

# SUNWAH KINGSWAY 新華滙富

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

Incorporated in Bermuda with limited liability

Stock Code: 00188



## A Better, Brighter Future Ahead



Interim Report

# 2017/18



## CONTENTS

Corporate Information	1
Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Statement of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Management Discussion and Analysis	22
Independent Review Report	32

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

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

# Corporate Information

## GENERAL INFORMATION

### CHAIRMAN

Jonathan Koon Shum Choi

### EXECUTIVE DIRECTOR

Michael Koon Ming Choi (*Chief Executive Officer*)

### NON-EXECUTIVE DIRECTORS

Janice Wing Kum Kwan

Lee G. Lam

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Robert Tsai To Sze

Elizabeth Law

Huanfei Guan

## LEGAL ADVISORS TO THE COMPANY

*As to Hong Kong Law:*

MinterEllison

Level 25, One Pacific Place,

88 Queensway, Hong Kong

*As to Bermuda Law:*

Conyers Dill & Pearman

2901 One Exchange Square,

8 Connaught Place, Central, Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu

35th Floor, One Pacific Place,

88 Queensway, Hong Kong

## REGISTERED OFFICE

Clarendon House,

2 Church Street,

Hamilton HM 11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, Tower One, Lippo Centre

89 Queensway, Hong Kong

## COMPANY SECRETARY

Vincent Wai Shun Lai

## AUTHORISED REPRESENTATIVES

Michael Koon Ming Choi

Vincent Wai Shun Lai

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited

The Belvedere Building

69 Pitts Bay Road

Pembroke HM08, Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Room 1712-1716, 17th Floor,

Hopewell Centre, 183 Queen's Road East,

Hong Kong

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

Industrial and Commercial Bank of China (Asia) Limited

## COMPOSITION OF BOARD COMMITTEES

### AUDIT COMMITTEE

Robert Tsai To Sze (*Chairman*)

Elizabeth Law

Huanfei Guan

### NOMINATION COMMITTEE

Elizabeth Law (*Chairman*)

Jonathan Koon Shum Choi

Robert Tsai To Sze

Huanfei Guan

### COMPENSATION COMMITTEE

Elizabeth Law (*Chairman*)

Jonathan Koon Shum Choi

Robert Tsai To Sze

Huanfei Guan

### CORPORATE GOVERNANCE COMMITTEE

Lee G. Lam (*Chairman*)

Janice Wing Kum Kwan

Huanfei Guan

# Condensed Consolidated Income Statement

	Notes	Six months ended 31 December	
		2017 Unaudited HK\$'000	2016 Unaudited HK\$'000
<b>Revenue</b>			
Commission and fee income		61,483	35,160
Interest and dividend income		12,075	15,625
Rental income		2,302	1,960
	3	75,860	52,745
<b>Net gain/(loss) on disposal of financial assets/liabilities at fair value</b>			
<b>through profit or loss and remeasurement to fair value</b>	3	7,287	(913)
<b>Other income and gains or losses</b>	3	1,532	(3,502)
	3	84,679	48,330
<b>Operating expenses</b>			
Commission expenses		(5,492)	(2,839)
General and administrative expenses		(68,704)	(58,758)
Finance costs		(399)	(317)
		10,084	(13,584)
Fair value changes on investment properties		2,858	(1,447)
Fair value changes on non-controlling interests in consolidated investment fund	3	(736)	(235)
Share of profit/(loss) of associates	3	2,810	(68)
<b>Profit/(loss) before tax</b>	4	15,016	(15,334)
Income tax expenses	5	(2,208)	(239)
<b>Profit/(loss) for the period</b>		12,808	(15,573)
<b>Attributable to:</b>			
Owners of the Company		12,602	(15,583)
Non-controlling interests		206	10
<b>Profit/(loss) for the period</b>		12,808	(15,573)
<b>Basic earnings/(loss) per share</b>	7	0.2 HK cent	(0.3) HK cent
<b>Diluted earnings/(loss) per share</b>	7	0.2 HK cent	(0.3) HK cent

# Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 December	
	2017 Unaudited HK\$'000	2016 Unaudited HK\$'000
<b>Profit/(loss) for the period</b>	<b>12,808</b>	(15,573)
<b>Other comprehensive income/(expense):</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Surplus on revaluation of land and buildings held for own use (net of tax) (note 8)	<b>30,982</b>	543
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of financial statements of overseas subsidiaries	<b>91</b>	623
Fair value changes on available-for-sale investments	<b>615</b>	–
	<b>706</b>	623
<b>Other comprehensive income for the period</b>	<b>31,688</b>	1,166
<b>Total comprehensive income/(expense) for the period</b>	<b>44,496</b>	(14,407)
<b>Total comprehensive income/(expense) attributable to:</b>		
Owners of the Company	<b>44,290</b>	(14,417)
Non-controlling interests	<b>206</b>	10
<b>Total comprehensive income/(expense) for the period</b>	<b>44,496</b>	(14,407)

# Condensed Consolidated Statement of Financial Position

	<i>Notes</i>	<b>31 December 2017 Unaudited HK\$'000</b>	30 June 2017 Audited HK\$'000
<b>Non-current assets</b>			
Investment properties		95,645	92,787
Properties and equipment	8	379,749	348,986
Intangible assets		2,051	2,051
Interests in associates		16,441	13,631
Available-for-sale investments	9	54,285	34,170
Financial assets at fair value through profit or loss	10	20,492	20,823
Other financial assets		12,261	29,973
		<b>580,924</b>	542,421
<b>Current assets</b>			
Financial assets at fair value through profit or loss	10	164,929	142,086
Accounts, loans and other receivables	11	449,948	421,212
Bank balances and cash – trust accounts	12	437,379	798,269
Cash and cash equivalents		169,889	179,840
		<b>1,222,145</b>	1,541,407
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	13	1,365	2,806
Net assets attributable to holders of non-controlling interests in consolidated investment fund	14	16,002	15,266
Accruals, accounts and other payables	15	714,299	1,031,103
Bank loans	16	30,000	30,000
Current taxation		2,889	1,662
		<b>764,555</b>	1,080,837
<b>Net current assets</b>		<b>457,590</b>	460,570
<b>Total assets less current liabilities</b>		<b>1,038,514</b>	1,002,991
<b>Non-current liabilities</b>			
Deferred tax liabilities		32,716	27,886
<b>NET ASSETS</b>		<b>1,005,798</b>	975,105
<b>CAPITAL AND RESERVES</b>			
Share capital		552,130	552,130
Reserves		453,336	422,849
<b>Equity attributable to owners of the Company</b>		<b>1,005,466</b>	974,979
<b>Non-controlling interests</b>		332	126
<b>TOTAL EQUITY</b>		<b>1,005,798</b>	975,105

# Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Properties revaluation reserve HK\$'000	Investments revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 July 2017	552,130	352,909	39,800	63,392	(1,300)	154,569	-	(186,571)	974,979	126	975,105
Profit for the period	-	-	-	-	-	-	-	12,602	12,602	206	12,808
Exchange differences arising on translation of financial statements of overseas subsidiaries	-	-	-	-	91	-	-	-	91	-	91
Surplus on revaluation of land and buildings held for own use	-	-	-	-	-	30,982	-	-	30,982	-	30,982
Fair value changes on available-for-sale investments	-	-	-	-	-	-	615	-	615	-	615
Total comprehensive income for the period	-	-	-	-	91	30,982	615	12,602	44,290	206	44,496
2017 final dividend paid (note 6)	-	-	-	-	-	-	-	(13,803)	(13,803)	-	(13,803)
At 31 December 2017	552,130	352,909	39,800	63,392	(1,209)	185,551	615	(187,722)	1,005,466	332	1,005,798
At 1 July 2016	552,130	352,909	39,800	63,392	(1,728)	122,537	-	(159,746)	969,294	118	969,412
(loss)/profit for the period	-	-	-	-	-	-	-	(15,583)	(15,583)	10	(15,573)
Exchange differences arising on translation of financial statements of overseas subsidiaries	-	-	-	-	623	-	-	-	623	-	623
Surplus on revaluation of land and buildings held for own use	-	-	-	-	-	543	-	-	543	-	543
Total comprehensive income/(expense) for the period	-	-	-	-	623	543	-	(15,583)	(14,417)	10	(14,407)
2016 final dividend paid (note 6)	-	-	-	-	-	-	-	(13,803)	(13,803)	-	(13,803)
At 31 December 2016	552,130	352,909	39,800	63,392	(1,105)	123,080	-	(189,132)	941,074	128	941,202

# Condensed Consolidated Statement of Cash Flows

	Six months ended 31 December	
	2017 Unaudited HK\$'000	2016 Unaudited HK\$'000
<b>Operating activities</b>		
Operating cash flows before changes in working capital	4,120	(20,470)
Increase in financial assets at fair value through profit or loss	(22,843)	(70,856)
(Increase)/decrease in accounts, loans and other receivables	(30,884)	74,341
Decrease/(increase) in bank balances and cash – trust accounts	360,890	(10,337)
(Decrease)/increase in accruals, accounts and other payables	(316,803)	16,911
Decrease in financial liabilities at fair value through profit or loss	(1,441)	(5,638)
Other operating cash flows	(1,788)	1,500
Cash used in operations	(8,749)	(14,549)
Interest received	12,227	12,073
Dividend received	1,657	3,265
Interest paid	(400)	(300)
Profit tax paid	(188)	–
Net cash generated from operating activities	4,547	489
<b>Investing activities</b>		
Payment for purchase of properties and equipment	(695)	–
Payment for purchase of financial asset at fair value through profit or loss (note 9)	–	(19,500)
Pledged bank balances released	–	3,274
Net investments by the holders of non-controlling interests in consolidated fund	–	3,879
Loan to an associate	–	(2,500)
Net cash used in investing activities	(695)	(14,847)
<b>Financing activities</b>		
Dividends paid to owners of the Company	(13,803)	(13,803)
Proceeds from bank loans	330,000	75,000
Repayment of bank loans	(330,000)	(10,000)
Net cash (used in)/generated from financing activities	(13,803)	51,197
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(9,951)</b>	<b>36,839</b>
<b>Cash and cash equivalents at 1 July 2017/2016</b>	<b>179,840</b>	<b>143,272</b>
<b>Cash and cash equivalents at 31 December 2017/2016</b>	<b>169,889</b>	<b>180,111</b>
Represented by:		
Bank balances and cash	169,889	180,111



# Notes to Condensed Consolidated Financial Statements

## 1 Basis of preparation

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

## 2 Significant accounting policies

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

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

## Notes to Condensed Consolidated Financial Statements

## 3 Segment information

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

	Six months ended 31 December 2017						Consolidated HK\$'000
	Proprietary investment HK\$'000	Property investment HK\$'000	Corporate finance and capital markets HK\$'000		Asset management HK\$'000	Others HK\$'000	
			Brokerage				
Revenue from external customers	3,816	2,302	26,392	42,569	252	529	75,860
Inter-segment revenue	2	-	857	-	1,095	15,660	17,614
Segment revenue	3,818	2,302	27,249	42,569	1,347	16,189	93,474
Net gain on disposal of financial assets/ liabilities at fair value through profit or loss and remeasurement to fair value	6,344	-	943	-	-	-	7,287
Other income and gains or losses	204	(240)	220	(97)	2	1,443	1,532
Eliminations	(2)	-	(857)	-	(1,095)	(15,660)	(17,614)
	10,364	2,062	27,555	42,472	254	1,972	84,679
Segment results	1,069	2,989	14	8,045	576	249	12,942
Share of profit of associates	-	-	2,810	-	-	-	2,810
Fair value changes on non-controlling interests in consolidated investment fund	(736)	-	-	-	-	-	(736)
Profit before tax							15,016

  

	Six months ended 31 December 2016						Consolidated HK\$'000
	Proprietary investment HK\$'000	Property investment HK\$'000	Corporate finance and capital markets HK\$'000		Asset management HK\$'000	Others HK\$'000	
			Brokerage				
Revenue from external customers	4,836	1,960	23,526	21,221	-	1,202	52,745
Inter-segment revenue	1	-	727	-	615	10,329	11,672
Segment revenue	4,837	1,960	24,253	21,221	615	11,531	64,417
Net (loss)/gain on disposal of financial assets/ liabilities at fair value through profit or loss and remeasurement to fair value	(3,677)	-	2,764	-	-	-	(913)
Other income and gains or losses	(105)	-	(1,987)	-	(3)	(1,407)	(3,502)
Eliminations	(1)	-	(727)	-	(615)	(10,329)	(11,672)
	1,054	1,960	24,303	21,221	(3)	(205)	48,330
Segment results	(5,300)	(1,075)	(875)	1,381	(642)	(8,520)	(15,031)
Share of (loss)/profit of associates	-	-	(93)	25	-	-	(68)
Fair value changes on non-controlling interests in consolidated investment fund	(235)	-	-	-	-	-	(235)
Loss before tax							(15,334)

## Notes to Condensed Consolidated Financial Statements

**3 Segment information (Continued)**

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

	<b>31 December</b>	30 June
	<b>2017</b>	2017
	<b>HK\$'000</b>	HK\$'000
Proprietary investment	223,415	221,610
Property investment	120,690	118,235
Brokerage	1,010,784	1,315,801
Corporate finance and capital markets	11,768	14,227
Asset management	5,388	5,400
Others	431,024	408,555
<b>Total assets</b>	<b>1,803,069</b>	<b>2,083,828</b>

**4 Profit/(loss) before tax**

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

	<b>Six months ended 31 December</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Net gain/(loss) on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value		
– equity securities	8,401	(5,550)
– debt securities	2,014	1,325
– derivatives and others	(3,128)	3,312
Dividends from listed equity securities	1,189	2,125
Interest income from		
– bank deposits	867	571
– margin and cash clients	3,027	3,308
– debt securities	2,144	2,622
– loans	4,814	3,854
– others	34	3,145
Staff costs	(46,955)	(37,917)
Operating lease charges – land and buildings	(1,569)	(1,433)
Depreciation	(4,951)	(5,928)
Interest expenses on		
– unsecured bank loans wholly repayable within one month and overdrafts	(88)	(29)
– secured bank loans wholly repayable within one year	(278)	(288)
– others	(33)	–
Impairment loss for accounts receivable	(339)	–
Exchange gain/(loss) (net)	1,797	(2,113)

## Notes to Condensed Consolidated Financial Statements

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

	<b>Six months ended 31 December</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Current tax		
– Hong Kong		
under provision for prior years	<b>988</b>	–
current year	<b>252</b>	–
– PRC	<b>175</b>	2
	<b>1,415</b>	2
Deferred tax	<b>793</b>	237
	<b>2,208</b>	239

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the current and prior periods. No tax is payable on the profits of certain subsidiaries arising in Hong Kong for the period since the estimated assessable profits of these subsidiaries of the Group of HK\$14.9 million (31 December 2016: HK\$6.3 million) are wholly absorbed by tax losses brought forward. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25%.

The Group has not recognised deferred tax asset in respect of the cumulative tax losses of approximately HK\$442 million (30 June 2017: HK\$445 million) due to the unpredictability of future profit streams. The tax losses of approximately HK\$431 million (30 June 2017: HK\$435 million) are from subsidiaries incorporated in Hong Kong and will not expire under current tax regulation while tax losses of approximately HK\$11 million (30 June 2017: HK\$10 million) are from PRC subsidiaries and are subject to expiry periods from 2020 to 2023 (30 June 2017: from 2020 to 2022) under the current tax legislation.

**6 Dividends**

Dividends recognised as distributions during the period

	<b>Six months ended 31 December</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
Final dividend in respect of the previous financial year, declared and paid of 0.25 HK cent per share (2016: 0.25 HK cent per share)	<b>13,803</b>	13,803

Subsequent to the end of the interim reporting period, at a meeting held on 13 February 2018, the directors declared an interim dividend of 0.2 HK cent per share (31 December 2016: 0.2 HK cent per share) with an aggregate amount of HK\$11,043,000 (31 December 2016: HK\$11,043,000) based on the number of shares in issue at 13 February 2018.

## Notes to Condensed Consolidated Financial Statements

## 7 Earnings/(loss) per share

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

	Six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
<b>Profit/(loss)</b>		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share		
(Profit/(loss) attributable to owners of the Company for the period)	12,602	(15,583)
<b>Number of shares</b>		
Number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	5,521,304,882	5,521,304,882

## 8 Properties and equipment

As at 31 December 2017, the revaluation surplus, net of the related deferred tax, of approximately HK\$30,982,000 (31 December 2016: HK\$543,000) was credited to the properties revaluation reserve. The fair value of the Group's land and buildings as at 31 December 2017 and 30 June 2017 has been arrived at on the basis of a valuation carried out on the respective date by RHL Appraisal Limited, an independent qualified professional valuer not connected with the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

## 9 Available-for-sale investments

	Notes	31 December	30 June
		2017	2017
		HK\$'000	HK\$'000
Unlisted investments:			
– Partnership shares at cost	(a)	6,170	6,170
– Shares at cost	(b)	28,000	28,000
– Investment fund at fair value	(c)	20,115	–
		<b>54,285</b>	34,170

*Notes:*

- (a) The limited partnership shares are stated at cost less impairment because their fair value cannot be measured reliably as the variability in the range of reasonable fair value estimates is significant.
- (b) The shares are stated at cost because their fair value cannot be measured reliably as the variability in the range of reasonable fair value estimates is significant. The investee engages in the development and sales of automobiles.
- (c) At the end of June 2017, the Group had deposited the subscription amount of HK\$19,500,000 into the bank account of the investment fund, which was classified as other financial asset as at 30 June 2017. The subscription was completed at the beginning of July 2017 and the subscription amount was reclassified as an available-for-sale investment. The fair value of the investment fund is based on the net asset value of the investment fund reported to the trustee by the administrator of the investment fund.

## Notes to Condensed Consolidated Financial Statements

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

	<i>Notes</i>	<b>31 December 2017 HK\$'000</b>	30 June 2017 HK\$'000
Held for trading investments:			
Listed equity securities, at quoted price			
– in Hong Kong		<b>99,927</b>	78,459
– outside Hong Kong		<b>4,428</b>	7,244
Listed debt securities, at quoted price			
– in Hong Kong	<i>(a)</i>	<b>32,852</b>	34,167
– outside Hong Kong	<i>(a)</i>	<b>27,722</b>	22,216
Financial asset designated at fair value through profit or loss			
Investment loan	<i>(b)</i>	<b>20,492</b>	20,823
		<b>185,421</b>	162,909
Represented by:			
Non-Current		<b>20,492</b>	20,823
Current		<b>164,929</b>	142,086
		<b>185,421</b>	162,909

*Notes:*

- (a) The Group held listed debt securities with fair value of HK\$55,242,000 as at 31 December 2017 (30 June 2017: HK\$56,383,000) which will be due in 2018 to 2027 (30 June 2017: 2017 to 2023). The Group also held listed perpetual debts with fair value of HK\$5,332,000 as at 31 December 2017 (30 June 2017: HK\$Nil).
- (b) The fair value of the investment loan is based on the value of underlying investments reported to the trustee by the administrator of the investment loan as of the end of the reporting period.

**11 Accounts, loans and other receivables**

	<i>Notes</i>	<b>31 December 2017 HK\$'000</b>	30 June 2017 HK\$'000
<b>Accounts and loans receivables</b>			
Amounts due from brokers and clearing houses	<i>(a)</i>	<b>249,814</b>	207,398
Amounts due from margin clients	<i>(b)</i>	<b>62,001</b>	44,281
Amounts due from cash clients	<i>(c)</i>	<b>74,144</b>	94,812
Fixed-rate loans receivable	<i>(d)</i>	<b>58,565</b>	67,269
Other accounts receivable	<i>(e)</i>	<b>9,214</b>	8,325
		<b>453,738</b>	422,085
Less: Impairment losses		<b>(8,058)</b>	(8,058)
		<b>445,680</b>	414,027
<b>Prepayments, deposits and other receivables</b>			
		<b>4,268</b>	7,185
		<b>449,948</b>	421,212

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

### Notes:

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

The amount due from a broker of HK\$Nil (30 June 2017: HK\$5,267,000) was pledged as collateral for the stock borrowing transactions. As at 31 December 2017, the Group placed a deposit of HK\$4,907,000 with The SEHK Options Clearing House Limited as margin deposit for the business of dealing in options (30 June 2017: HK\$Nil).

- (b) Margin clients of the brokerage division are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount to the value of securities accepted by the Group. At 31 December 2017, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK\$402 million (30 June 2017: HK\$269 million). The amounts due from margin clients are repayable on demand and bear interest at commercial rates.
- (c) There are no credit terms granted to cash clients of the brokerage division except for financing of IPO subscriptions. They are required to settle their securities trading balances on the settlement day determined under the relevant market practices or exchange rules. A receivable of HK\$18 million (30 June 2017: HK\$18 million) is due from a cash client related to the net balance of a 130% short selling deposit on a suspended security listed on the Main Board of the Stock Exchange. The management of the Group considers that the cash client has a strong financial position, and no impairment was made.
- (d) The credit terms for loans granted by the Group's brokerage division are set by management with reference to the financial background and the value and nature of collateral pledged by the borrowers. The fixed-rate loans receivable from money lending and factoring businesses are secured by personal/corporate guarantee, property located in Hong Kong, unlisted securities and trade receivables. The contractual maturity date of the fixed-rate loan receivables is within one year.
- (e) The Group normally allows credit periods of up to 30 days to customers, except for certain creditworthy customers with long term relationship and stable repayment pattern, where the terms are extended to a longer period.

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

	<b>31 December</b>	30 June
	<b>2017</b>	2017
	<b>HK\$'000</b>	HK\$'000
Current and within one month	<b>445,522</b>	411,088
More than one month and within three months	–	2,484
More than three months	<b>158</b>	455
	<b>445,680</b>	414,027

## Notes to Condensed Consolidated Financial Statements

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

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

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

	<b>31 December 2017 HK\$'000</b>	30 June 2017 HK\$'000
Financial liabilities at fair value through profit or loss arising from short selling activities	–	2,806
Listed derivatives, at quoted price – in Hong Kong	<b>1,365</b>	–
	<b>1,365</b>	2,806

Balance(s) represented the fair value of listed derivatives as at 31 December 2017 and listed equity securities from short selling activities as at 30 June 2017.

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

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



## Notes to Condensed Consolidated Financial Statements

## 15 Accruals, accounts and other payables

	<b>31 December</b>	30 June
	<b>2017</b>	2017
	<b>HK\$'000</b>	HK\$'000
<b>Accounts payable (on demand or within one month)</b>		
Amounts due to brokers and clearing houses	<b>42,554</b>	55
Clients' accounts payable	<b>638,553</b>	995,413
Others	<b>4,413</b>	3,332
	<b>685,520</b>	998,800
Other creditors, accruals and other provisions	<b>28,779</b>	32,303
	<b>714,299</b>	1,031,103

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

## 16 Bank loans

	<b>31 December</b>	30 June
	<b>2017</b>	2017
	<b>HK\$'000</b>	HK\$'000
Secured bank loans ( <i>Note</i> )	<b>30,000</b>	30,000

*Note:*

There were two bank loans as at 31 December 2017 (30 June 2017: two). One bank loan is repayable within one month and the other is repayable within three years. The three years term loan has a repayment on demand clause, hence, it is classified as a current liability. The loans are secured by the Group's land and building held for own use with fair value of approximately HK\$360 million (30 June 2017: HK\$330 million) and investment property with fair value of approximately HK\$62 million (30 June 2017: HK\$61 million) and bear interest at 1.3% above Hong Kong Interbank Offered Rate ("HIBOR") (30 June 2017: 1.3%-1.4% above HIBOR).

Some of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2017 and 30 June 2017, none of the covenants relating to the facilities drawn had been breached.

## Notes to Condensed Consolidated Financial Statements

## 17 Commitments

## (A) COMMITMENTS UNDER OPERATING LEASES AS LESSEE

As at 31 December 2017 and 30 June 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and office equipment which fall due as follows:

	31 December 2017		30 June 2017	
	Rental premises HK\$'000	Hired equipment HK\$'000	Rental premises HK\$'000	Hired equipment HK\$'000
Within one year	3,101	167	3,028	167
Later than 1 year and not later than 5 years	960	584	2,423	667
	<b>4,061</b>	<b>751</b>	5,451	834

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

## (B) COMMITMENTS UNDER OPERATING LEASES AS LESSOR

As at 31 December 2017 and 30 June 2017, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of office premises which fall due as follows:

	31 December 2017 HK\$'000	30 June 2017 HK\$'000
Within one year	2,160	5,485
Later than 1 year and not later than 5 years	1,800	3,662
	<b>3,960</b>	9,147

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

## 17 Commitments (Continued)

### (C) OTHER COMMITMENTS

	<b>31 December</b>	30 June
	<b>2017</b>	2017
	<b>HK\$'000</b>	HK\$'000
Underwriting commitments for Initial Public Offering	<b>2,037</b>	–
Commitments for acquisition of unlisted equity investment	<b>11,200</b>	11,200
Capital commitments for equipment	–	121
	<b>13,237</b>	11,321

## 18 Joint venture agreement

On 1 December 2016, the Group entered into a joint venture agreement with several joint venture partners to establish a joint venture company in Chongqing, the PRC. Subject to final approvals of the China Securities Regulatory Commission (“CSRC”), it is contemplated that the joint venture company will become a full-licensed securities company principally engaged in the provision of regulated securities brokerage services, securities underwriting and sponsor services, proprietary trading, securities and asset management and any other business approved by the CSRC in the PRC. Pursuant to the joint venture agreement, the Group will make a capital contribution of RMB330 million into the joint venture company, representing a 22% equity interest in the joint venture company. The Group expects the transaction will be fully financed by the Group’s internal resources and/or borrowings from financial institutions. The joint venture agreement and the transactions were approved by the Company’s shareholders at special general meeting held in February 2017. The Group has still not obtained the approval for the establishment of the joint venture company from the CSRC.

## 19 Event after the reporting period

On 8 January 2018, the Company announced that it proposed to raise approximately HK\$142 million before expenses by issuing 1,380,326,220 offer shares at the offer price of HK\$0.103 per offer share on the basis of one offer share for every four existing shares held on 14 February 2018. The open offer will enlarge the capital base of the Company, which will facilitate long-term development of the Group. The expected first day of dealings in the offer shares is 16 March 2018. The Company intends to apply the proceeds from the open offer to expand the Group’s lending business in Hong Kong and the PRC, to invest in fixed income products and for general working capital of the Group.

## Notes to Condensed Consolidated Financial Statements

**20 Related party and connected party transactions**

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

	Six months ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Brokerage commission earned on securities, options, futures and commodities dealing		
– Group's directors and their close family members	152	91
Consultancy and management fees earned		
– a fellow subsidiary	420	420
– an associate	–	540
Rental income from investment property		
– a company controlled by Group's directors' close family member	887	1,331
Rental expense paid		
– a company controlled by a Group's director	216	–

The above transactions are carried out at mutually agreed terms.

**21 Financial instruments**

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

**(A) CREDIT RISK**

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

The Group's Finance and Credit Committees are responsible for establishing the credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Hong Kong Securities and Futures Commission.

Day-to-day credit management is performed by the Operations Department with reference to the aforementioned criteria including creditworthiness, collateral pledged and risk concentration of the counterparties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds the preset limit.

## 21 Financial instruments (Continued)

### (B) LIQUIDITY RISK

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

### (C) PRICE RISK

The Group is exposed to price changes arising from investments classified as financial assets (liabilities) at fair value through profit or loss and available-for-sale investments measured at fair value.

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

### (D) FOREIGN EXCHANGE RISK

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

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

### (E) INTEREST RATE RISK

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

## Notes to Condensed Consolidated Financial Statements

## 22 Fair value measurements of financial instruments

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

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

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2017	30 June 2017		
	HK\$'000	HK\$'000		
<u>Financial assets</u>				
Listed equity securities	104,355	85,703	Level 1	Quoted price in an active market
Listed debt securities	60,574	56,383	Level 1	Quoted price in an active market
Investment loan	–	20,823	Level 2	Net asset value of underlying investments
	20,492	–	Level 3	
Unlisted investment fund	20,115	–	Level 2	Dealing price of the fund derived from the net asset value of the investment with reference to observable quoted price of underlying investment portfolio in active markets
<u>Financial liabilities</u>				
Listed equity securities	–	2,806	Level 1	Quoted price in an active market
Net assets attributable to holders of non-controlling interests in consolidated investment fund	16,002	15,266	Level 2	Net asset value of underlying investments
Listed derivatives	1,365	–	Level 1	Quoted price in an active market

There were no transfers between Levels 1 and 2 in the current and prior periods. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

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

The fair value of the investment loan was determined with reference to the net asset value of underlying investments which was close to its recent transaction price and therefore classified as Level 2 investment at 30 June 2017. During the period ended 31 December 2017, the fair value of the investment loan had significant unobservable inputs and thus the instrument was transferred from Level 2 to Level 3 category.

### *Reconciliation of Level 3 fair value measurements*

	<b>Financial assets designated at fair value through profit or loss</b>	
	<b>31 December 2017 HK\$'000</b>	30 June 2017 HK\$'000
Opening balance	–	–
Total loss in profit or loss	(331)	–
Transfer into level 3	<b>20,823</b>	–
	<b>20,492</b>	–

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

### *Fair value measurement and valuation process*

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

# Management Discussion and Analysis

## THE MARKET

Major financial markets rose to multi-year or historical highs on the backing of improving economic fundamentals. President Trump's proposed stimulus policies and the stellar performance of financial and tech stocks boosted the US major indexes which entered their ninth year of bull market. The strong economic growth in Eurozone economy strengthened consumers' and investors' confidence. The Hong Kong market continues to benefit from the low interest rate environment, and the ample liquidity. The market turnover of Southbound trading under Stock Connect reached HK\$2,259 billion in 2017, an increase of 170% from levels in 2016. The Hang Seng Index was supported by the solid growth of GDP and Southbound capital and reached a ten-year high at 30,200 on 22 November 2017.

The Hang Seng Index closed at 29,919 at the end of December 2017, compared with 25,765 at the end of June 2017 and 22,001 at the end of December 2016. The average monthly turnover on the Main Board and GEM Board during the six months ended 31 December 2017 ("the first half year of FY2018") was approximately HK\$2,085 billion, a sharp increase of 52% as compared with HK\$1,371 billion for the first half year of FY2017. Funds raised from IPOs on the Main Board in the first half year of FY2018 amounted to HK\$70 billion, as compared with HK\$148 billion for the first half year of FY2017.

## FINANCIAL HIGHLIGHTS

The Group recorded a profit after tax of HK\$13 million for the first half year of FY2018, as compared to a loss after tax of HK\$16 million for the first half year of FY2017. After taking into account the other comprehensive income for the period, the Group recorded a total comprehensive income of HK\$44 million for the first half year of FY2018, as compared to a total comprehensive expense of HK\$14 million for the first half year of FY2017. The Group recognised a revaluation surplus, net of tax, of HK\$31 million for the first half year of FY2018, as compared with HK\$1 million for the first half year of FY2017. The surplus was mainly due to the increase in value of the Hong Kong office owned by the Group.

Commission and fee income from our financial intermediary business was HK\$61 million for the first half year of FY2018, as compared with HK\$35 million for the first half year of FY2017. Interest and dividend income was HK\$12 million for the first half year of FY2018, as compared with HK\$16 million for the first half year of FY2017. Rental income from investment properties was HK\$2 million for the first half year of FY2018, the same as the first half year of FY2017. The Group recorded a net gain on the disposal of financial assets/liabilities and the remeasurement to fair value of HK\$7 million for the first half year of FY2018, as compared with a net loss of HK\$1 million for the first half year of FY2017. General and administrative expenses amounted to HK\$69 million for the first half year of FY2018, an increase of HK\$10 million from HK\$59 million for the first half year of FY2017. Staff cost increased by HK\$9 million, which was mainly caused by the variable compensation related to the increase in corporate finance advisory fee.

## BUSINESS DEVELOPMENT

On 1 December 2016, the Group entered into a joint venture agreement with several joint venture partners to establish a joint venture company in Chongqing, the PRC. Subject to final approvals of the China Securities Regulatory Commission ("CSRC"), it is contemplated that the joint venture company will become a full-licensed securities company principally engaged in the provision of regulated securities brokerage services, securities underwriting and sponsor services, proprietary trading, securities and asset management and any other business approved by the CSRC in the PRC. Pursuant to the joint venture agreement, the Group will make a capital contribution of RMB330 million into the joint venture company, representing a 22% equity interest in the joint venture company. The transaction will be fully financed by the Group's internal resources and/or borrowings from financial institutions. The Group has still not obtained the approval for the establishment of the joint venture company from the CSRC.

The Group entered into an agreement for the formation of a company with an independent third party to pursue and develop business opportunities in relation to One-Belt-One-Road during FY2017. The company was incorporated in July 2017 but has not commenced its operations.



## Management Discussion and Analysis

On 8 January 2018, the Company announced that it proposed to raise approximately HK\$142 million before expenses by issuing 1,380,326,220 offer shares at the offer price of HK\$0.103 per offer share on the basis of one offer share for every four existing shares held on 14 February 2018. The open offer will enlarge the capital base of the Company, which will facilitate long-term development of the Group. The expected first day of dealings in the offer shares is 16 March 2018. The Company intends to apply the proceeds from the open offer to expand the Group's lending business in Hong Kong and the PRC, to invest in fixed income products and to be used for general working capital of the Group. These offer shares will not be entitled to the interim dividend declared for the six months ended 31 December 2017.

### BROKERAGE

Total revenue of the division was HK\$27 million for the first half year of FY2018, as compared with HK\$24 million for the first half year of FY2017. The average daily market turnover increased by 51% to HK\$100 billion for the first half year of FY2018, as compared with HK\$66 billion for the first half year of FY2017. As a result, our brokerage commission income increased by HK\$5 million to HK\$17 million for the first half year of FY2018, as compared with HK\$12 million for the first half year of FY2017.

The loan book was about HK\$114 million as at 31 December 2017 as compared with HK\$91 million as at 31 December 2016. Interest income from brokerage and loan financing clients was HK\$8 million for the first half year of FY2018, as compared with HK\$7 million for the first half year of FY2017 as there was a slight increase on the average loans outstanding balance. Other interest income decreased by HK\$3 million as the division received interest income of HK\$3 million for the late settlement of the placing proceeds in last year. The division will place more efforts in the development of the lending business in Hong Kong and the PRC, with prudent risk management strategy, to enhance the return of the division.

The division is working continuously to improve its system and trading platform to meet the enhanced requirements of The Stock Exchange of Hong Kong Limited and other regulators. The division will implement the two-factor authentication for brokerage clients to login to their internet trading accounts in the 4th quarter of FY2018 to improve cybersecurity resiliency. These enhancements will increase our operating expenses and will affect the performance of the division in the future.

### CORPORATE FINANCE AND CAPITAL MARKETS

Total revenue of the division was HK\$43 million for the first half year of FY2018, as compared with HK\$21 million for the first half year of FY2017. The division, acting as the sponsor, completed the listing of Noble Engineering Group Holdings Limited, KML Engineering Limited, Sun Hing Printing Holdings Limited and Prosperous Printing Company Limited during the first half year of FY2018. The division also completed sponsorship for the listing of four companies in January 2018. As a result, advisory fee income increased by HK\$19 million to HK\$35 million for the first half year of FY2018, as compared with HK\$16 million for the first half year of FY2017. Capital market for secondary fund raising remained lackluster in our target client segment and the underwriting and placement fee only increased by HK\$2 million to HK\$7 million for the first half year of FY2018 from HK\$5 million for the first half year of FY2017. The staff cost of the corporate finance team increased because additional staff were recruited to handle the increased number of projects and the variable compensation accrual was increased to reflect the increase in fee income.

### ASSET MANAGEMENT

Total revenue of the division was HK\$1 million for both the first half year of FY2018 and FY2017. The division is now approaching several private equity funds and high net worth clients to provide asset management services to generate more revenue.

## Management Discussion and Analysis

### PROPRIETARY INVESTMENT

Total revenue of the division was HK\$4 million for the first half year of FY2018, as compared with HK\$5 million for the first half year of FY2017. After including net gain or loss on disposal of financial assets/liabilities at fair value through profit or loss and remeasurement to fair value, total income was HK\$10 million for the first half year of FY2018, as compared with HK\$1 million for the first half year of FY2017. The Hang Seng Index rose to 29,919 as at the end of December 2017, an increase of 16% when compared with the end of June 2017, hence, the division recognised trading profit of HK\$8 million on equity securities for the first half year of FY2018, as compared with a loss of HK\$6 million for the first half year of FY2017. As at 31 December 2017, the carrying value of the unlisted investments, unlisted investment loan, listed securities and listed debt securities was HK\$54 million, HK\$20 million, HK\$104 million and HK\$61 million respectively (30 June 2017: HK\$34 million, HK\$21 million, HK\$86 million and HK\$56 million). Through continuing to diversify the Group's investment portfolio by investing in different investment products managed by external and internal investment managers, the return on investments has been more stable. The investment portfolio received interest and dividend income of HK\$3 million for the first half year of FY2018, as compared with HK\$5 million for the first half year of FY2017.

### PROPERTY INVESTMENT

Total revenue of the division was HK\$2 million for both the first half year of FY2018 and FY2017. The rental income received from these properties provided stable cash inflow for the division. The investment property located in Beijing recognised a revaluation surplus of HK\$2 million mainly because of the appreciation of RMB during the period. The fair value of the retail shop located in Kwun Tong as at 31 December 2017 returned to the market value recorded at the end of June 2016 and the property recognised a revaluation surplus of HK\$1 million for the first half year of FY2018, as compared with a revaluation loss of HK\$1 million for the first half year of FY2017.

### OUTLOOK

The capital markets continued to perform well in January 2018. Hong Kong market reached historical high in the month. At this high level, the markets are very sensitive to any unexpected negative news. Nevertheless, the market volatility index stays at multi year low, which indicates a general complacency in the market. However, stepping into February, the US market began to worry about faster and additional rate hikes after positive employment figures were released. This resulted in the largest daily points drop in the Dow Jones index and a surge in volatility. The sell off spreaded to all major markets and Hong Kong lost nearly all its gains in January in two trading days. The markets are likely to remain volatile in the near future. The corporate finance segment is likely to be the major business driver in the coming months. However, new amendments to the Listing Rules that will come into effect on 15 February 2018 may have an impact in the corporate finance industry.

### LIQUIDITY AND FINANCIAL RESOURCES

Total assets as at the end of December 2017 were HK\$1,803 million, of which approximately 68% were current in nature. Net current assets were HK\$458 million, accounting for approximately 45% of the net assets of the Group as at end of December 2017. The Group had cash and cash equivalents of HK\$170 million as at end of December 2017, which was mainly denominated in Hong Kong dollars.

The Group generally finances its daily operations from internal resources. Total secured borrowings of HK\$30 million as at the end of December 2017 were used to finance the investment portfolio of the Group. The bank borrowings were secured by the office property and investment property with carrying value of HK\$360 million and HK\$62 million respectively and corporate guarantee of HK\$185 million provided by the Company. The bank loans were denominated in Hong Kong dollars and charged at floating interest rate. The Group's gearing ratio, calculated as a percentage of total borrowings over shareholders' equity, was approximately 3% as at the end of December 2017.

The Group had no material contingent liabilities as at the end of December 2017. The Company provided corporate guarantees of HK\$399 million for banking facilities granted to its subsidiaries.

## Foreign Exchange Exposure

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

## Risk Management

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

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

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

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

## Management Discussion and Analysis

### Risk Management Policies and Procedures

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

### Employees

As at 31 December 2017, the number of full time employees of the Group was 102 (30 June 2017: 95). Remuneration and bonus are based on performance and are reviewed annually in conjunction with the annual employee performance appraisal. It also takes into consideration the results of the division to which the employee belongs and the Group as a whole. The Group provides a full induction program and in-house training courses to all staff – particularly professionals registered with relevant regulatory bodies who must meet their mandatory continued professional training requirements. A share option scheme is available to directors, employees and consultants of the Group.

### Interim Dividend

The Board of Directors has declared an interim dividend of 0.2 HK cent per ordinary share for the six months ended 31 December 2017 (six months ended 31 December 2016: 0.2 HK cent). The dividend will be payable on Thursday, 19 April 2018 to shareholders whose names appear on the Register of Members at the close of business on Monday, 5 March 2018.

### Closure of Register of Members

The Register of Members of the Company will be closed from Friday, 2 March 2018 to Monday, 5 March 2018, both days inclusive, during which period no transfers of shares will be registered. To determine entitlement to the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited (at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4:00p.m. on Thursday, 1 March 2018.

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

As at 31 December 2017, the interests and/or short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV the Hong Kong Securities and Futures Ordinance ("SFO")), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company were as follows:

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

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

\* Dr Jonathan Koon Shum Choi is deemed to be interested in 2,391,447,327 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section "Substantial shareholders' interests and short positions in the shares and underlying shares of the Company" shown on page 29.

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

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

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

Notes:

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

## Management Discussion and Analysis

**Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (Continued)****(III) INTEREST IN UNSECURED DEBENTURES ISSUED BY SIL**

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

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

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

*Note:*

The debentures bear an interest at the rate of 8% per annum payable semi-annually and matured on 19 September 2018.

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

Save as disclosed above, as at 31 December 2017, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or any of their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

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

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

As at 31 December 2017, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

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

Note:

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

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

## Corporate Governance Code

The Company has applied the principles and has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the six months ended 31 December 2017 except for a deviation which is summarised below:

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

## Management Discussion and Analysis

### Share Option Scheme

The Company has adopted a share option scheme (the “Share Option Scheme”) on 10 November 2010. The principal terms of the Share Option Scheme are summarised in the latest annual report for the year ended 30 June 2017. The main purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are valuable to the Group.

During this period, no share option had been granted, exercised, cancelled or lapsed under the Share Option Scheme.

### Purchase, sale or redemption of shares

During the six months ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares.

### Securities Transactions by Directors

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

### Changes in Directors’ Information

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

Mr. Guan Huanfei

During this period, Mr. Guan resigned as executive director of CCT Land Holdings Limited.

Mr. Guan was appointed as independent non-executive director of China Shandong Hi-Speed Financial Group Limited and as non-executive director of Ping An Securities Group (Holdings) Limited.

Dr. Lee G Lam

During this period, Dr. Lam resigned as non-executive director of Roma Group Limited.

Dr. Lam was appointed as independent non-executive director of Kidsland International Holdings Limited, non-executive director and vice chairman of China Shandong Hi-Speed Financial Group Limited, non-executive director of Singapore eDevelopment Limited which is a Singapore-listed company, and non-executive director of Tianda Pharmaceuticals Limited.



## Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the interim report and the unaudited condensed consolidated financial statements for the six months ended 31 December 2017. Terms of reference of the Audit Committee are available on request to shareholders of the Company. The Audit Committee is also responsible for reviewing the Group's financial controls, risk management and internal control systems. The Audit Committee has begun to implement the above responsibilities, including without limitation, reviewing the Company's risk relating to strategy, operation and finance and enhancing the Group's capacity to cope with the risk associated with the business of the Group.

On behalf of the Board

**Michael Koon Ming Choi**

*Chief Executive Officer*

Hong Kong, 13 February 2018

# Independent Review Report

# Deloitte. 德勤

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS To the Board of Directors of Sunwah Kingsway Capital Holdings Limited

### Introduction

We have reviewed the condensed consolidated financial statements of Sunwah Kingsway Capital Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 2 to 21, which comprises the condensed consolidated statement of financial position as of 31 December 2017 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

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

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

13 February 2018

# Directory of Licensed Subsidiaries and Affiliates

## LICENSED SUBSIDIARIES OF SUNWAH KINGSWAY CAPITAL HOLDINGS LIMITED

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

Licensed Corporation of the Hong Kong Securities and Futures Commission

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

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

Options Trading Exchange Participant of SEHK

SEOCH Direct Clearing Participant

Lead Underwriter and Securities Broker licence for

B-Shares of Shenzhen and Shanghai Stock Exchanges granted by the China Securities Regulatory Commission

B-Shares Special Seat Holder of Shenzhen Stock Exchange

B-Shares Tangible Trading Seat Holder of Shanghai Stock Exchange

B-Shares Special Clearing Participant of China Securities

Depository and Clearing Corporation Limited – Shenzhen Branch

B-Shares Clearing Participant of China Securities

Depository and Clearing Corporation Limited – Shanghai Branch

### **Kingsway Capital Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

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

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

Licensed Corporation of the Hong Kong Securities and Futures Commission

### **Kingsway SW Finance Limited**

Money Lender registered with the HKSAR Government

## AFFILIATED & OVERSEAS OFFICES

### **Canada**

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

### **China**

- Kingsway Financial Services Group Ltd. – Beijing Representative Office
- Beijing Kingsway Advisory Limited  
18/F, Block 1, Henderson Centre,  
18 Jianguomenneida,  
Beijing, 100005, PRC
- Shanghai Kingsway Financial Consultancy Limited  
B22, 18/F, Taiping Finance Tower,  
488 Middle Yincheng Road, Pudong,  
Shanghai 200120, PRC
- Shenzhen Kingsway Financial Consultancy Limited  
701, Tower A, Aerospace Skyscraper,  
4019 Shennan Road, Futian District, Shenzhen,  
518048, PRC

## ULTIMATE HOLDING COMPANY

### **Sunwah International Limited**

A listed company on the Toronto Stock Exchange

