit risk of such authorised institutions is low.

***Liquidity risk***

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of borrowings and ensures compliance with all the loan covenants.

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with clearing houses or brokers and customers. To address the risk, treasury team works closely with the settlement division on monitoring the liquidity gap. In addition, for contingency purposes, clean loan facilities are put in place.

*Liquidity tables*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities including financial liabilities designated at FVTPL. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed settlement dates.

## 39. FINANCIAL INSTRUMENTS (continued)

**Financial risk management objectives and policies (continued)**

***Liquidity risk (continued)***

*Liquidity tables (continued)*

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing market rate at the end of the reporting period.

| | Weighted average effective interest rate | Within 1 year or repayable on demand | Between 1 to 2 years | Between 2 to 5 years | Over 5 years | Total undiscounted cash flows | Carrying amount at the end of the reporting period |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2016** | | | | | | | |
| Accounts payable | **N/A** | **1,168,913** | **—** | **—** | **—** | **1,168,913** | **1,168,913** |
| Other payables | **N/A** | **92,392** | **—** | **—** | **—** | **92,392** | **92,392** |
| Borrowings | **Note** | **395,957** | **3,611** | **7,521** | **—** | **407,089** | **405,700** |
| Obligations under finance leases | **2.6%** | **418** | **223** | **15** | **—** | **656** | **642** |
| | | **1,657,680** | **3,834** | **7,536** | **—** | **1,669,050** | **1,667,647** |
| **At 31 December 2015** | | | | | | | |
| Accounts payable | N/A | 1,638,408 | — | — | — | 1,638,408 | 1,638,408 |
| Financial liabilities designated at FVTPL | N/A | 13,161 | — | — | — | 13,161 | 13,161 |
| Other payables | N/A | 57,635 | — | — | — | 57,635 | 57,635 |
| Borrowings | Note | 321,455 | 8,385 | 25,154 | 58,643 | 413,637 | 396,983 |
| Obligations under finance leases | 2.6% | 418 | 418 | 238 | — | 1,074 | 1,038 |
| | | 2,031,077 | 8,803 | 25,392 | 58,643 | 2,123,915 | 2,107,225 |

Note: Variable-rate borrowings carry interest at HIBOR plus a spread or Hong Kong Prime Rate. The prevailing market rate at the end of the reporting period is used in the maturity analysis.

## 39. FINANCIAL INSTRUMENTS (continued)

**Financial risk management objectives and policies (continued)**

***Liquidity risk (continued)***

*Liquidity tables (continued)*

Borrowings with a repayment on demand clause are included in the "within 1 year or repayment on demand" time band in the above maturity analysis. As at 31 December 2016, the aggregate carrying amounts of these bank loans amounted to approximately HK$259,598,000 (2015: HK$99,315,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate payment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. As at 31 December 2016, assuming the banks will not exercise their discretionary rights to demand immediate repayment, the aggregate principal and interest cash outflows for such bank loans amount to approximately HK$264,567,000 (2015: HK$101,755,000), as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Within one year | **261,650** | 88,101 |
| More than one year but not exceeding two years | **1,676** | 9,530 |
| More than two years but not exceeding five years | **2,447** | 4,124 |
| | **265,773** | 101,755 |

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ from the estimated interest rates determined at the end of the reporting period.

**Fair value measurement of financial instruments**

This note provides information about how the Group determines fair values of various financial assets and financial liabilities

## 39. FINANCIAL INSTRUMENTS (continued)

**Fair value measurement of financial instruments (continued)**

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and input(s) used).

| **Financial assets/ financial liabilities** | **Fair value as at** | | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** |
|---|---|---|---|---|
| | **31 December 2016 HK$'000** | 31 December 2015 HK$'000 | | |
| *Financial assets* | | | | |
| Equity securities listed in Hong Kong | **20,311** | 19,120 | Level 1 | Quoted prices in an active market |
| Equity securities listed outside Hong Kong | **766** | 12,271 | Level 1 | Quoted prices in an active market |
| Unlisted investment fund classified as held for trading | **12,240** | 37,480 | Level 2 | Broker's quote |
| Unlisted investment fund classified as financial assets designated at FVTPL | **—** | 13,161 | Level 2 | Broker's quote |
| *Financial liabilities* | | | | |
| Return swap classified as financial liabilities designated at FVTPL | **—** | 13,161 | Level 2 | Broker's quote of the underlying unlisted investment fund |

There were no transfers between Levels 1 and 2 during both years.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

## 39. FINANCIAL INSTRUMENTS (continued)

**Financial assets and financial liabilities offsetting**

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that are either:

- offset in the Group's consolidated statement of financial position; or
- not offset in the consolidated statement of financial position as the offsetting criteria are not met.

Under the agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC") and brokers, the Group has a legally enforceable right to set off the money obligations receivable and payable with HKSCC and brokers on the same settlement date and the Group intends to settle on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group and deposits placed with HKSCC and brokers do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

**As at 31 December 2016**

| | Gross amounts of recognised financial assets after impairment | Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position | Net amounts of financial assets presented in the consolidated the statement of financial position | Related amounts not set off in the consolidated statement of financial position | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | Net amount |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets** | | | | | | |
| Amount due from HKSCC, brokers and brokerage clients | **486,828** | **(151,752)** | **335,076** | **(11,855)** | **(268,664)** | **54,557** |
| Deposit placed with HKSCC | **2,951** | **—** | **2,951** | **—** | **—** | **2,951** |

## 39. FINANCIAL INSTRUMENTS (continued)

**Financial assets and financial liabilities offsetting**

As at 31 December 2015

| | Gross amounts of recognised financial assets after impairment | Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position | Net amounts of financial assets presented in the consolidated the statement of financial position | Related amounts not set off in the consolidated statement of financial position | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | Net amount |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Financial assets** | | | | | | |
| Amount due from HKSCC, brokers and brokerage clients | 1,620,971 | (1,119,044) | 501,927 | (14,009) | (216,951) | 270,967 |
| Deposit placed with HKSCC | 5,666 | — | 5,666 | — | — | 5,666 |

Note: The directors of the Company consider that the net amount of accounts payable to HKSCC, brokers and brokerage clients as at 31 December 2016 presented in the consolidated statement of financial position of HK$707,410,000 (2015: HK$1,117,463,000) do not expose the Group to significant risk. Accordingly, the relevant offsetting disclosures for accounts payable are not presented.

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position, both of which have been disclosed in the above tables, are measured as follows:

- Amounts due from HKSCC, brokers and brokerage clients — amortised cost
- Financial liabilities held for trading — fair value
- Deposits placed with HKSCC — amortised cost

The collateral pledged by the Group which is eligible for set off the Group's financial liabilities held for trading in the event of default is measured at amortised cost. Other than this, the amounts which have been offset against the related recognised financial assets and financial liabilities in the Group's consolidated statement of financial position or subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities.

## 40. SHARE OPTION SCHEMES

### (A) Share option scheme of the Company

*Share Option Scheme*

The Company's share option scheme ("Share Option Scheme") was adopted pursuant to an ordinary resolution passed at an annual general meeting of the Company held on 21 May 2012 and took effect on the same date.

The major terms of the Share Option Scheme are summarised as follows:

(i) The purpose is to provide incentives to:

- award and retain the participants who have made contributions to the Company, its subsidiaries and associates, including CFSG and its subsidiaries; or

- attract potential candidates to serve the Group for the benefit of the development of the Group.

(ii) The participants include any employee, director, consultant, adviser or agent of any members of the Group.

(iii) The maximum number of shares in respect of which options might be granted under the Share Option Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the Share Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 83,122,167 (2015: 55,414,778) shares, representing 10% (2015: 6.67%) of the issued share capital of the Company as at 31 December 2016. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the Share Option Scheme or any other share option scheme within any 12-months period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors of the Company and provided in the offer of grant of option.

(vi) The exercise period should be any period fixed by the board of directors of the Company upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to the Company.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which day must be a trading day;

- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and

- the nominal value of the share.

(ix) The life of the Share Option Scheme is effective for 10 years from the date of adoption until 20 May 2022.

All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

## 40. SHARE OPTION SCHEMES (continued)

### (A) Share option scheme of the Company (continued)

The following table discloses details of the Company's share options held by the directors, the employees and consultants of the Group and movements in such holdings:

| | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name of scheme** | **Date of grant** | **Exercise price per share** | **Exercise period** | **outstanding as at 1 January 2015** | **adjusted in 2015** | **granted in 2015** | **outstanding as at 31 December 2015** | **lapsed in 2016** | **outstanding as at 31 December 2016** |
| | | HK$ | | | (Note (2)) | | | | |
| **Directors** | | | | | | | | | |
| Share Option Scheme | 2.9.2014 | 0.478 | (Notes (1) & (2)) | 14,000,000 | 4,144,000 | — | 18,144,000 | — | 18,144,000 |
| | 18.12.2015 | 0.460 | (Note (3)) | — | — | 22,400,000 | 22,400,000 | — | 22,400,000 |
| | | | | 14,000,000 | 4,144,000 | 22,400,000 | 40,544,000 | — | 40,544,000 |
| **Employees** | | | | | | | | | |
| Share Option Scheme | 2.9.2014 | 0.478 | (Notes (1) & (2)) | 17,400,000 | 5,148,000 | — | 22,548,000 | (2,460,000) | 20,088,000 |
| | 18.12.2015 | 0.460 | (Note (3)) | — | — | 26,200,000 | 26,200,000 | — | 26,200,000 |
| | | | | 17,400,000 | 5,148,000 | 26,200,000 | 48,748,000 | (2,460,000) | 46,288,000 |
| **Consultants** | | | | | | | | | |
| Share Option Scheme | 18.12.2015 | 0.460 | (Note (3)) | — | — | 6,800,000 | 6,800,000 | — | 6,800,000 |
| | | | | 31,400,000 | 9,292,000 | 55,400,000 | 96,092,000 | (2,460,000) | 93,632,000 |
| Exercisable at 31 December | | | | | | | 29,418,000 | | 33,210,000 |

Notes:

(1) The options of 40,692,000 outstanding as at 31 December 2015 were granted to directors and employees of the Group on 2 September 2014 for the provision of services to the Group. The options will vest upon achievement of performance target (based on non-market condition) for the financial year ended 31 December 2014. During the year ended 31 December 2016, 2,460,000 (2015: nil) options with aggregate fair value of HK$280,000 (2015: nil) lapsed due to cessation of employment of employees of the Group and had been transferred to accumulated losses.

For the options granted to directors, the options must be exercised within one month from the date of the board of directors of the Company approves the vesting of the options. For the options granted to employees, the options must be exercised subject to 4 tranches period as to (i) 25% exercisable from the date of the board of directors of the Company approves the vesting of the options; (ii) 25% exercisable from 1 September 2015; (iii) 25% exercisable from 1 September 2016; and (iv) 25% exercisable from 1 September 2017. The directors of the Company considered that the performance target is achieved by the grantees in the year of grant and thus share-based compensation expense of HK$854,000 (2015: HK$854,000) was recognised during the year ended 31 December 2016. The corresponding amount of HK$854,000 (2015: HK$854,000) has been credited to share-based payment reserve. No liabilities were recognised due to share-based payment transactions.

(2) The number and the exercise price of options which remained outstanding have been adjusted from HK$0.620 per share to HK$0.478 per share with effect from 17 September 2015 due to rights issue of the Company during the year ended 31 December 2015.

## 40. SHARE OPTION SCHEMES (continued)

### (A) Share option scheme of the Company (continued)

Notes: (continued)

(3) During the year ended 31 December 2015, options were granted to directors, employees and consultants of the Group for the provision of services to the Group.

The options granted to the directors and employees of the Group on 18 December 2015 are subject to approval from the board of directors of the Company and will vest upon achievement of performance target for the financial years ended/ending 31 December 2016 to 2019 and discretion of the board of directors of the Company. At 31 December 2016 and 2015, approval from the directors of the Company has not been obtained and no share-based compensation expense was recognised in the financial year ended 31 December 2016 and 2015.

The options granted to the consultants of the Company on 18 December 2015 were for the provision of consultancy services to the Company up to the contract period until 31 December 2019. The options are subject to approval from the board of directors of the Company and will vest upon the provision of satisfactory services determined at the sole discretion of the board of directors of the Company. At 31 December 2016 and 2015, performance targets were not met and no share-based compensation expense was recognised in the financial year ended 31 December 2016 and 2015.

No liabilities were recognised due to share-based payment transactions.

The Black-Scholes Pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

### (B) Share option scheme of CFSG

CFSG's share option scheme ("CFSG Option Scheme") was adopted pursuant to an ordinary resolution passed at the special general meeting of the Company held on 22 February 2008, which took effect on 3 March 2008.

The major terms of the CFSG Option Scheme are summarised as follows:

(i) The purpose is to provide incentives to:

- award and retain the participants who have made contributions to the Group, including CFSG, the Company and its subsidiaries and associates; or

- attract potential candidates to serve the Group for the benefit of the development of the Group.

## 40. SHARE OPTION SCHEMES (continued)

### (B) Share option scheme of CFSG (continued)

(ii) The participants include any employees (whether full time or part time), executives and officers (including executive and non-executive directors) and business consultants, agents and legal and financial advisers of the Group.

(iii) The maximum number of shares in respect of which options might be granted under the CFSG Option Scheme must not exceed 10% of the issued share capital of CFSG as at the date of approval of the CFSG Option Scheme and such limit might be refreshed by shareholders in general meeting. The maximum number of shares was 413,435,958 (2015: 387,785,958) shares, representing around 10% (2015: 9.4%) of the issued share capital of CFSG as at 31 December 2016. However, the total maximum number of shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the CFSG Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the options cancelled) under any option granted to the same participant under the CFSG Option Scheme or any other share option scheme within any 12-months period, must not exceed 1% of the shares in issue from time to time.

(v) There is no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors of CFSG and provided in the offer of grant of option.

(vi) The exercise period should be any period fixed by the board of directors of CFSG upon grant of the option but in any event the option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to CFSG.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which day must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the CFSG Option Scheme is effective for 10 years from the date of adoption until 21 February 2018.

## 40. SHARE OPTION SCHEMES (continued)

### (B) Share option scheme of CFSG (continued)

All share-based compensation will be settled in equity. The Group, including CFSG, has no legal or constructive obligation to repurchase or settle the options other than by issuing CFSG's ordinary shares.

Share options granted to employees, directors and the consultants of the Group and weighted average exercise price are as follows for the reporting periods presented:

| | **2016** | | | 2015 | |
|---|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price HK$** | Notes | Number of share options | Weighted average exercise price HK$ |
| Outstanding at 1 January | **338,000,000** | **0.315** | | 121,000,000 | 0.095 |
| Granted | **—** | **—** | (a) & (b) | 338,000,000 | 0.315 |
| Cancelled/lapsed | **—** | **—** | (c) & (d) | (58,500,000) | 0.096 |
| Exercised | **—** | **—** | (c) & (d) | (62,500,000) | 0.093 |
| Outstanding at 31 December | **338,000,000** | **0.315** | | 338,000,000 | 0.315 |
| Exercisable at 31 December | **—** | | | — | |

Notes:

(a) On 3 December 2015, 308,000,000 options were granted to directors and employees of the CFSG Group for the provision of services to the Group but are subject to approval from the board of directors of CFSG and also subject to the achievement of performance target for the financial years ending 31 December 2016 to 2019. At 31 December 2016 and 2015, approval from the board of directors of CFSG has not been obtained and neither have any performance target been achieved nor established.

(b) On 3 December 2015, 30,000,000 options were granted to a consultant of the Group for the provision of consultancy service to the Group up to 31 December 2019. The options will be vested upon the provision of satisfactory services determined at the sole discretion of the board of directors of CFSG. The options must be exercised within one month from the date the board of directors of CFSG approves the vesting of the options. At 31 December 2016 and 2015, approval from the board of directors of CFSG has not been obtained. During the year ended 31 December 2016, no share-based compensation expense was recognised in the consolidated financial statements (2015: nil).

(c) The options of 75,000,000 outstanding as at 1 January 2015 were granted to the employees and directors of the Group on 11 April 2014 for the provision of services to the Group. The options will vest upon achievement of performance target (based on non-market condition). During the financial year ended 31 December 2015, 50,500,000 options were cancelled and 24,500,000 shares were exercised.

(d) The options of 46,000,000 outstanding as at 1 January 2015 were granted to the employees of the CFSG Group on 22 May 2014 for the provision of services to the CFSG Group. The options will vest upon achievement of performance target (based on non-market condition) for the respective financial years up to 31 December 2017. During the financial year ended 31 December 2015, 8,000,000 options were cancelled and 38,000,000 shares were exercised.

The weighted average remaining contractual life of share options outstanding as at 31 December 2016 is 3 years (2015: 3 years).

No share-based compensation expenses has been recognised in profit or loss for the year ended 31 December 2016 (2015: nil). No liabilities were recognised due to share-based payment transactions.

## 40. SHARE OPTION SCHEMES (continued)

### (B) Share option scheme of CFSG (continued)

During the year ended 31 December 2015, 58,500,000 share options with aggregate fair value of HK$2,913,000 were cancelled or lapsed and HK$1,168,000 in non-controlling interest had been transferred to accumulated losses.

The Black-Scholes Pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

### (C) Share option scheme of Netfield Technology Limited ("Netfield"), the wholly-owned subsidiary of the Group

The Netfield share option scheme ("Netfield Share Option Scheme") was adopted pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 6 June 2008. During the years ended 31 December 2016 and 2015, no option has been granted under the Netfield Share Option Scheme nor outstanding as at 31 December 2016 and 2015. The major terms of the Netfield Share Option Scheme are summarised as follows:

(i) The purpose is to provide incentives to:

- award and retain the participants who have made contributions to Netfield and its subsidiaries ("Netfield Group"); or
- attract potential candidates to serve the Netfield Group for the benefit of the development of the Netfield Group.

(ii) The participants include any employee, executive, officer, consultant, adviser or agent of any member of the Netfield Group.

(iii) The maximum number of shares in respect of which share options might be granted under the Netfield Share Option Scheme must not exceed 10% of the issued share capital of Netfield as at the date of approval of the Netfield Share Option Scheme and such limit might be refreshed by shareholders in general meeting. However, the total maximum number of shares which might be issued upon exercise of all outstanding share options granted and yet to be exercised under the Netfield Share Option Scheme and any other share option scheme must not exceed 30% of the Netfield shares in issue from time to time.

(iv) The maximum number of shares in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options and the share options cancelled) under any share option granted to the same participant under the Netfield Share Option Scheme or any other share option scheme within any 12 month period, must not exceed 1% of the relevant class of securities of Netfield in issue from time to time.

(v) There is no requirement for a grantee to hold the share option for a certain period before exercising the share option save as determined by the board of directors of Netfield and provided in the offer of grant of share option.

(vi) The exercise period should be any period fixed by the board of directors of Netfield upon grant of the option but in any event the share option period should not go beyond 10 years from the date of offer for grant.

(vii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee to Netfield.

## 40. SHARE OPTION SCHEMES (continued)

**(C) Share option scheme of Netfield Technology Limited ("Netfield"), the wholly-owned subsidiary of the Group (continued)**

(viii) The exercise price of a share option shall be such price as the board of directors of Netfield at its absolute discretion shall determine, save that such price must not always be less than the nominal value of Netfield's share, which is currently of HK$0.10 each.

(ix) The exercise price of a share option granted at any time after Netfield has resolved to seek a separate listing of Netfield and up to the listing date or during the period commencing 6 months before the lodgement of listing application and up to the listing date, shall not be less than the new issue price at listing.

(x) After the Netfield's share have been listed, the exercise price of a share option must be the highest of:

- the closing price of the Netfield's shares on the date of grant which day must be a trading day;
- the average closing price of the Netfield's shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the Netfield's share.

(xi) The life of the Share Option Scheme is effective for 10 years from the date of adoption until 5 June 2018.

## 41. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme. The cap of contribution amount is HK$1,500 per employee per month.

The Group operates various benefits schemes for its full-time employees in the PRC in accordance with the relevant PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to the existing schemes, the Group contributes 7%, 5%, 17%, 2%, 0.5% and 0.5% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury and pregnancy insurance respectively.

The employer's contributions to the MPF Schemes and various benefits schemes in the PRC are disclosed in note 9.

## 42. DISPOSAL OF A SUBSIDIARY

On 15 July 2016, the Group completed the disposal of its indirectly wholly-owned subsidiary, Cheer Wise Investments Limited, at a cash consideration of HK$140,500,000 (represented a consideration of HK$125,112,000 for repayment of an amount due to a subsidiary of CFSG and a consideration of HK$15,388,000 for the shares of Cheer Wise Investments Limited). The net assets of Cheer Wise Investments Limited at the date of disposal were as follow:

| | HK$'000 |
|---|---|
| Consideration received: | |
| Total cash consideration received | 140,500 |
| Analysis of assets and liabilities over which control was lost: | |
| Investment property | 140,400 |
| Deposits | 150 |
| Amount due to a subsidiary of CFSG | (125,112) |
| Accrued liabilities | (31) |
| Deferred tax liability | (3,377) |
| Net assets disposed of | 12,030 |
| Consideration received | 140,500 |
| Less: Consideration for repayment of an amount due to a subsidiary of CFSG | (125,112) |
| | 15,388 |
| Net assets disposed of | (12,030) |
| Transaction costs | (735) |
| Gain on disposal (Note 8) | 2,623 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 140,500 |
| Less: Transaction costs | (735) |
| | 139,765 |

## 43. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties and connected parties:

| | Notes | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|---|
| Commission and interest income received from the following major shareholders of the Company | | | |
| Cash Guardian | (a) | **—** | 52 |
| Mr Kwan Pak Hoo Bankee and associates | (a) | **18** | 86 |
| | | **18** | 138 |
| Commission and interest income received from the following directors of the Company | | | |
| Mr Law Ping Wah Bernard and associates | | **7** | 58 |
| Mr Ng Hin Sing Derek and associates | | **1** | 30 |
| | | **8** | 88 |
| Commission and interest income received from the following directors of the CFSG | | | |
| Ms Cheng Pui Lai Majone and associates | | **16** | 92 |
| Mr Ng Kung Chit Raymond and associates | (b) | **13** | 53 |
| | | **29** | 145 |
| Commission and interest income received from other connected clients | | | |
| Mr Kwan Pak Leung Horace and associates | (c) | **10** | 33 |
| Ms Chan Siu Fei Susanna and associates | (c) | **13** | 29 |
| | | **23** | 62 |

Notes:

(a) Cash Guardian has significant influence over the Company. 33.89% (2015: 33.89%) equity interest of the Company is held by Cash Guardian at 31 December 2016. Cash Guardian is controlled by Mr Kwan Pak Hoo Bankee, an executive director of the Company.

(b) During the year ended 31 December 2016, Mr Ng Kung Chit Raymond resigned as an executive director of CFSG.

(c) Mr Kwan Pak Leung Horace and Ms Chan Siu Fei Susanna are associates of Mr Kwan Pak Hoo Bankee.

**Compensation of key management personnel**

The remuneration of directors of the Company and chief executive which is disclosed in note 11 is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

## 44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2016, part of the consideration for the purchase of property and equipment amounted to approximately HK$2,762,000 (2015: HK$8,686,000) were not settled and included in the consolidated statement of financial position as other payables.

During the year ended 31 December 2015, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$1,423,000.

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

**Year 2016 and 2015**

| Name | Place of incorporation | Paid up issued share capital/registered capital | Proportion of nominal value of issued share capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| CASH Group Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| CASH Retail Management (HK) Limited ("CRM(HK)") | BVI | Ordinary HK$3,877,860 | **90.98** | 90.98 | Investment holding |
| CIGL | BVI | Ordinary US$10,000 | **100** | 100 | Investment holding |
| Libra Capital Management (HK) Limited | BVI | Ordinary US$1 | **100** | 100 | Trading of securities |
| Moli Mobile Digital Entertainment Holdings Limited ("MMDE") | BVI | Ordinary US$10,000 | **89.7** | 89.7 | Investment holding |
| Mov2Gather (HK) Limited | Hong Kong | Ordinary HK$1 | **89.7** | 89.7 | Provision of mobile digital services |
| Joy2Gather Limited | BVI | Ordinary US$1 | **89.7** | 89.7 | Investment holding |
| Praise Joy Limited | BVI | Ordinary US$1 | **100** | 100 | Investment holding |
| Pricerite Stores Limited | Hong Kong | Ordinary HK$201,170,000 | **90.98** | 90.98 | Retailing of furniture and household goods |

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

**Year 2016 and 2015 (continued)**

| Name | Place of incorporation | Paid up issued share capital/registered capital | Proportion of nominal value of issued share capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| Wealthy View Investment Limited | BVI | Ordinary US$10 | **100** | 100 | Investment holding |
| CASH E-Trade Limited | Hong Kong | Ordinary HK$4,000,000 | **100** | 100 | Provision of management services for group companies |
| Celestial Investments (HK) Limited | Hong Kong | Ordinary HK$10,000,000 | **100** | 100 | Money lending |
| Marvel Champ Investments Limited ("Marvel Champ") | BVI | Ordinary US$100 | **65** | 65 | Investment holding |
| DOI | BVI | Ordinary HK$5,000,000 | **100** | 100 | Investment holding |
| CDOI Securities Limited | Hong Kong | Ordinary HK$5,000,000 | **100** | 100 | Investment trading |
| CASH Algo Finance Group Limited | Hong Kong | Ordinary HK$2,000,000 | **100** | 100 | Provision of management services and investment trading |
| CASH Talent Investment Limited | Hong Kong | Ordinary HK$1 | **100** | 100 | Investment trading |
| CASH Frontier Investment Limited | Hong Kong | Ordinary HK$1 | **100** | 100 | Investment trading |
| CASH Quant-Finance Lab Limited | Hong Kong | Ordinary HK$1 | **100** | 100 | Provision of management services and investment trading |
| **Subsidiaries of CFSG** | | | | | |
| CASH Asset Management Limited | Hong Kong | Ordinary HK$10,000,000 | **40.34** | 40.34 | Provision of asset management services |
| CASH Wealth Management Limited | Hong Kong | Ordinary HK$15,000,000 | **40.34** | 40.34 | Financial advisory consultancy |

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

**Year 2016 and 2015 (continued)**

| Name | Place of incorporation | Paid up issued share capital/registered capital | Proportion of nominal value of issued share capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries of CFSG (continued)** | | | | | |
| CASH Payment Services Limited | Hong Kong | Ordinary HK$2 | **40.34** | 40.34 | Provision of payment gateway services |
| Celestial Asset Management Limited | Hong Kong | Ordinary HK$6,781,401 | **40.34** | 40.34 | Provision of treasury management functions |
| Celestial Capital Limited | Hong Kong | Ordinary HK$30,000,000 | **40.34** | 40.34 | Provision of corporate finance, investment and financial advisory services |
| Celestial Commodities Limited | Hong Kong | Ordinary HK$50,000,000 | **40.34** | 40.34 | Brokerage of futures and options |
| Celestial Finance Limited | Hong Kong | Ordinary HK$121,000,002 | **40.34** | 40.34 | Money lending |
| Celestial Securities Limited | Hong Kong | Ordinary HK$140,000,000 | **40.34** | 40.34 | Brokerage of securities and equity options |
| Agostini Limited | Hong Kong | Ordinary HK$1 | **40.34** | 40.34 | Investment holding and trading |
| Think Right Investments Limited | BVI | Ordinary US$1 | **40.34** | 40.34 | Properties holding |
| Cheer Wise Investments Limited | Hong Kong | Ordinary HK$1 | **—** | 40.34 | Properties holding |
| Celestial Financial Services Limited | BVI | Ordinary US$10,000 | **40.34** | 40.34 | Investment holding |
| CASH Mobile Financial Services Limited | Hong Kong | Ordinary HK$10,000,000 | **40.34** | 40.34 | Provision of management services for group companies |

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

All the subsidiaries shown above are indirectly held by the Company. In the opinion of the directors of the Company, a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which principally affect the results or net assets of the Group.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. Majority of these subsidiaries operate in Hong Kong and are investment holding or inactive companies.

The table below shows details of non-wholly-owned subsidiaries of the Group that have non-controlling interests:

| Name of subsidiaries | Principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | (Loss) profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | | | | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| CFSG | Bermuda/Hong Kong | **59.66%** | 59.66% | **(30,545)** | 1,035 (Note (3)) | **319,183** | 350,443 |
| *Non-wholly owned subsidiaries of CFSG* | | | | | | | |
| Marvel Champ (Note (1)) | BVI/The PRC | **—** | — | **—** | (196) | **—** | — |
| CFSG | | | | **(30,545)** | 839 | **319,183** | 350,443 |
| CRM(HK) (Note (2)) | BVI/Hong Kong | **9.02%** | 9.02% | **2,517** | 2,137 | **13,597** | 11,080 |
| MMDE | BVI/Hong Kong | **10.3%** | 10.3% | **—** | — | **(40,045)** | (40,045) |
| Individual immaterial subsidiaries with non-controlling interests | | | | **—** | — | **535** | 535 |
| | | | | **(28,028)** | 2,976 | **293,270** | 322,013 |

Notes:

(1) Marvel Champ was a 65% owned subsidiary of CFSG and acquired by the Group during the year ended 31 December 2015. The non-controlling interests of Marvel Champ is included in the Group's individual immaterial subsidiaries with non-controlling interests.

(2) CRM(HK) is 90.98% owned by the Company.

(3) The amounts shown exclude those attributable to non-controlling interests of CFSG's subsidiaries.

CFSG is listed on the Stock Exchange. The Group's shareholding of CFSG was approximately 40.34% (2015: varied between 40.10% and 40.71%) during the year ended 31 December 2016. The directors of the Company examined all the relevant facts and circumstances, including the Group's dominant voting interest in CFSG, dispersion of holding of other vote holders and participation rates of shareholders and voting patterns in previous shareholders' meetings and concluded that the Group has the control over CFSG and consolidated CFSG as a subsidiary throughout the relevant reporting periods. Details of the control over CFSG are disclosed in note 4.

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Summarised consolidated financial information in respect of each Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

**CFSG and subsidiaries**

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Non-current assets | **58,805** | 231,846 |
| Current assets | **1,652,118** | 2,070,842 |
| Non-current liabilities | **(10,685)** | (84,198) |
| Current liabilities | **(1,157,060)** | (1,622,915) |
| Net assets of CFSG | **543,178** | 595,575 |
| Equity attributable to owners of the Company | **223,995** | 245,132 |
| Non-controlling interests of CFSG | **319,183** | 350,443 |
| | **543,178** | 595,575 |
| Revenue | **166,830** | 252,290 |
| Expenses | **(218,028)** | (238,880) |
| (Loss) profit for the year | **(51,198)** | 13,410 |
| (Loss) profit for the year attributable to | | |
| — the owners of the Company | **(20,653)** | 12,571 |
| — non-controlling interests of CFSG | **(30,545)** | 1,035 |
| — non-controlling interests of CFSG's subsidiaries | **—** | (196) |
| (Loss) profit for the year | **(51,198)** | 13,410 |
| Other comprehensive expense for the year | | |
| — the owners of the Company | **(484)** | (5,858) |
| — non-controlling interests of CFSG | **(715)** | (8,748) |
| — non-controlling interests of CFSG's subsidiaries | **—** | — |
| Other comprehensive expense for the year | **(1,199)** | (14,606) |
| Total comprehensive (expense) income for the year attributable to | | |
| — the owners of the Company | **(21,137)** | 6,713 |
| — non-controlling interests of CFSG | **(31,260)** | (7,713) |
| — non-controlling interests of CFSG's subsidiaries | **—** | (196) |
| Total comprehensive expense for the year | **(52,397)** | (1,196) |
| Net cash (outflow) inflow from operating activities | **(123,300)** | 121,567 |
| Net cash inflow from investing activities | **128,165** | 39,143 |
| Net cash (outflow) inflow from financing activities | **(40,486)** | 39,045 |
| Net cash (outflow) inflow | **(35,621)** | 199,755 |

There are no significant restrictions on the ability of CFSG to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

**CRM(HK)**

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Non-current assets | **121,899** | 128,199 |
| Current assets | **482,509** | 463,339 |
| Non-current liabilities | **(6,649)** | (6,649) |
| Current liabilities | **(452,264)** | (467,317) |
| | **145,495** | 117,572 |
| Equity attributable to owners of the Company | **131,898** | 106,492 |
| Non-controlling interests of CRM(HK) | **13,597** | 11,080 |
| | **145,495** | 117,572 |
| Revenue | **1,440,493** | 1,390,312 |
| Expenses | **(1,412,591)** | (1,366,620) |
| Profit and total comprehensive income for the year | **27,902** | 23,692 |
| Profit and total comprehensive income for the year attributable to | | |
| — the owners of the Company | **25,385** | 21,555 |
| — non-controlling interests of CRM(HK) | **2,517** | 2,137 |
| Profit and total comprehensive income for the year | **27,902** | 23,692 |
| Net cash inflow from operating activities | **53,752** | 95,978 |
| Net cash outflow from investing activities | **(6,205)** | (86,213) |
| Net cash (outflow) inflow from financing activities | **(12,019)** | 46,152 |
| Net cash inflow | **35,528** | 55,917 |

There are no significant restrictions on the ability of CRM(HK) to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

## 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

**MMDE**

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Non-current assets | **6,193** | 6,257 |
| Current assets | **1,755** | 2,077 |
| Current liabilities | **(404,026)** | (402,188) |
| | **(396,078)** | (393,854) |
| Equity attributable to owners of the Company | **(356,033)** | (353,809) |
| Non-controlling interests of MMDE | **(40,045)** | (40,045) |
| | **(396,078)** | (393,854) |
| Revenue | **2,562** | 404 |
| Expenses | **(4,558)** | (2,673) |
| Loss for the year | **(1,996)** | (2,269) |
| Loss for the year attributable to | | |
| — the owners of the Company | **(1,996)** | (2,269) |
| — non-controlling interests of MMDE | **—** | — |
| Loss for the year | **(1,996)** | (2,269) |
| Other comprehensive expense for the year attributable to | | |
| — the owners of the Company | **(228)** | (491) |
| — non-controlling interests of MMDE | **—** | — |
| Other comprehensive expense for the year | **(228)** | (491) |
| Total comprehensive expense for the year attributable to | | |
| — the owners of the Company | **(2,224)** | (2,760) |
| — non-controlling interests of MMDE | **—** | — |
| Total comprehensive expense for the year | **(2,224)** | (2,760) |
| Net cash outflow from operating activities | **(2,299)** | (2,057) |
| Net cash inflow from financing activities | **2,320** | 1,863 |
| Net cash inflow (outflow) | **21** | (194) |

There are no significant restrictions on the ability of MMDE to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

## 46. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year's presentation.

## 47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Non-current asset | | |
| Amounts due from subsidiaries | **424,680** | 421,315 |
| Current assets | | |
| Other receivables | **227** | 373 |
| Bank balance and cash | **254** | 5,076 |
| | **481** | 5,449 |
| Current liabilities | | |
| Other payables and accruals | **987** | 583 |
| Amounts due to subsidiaries | **41,281** | 41,281 |
| | **42,268** | 41,864 |
| Net current liabilities | **(41,787)** | (36,415) |
| Net assets | **382,893** | 384,900 |
| Capital and reserves | | |
| Share capital | **83,122** | 83,122 |
| Reserves (Note) | **299,771** | 301,778 |
| Total equity | **382,893** | 384,900 |

Note: Reserves

| | **Share premium** HK$'000 | **Contributed surplus** HK$'000 | **Share option reserve** HK$'000 | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2015 | 510,677 | 149,719 | 3,604 | (440,199) | 223,801 |
| Loss and total comprehensive expense for the year | — | — | — | (3,637) | (3,637) |
| Issue of new shares | 83,122 | — | — | — | 83,122 |
| Transaction costs attributable to issue of new shares | (2,362) | — | — | — | (2,362) |
| Recognition of equity-settled share-based payments | — | — | 854 | — | 854 |
| At 31 December 2015 | 591,437 | 149,719 | 4,458 | (443,836) | 301,778 |
| Loss and total comprehensive expense for the year | — | — | — | (2,861) | (2,861) |
| Recognition of equity-settled share-based payments | — | — | 854 | — | 854 |
| At 31 December 2016 | 591,437 | 149,719 | 5,312 | (446,697) | 299,771 |

# Appendix I — Investment Property

Held as at 31 December 2016

| Location | Approximate gross floor area (sq. ft.) | Land use |
|---|---|---|
| Room 1607 (also known as 19A), Residence 8, No. 8 Jinan Road, Luwan District, Shanghai, the PRC | 1,593 | The property is vacant |

# Appendix II – Five-Year Financial Summary

The summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements as appropriate, is set out below:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| Revenue | **1,592,971** | 1,634,613 | 1,371,608 | 1,306,493 | 1,290,314 |
| (Loss) profit before taxation | **(54,772)** | 26,057 | 64,904 | (132,268) | (243,687) |
| Income tax (expense) credit | **(4,395)** | (7,852) | (21,302) | 3,903 | (8,769) |
| (Loss) profit for the year | **(59,167)** | 18,205 | 43,602 | (128,365) | (252,456) |
| Attributable to: | | | | | |
| Equity holders of the Company | **(31,139)** | 15,229 | 2,422 | (87,835) | (228,552) |
| Non-controlling interests | **(28,028)** | 2,976 | 41,180 | (40,530) | (23,904) |
| | **(59,167)** | 18,205 | 43,602 | (128,365) | (252,456) |

# Appendix II – Five-Year Financial Summary (continued)

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Property and equipment | **63,911** | 83,751 | 74,486 | 60,600 | 84,297 |
| Investment property | **16,508** | 188,583 | 213,666 | 57,112 | 68,832 |
| Goodwill | **60,049** | 60,049 | 60,049 | 62,710 | 62,710 |
| Interest in an associate | **–** | – | 1,434 | 158,154 | 152,939 |
| Intangible assets | **53,212** | 53,212 | 53,212 | 53,212 | 96,600 |
| Other non-current assets | **62,142** | 52,617 | 76,183 | 107,901 | 88,107 |
| Current assets | **2,264,344** | 2,614,213 | 2,058,903 | 2,012,378 | 2,479,802 |
| Total assets | **2,520,166** | 3,052,425 | 2,537,933 | 2,512,067 | 3,033,287 |
| Current liabilities | **1,747,407** | 2,149,024 | 1,740,356 | 1,816,458 | 2,235,261 |
| Long term borrowings | **10,645** | 78,412 | 91,516 | 22,575 | 26,331 |
| Other non-current liabilities | **6,924** | 13,077 | 14,509 | 8,218 | 16,187 |
| Total liabilities | **1,764,976** | 2,240,513 | 1,846,381 | 1,847,251 | 2,277,779 |
| Net assets | **755,190** | 811,912 | 691,552 | 664,816 | 755,508 |
| Equity attributable to equity holders of the Company | **461,920** | 489,899 | 366,626 | 357,258 | 369,473 |
| Non-controlling interests | **293,270** | 322,013 | 324,926 | 307,558 | 386,035 |
| | **755,190** | 811,912 | 691,552 | 664,816 | 755,508 |

# Definitions

In this annual report, the following expressions have the following meanings unless the context requires otherwise:

| | |
|---|---|
| "AGM(s)" | the annual general meeting(s) of the Company |
| "Audit Committee" | the audit committee of the Company established pursuant to the CG Code of the Listing Rules |
| "Board" | the board of Directors |
| "CASH Algo Finance Group" | CASH Algo Finance Group International Limited and its subsidiaries. It is a company incorporated in the British Virgin Islands with limited liability and is a subsidiary of the Company since June 2015 |
| "Cash Guardian" | Cash Guardian Limited, a company incorporated in the British Virgin Islands; a substantial Shareholder of the Company and an associate of Mr Kwan Pak Hoo Bankee |
| "Celestial Capital" | Celestial Capital Limited, a company incorporated in Hong Kong with limited liability, is a subsidiary of the Company via CFSG. It is a licensed corporation under the SFO which is engaged in types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities |
| "Celestial Commodities" | Celestial Commodities Limited, a company incorporated in Hong Kong with limited liability, is a subsidiary of the Company via CFSG. It is a licensed corporation under the SFO which is engaged in type 2 (dealing in futures contracts) regulated activity |
| "Celestial Securities" | Celestial Securities Limited, a company incorporated in Hong Kong with limited liability, is a subsidiary of the Company via CFSG. It is a licensed corporation under the SFO which is engaged in type 1 (dealing in securities) regulated activity |
| "CEO" | the chief executive officer of the Company |
| "CFO" | the chief financial officer of the Company |
| "CFSG" | CASH Financial Services Group Limited (stock code: 510), a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board. CFSG is currently a subsidiary of the Company |
| "CFSG Board" | the board of directors of CFSG |
| "CFSG Group" | CFSG and its subsidiaries |
| "CFSG Option Scheme" | the share option scheme adopted by CFSG pursuant to an ordinary resolution passed at the special general meeting of CFSG held on 22 February 2008, which took effect on 3 March 2008 |
| "CG Code" | the Corporate Governance Code as contained in the Listing Rules |
| "CIGL" | Celestial Investment Group Limited, a company incorporated in the British Virgin Islands with limited liability, is a wholly-owned subsidiary of the Company |
| "Company" or "CASH" | Celestial Asia Securities Holdings Limited (stock code: 1049), a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board |

# Definitions (continued)

| | |
|---|---|
| "Company Secretary" | the company secretary of the Company |
| "COO" | the chief operating officer of the Company |
| "CRMG" | CASH Retail Management (HK) Limited, a company incorporated in the British Virgin Islands with limited liability, and its subsidiaries (including Pricerite Group), which mainly engage in the retail management business in Hong Kong and China |
| "Directors" | the directors of the Company |
| "ED(s)" | the executive Director(s) of the Company |
| "ESG Guide" | the Environmental, Social and Governance Reporting Guide as contained in Appendix 27 of the Listing Rules |
| "Group" or "CASH Group" | the Company and its subsidiaries including the CFSG Group |
| "INED(s)" | the independent non-executive Director(s) of the Company |
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange |
| "Main Board" | the main board of the Stock Exchange |
| "Management" | the management team of the Company |
| "Model Code" | the required standards of dealings regarding securities transactions by Directors or the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules |
| "Net2Gather" or "Netfield" | Netfield Technology Limited, a company incorporated in Bermuda with limited liability. It is a wholly-owned subsidiary of the Company and the holding company of mobile internet services business |
| "Pricerite" or "Pricerite Group" | Pricerite Group Limited, a company incorporated in the British Virgin Islands with limited liability, and its subsidiaries (including Pricerite Stores Limited), which mainly conduct the retail management business in Hong Kong under the brand name of "Pricerite" |
| "Remuneration Committee" | the remuneration committee of the Company established pursuant to the CG Code of the Listing Rules |
| "SFC" | the Hong Kong Securities and Futures Commission |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "SGM(s)" | the special general meeting(s) of the Company |
| "Share(s)" | ordinary shares of HK$0.10 each in the share capital of the Company |
| "Share Option Scheme" | the existing share option scheme of the Company adopted by the Shareholders at an AGM of the Company held on 21 May 2012 |

# Definitions (continued)

| | |
|---|---|
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "HK$" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "US$" or "USD" | United States dollar(s), the lawful currency of the United States |
| "Hong Kong" or "HKSAR" | the Hong Kong Special Administrative Region of the PRC |
| "PRC" | the People's Republic of China |
| "UK" | United Kingdom |
| "US" | United States |