



信達國際控股有限公司
CINDA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 111

2017

Annual Report

10 years +
商界展關懷
caringcompany[®]
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發



The FSC™ logo identifies product group from responsible forestry in accordance with the rules of the Forest Stewardship Council®.

Contents

| | |
|-----|---|
| 2 | Corporate Information |
| 3 | Management Discussion and Analysis |
| 7 | Biographical Details of Directors and Senior Management |
| 10 | Corporate Governance Report |
| 20 | Environmental, Social and Governance Report |
| 27 | Report of the Directors |
| 34 | Independent Auditor's Report |
| 38 | Consolidated Statement of Profit or Loss |
| 39 | Consolidated Statement of Comprehensive Income |
| 40 | Consolidated Statement of Financial Position |
| 42 | Consolidated Statement of Changes in Equity |
| 43 | Consolidated Statement of Cash Flows |
| 44 | Notes to the Financial Statements |
| 128 | Five Year Financial Summary |

Corporate Information

| | |
|--|---|
| Registered office | Clarendon House 2 Church Street Hamilton, HM 11 Bermuda |
| Head office and principal place of business | 45th Floor, COSCO Tower 183 Queen's Road Central Hong Kong |
| Authorised representatives | Gong Zhijian Lau Mun Chung |
| Company secretary | Lau Mun Chung |
| Bermuda principal share registrar and transfer office | MUFG Fund Services (Bermuda) Limited The Belvedere Building 69 Pitts Bay Road Pembroke HM 08 Bermuda |
| Hong Kong branch share registrar and transfer office | Tricor Secretaries Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong |
| Auditors | Ernst & Young <i>Certified Public Accountants</i> 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong |

Management Discussion and Analysis

MARKET CONDITIONS

Year of 2017 witnessed a growth of 3.7% of the world economy and a buoyant financial market. It's performance was the best since the financial tsunami in 2008, during which the U.S. stock market was not impacted by the shrinkage of the balance sheet and interest rate rises. The three major indexes in the U.S. stock markets soared between 19.4% and 28.2% as benefited from the recovery of U.S. economy and the improving employment market as well as the tax reform in the United States which is expected to improve profitability of companies, increase personal disposable income and lead capital outflow back into the United States, which will in turn stimulate the growth of U.S. economy. In addition, with the ending of the Quantitative Easing (QE) policy in the United States, the Federal Reserve (the "FED") started to reduce the scale of its balance sheet since last October by a maximum amount of US\$10 billion each month. It is expected in the market that the FED may raise interest rates at a faster pace in 2018, which means the FED would maintain a step-by-step interest rate rise. Thanks to the slowdown of the shrinkage of the balance sheet and the information released in advance by the FED on the shrinkage of the balance sheet, there was no significant impact on risk assets.

In Europe, European Central Bank maintained its expansionary monetary policy. Owing to the continuous improvement of economy in Europe, the Eurozone economy has recorded a growth for 17 consecutive quarters, which was the best performance since the financial tsunami in 2008, driving the rise of major stock markets in Europe. Throughout the year, Germany's DAX index and France's CAC index increased by 13% and 9.2%, respectively. Meanwhile, as no Black Swan Events occurred during the presidential election in France and Germany, the exchange rate of Euro against US dollar rose 14% during the year.

As to Chinese financial market, according to MSCI announcement released in late June 2017, China A shares will be included in the MSCI Emerging Market Index and the MSCI All Country World Index from June 2018. Since then, the Shanghai Stock Exchange Composite Index (the "SSECI") surged rapidly to about 3,450 points in November, recording a new high since February 2016. Despite that the SSECI slipped back to near 3,300 points due to the tight funding in the mainland capital market toward the end of the year, the SSECI recorded a growth of 6.6% in 2017. For the yield of treasury bonds, the yield of ten-year treasury bonds in mainland China broke above 4% in late November, recording a new high since 2014. In the end, the yield of ten-year treasury bonds increased by over 85 points throughout the year of 2017. In addition, The PBOC successively adopted various measures to stabilize the foreign exchange rate of RMB. Moreover, due to the depreciation of US dollar, both the CNY and CNH against US dollar increased by approximately 7% in 2017.

Looking back at Hong Kong, as Southbound capital continued to flow into HK stocks in 2017 and large cap blue chips and Chinese stocks achieved desirable performance in the first quarter of 2017, the Hang Seng Index (the "HSI") increased by 17% during the first half of the year; Hang Seng Chinese Enterprises Index increased by 10% during the first half of the year. In the third quarter, the half year results of corporates were slightly better than those expected in the market, which triggered a new round of profit increase cycle, stimulating the HSI to increase by 7% in the third quarter. In the fourth quarter, as the Southbound capital flowed into Hong Kong through Shanghai Connect, the trading in Hong Kong stock market became more active, and the HSI once climbed to 30,199 points, recording a new high for a decade. As at the end of 2017, the HSI closed at 29,919, increased by 36% throughout the year.

In the first half of 2017, there was no significant improvement in trading volume. The situation took a favourable turn in the third quarter. In the fourth quarter, the average daily trading volume amounted to HK\$107.3 billion, and the total trading volume increased by 67% as compared with that of last year. The daily average trading volume increased from HK\$66.9 billion last year to HK\$88.2 billion for the year, representing a year-on-year growth of 32%. In respect of USD bond market, as the exchange rate of RMB stabilized and started to rebound in 2017, more PRC enterprises sought for overseas bond issuance to broaden their financing channels. In addition, due to the effect of de-leverage among domestic financial institutions, the bond issue cost in domestic bond market increased significantly. In comparison, US dollar is more liquid in overseas market and Chinese institutions have a more extensive and diversified customer group, and thus, enterprises turned to overseas bond issuance. Therefore, in 2017, the primary market for USD bonds issued by Chinese enterprises experienced an explosive growth in 2017 with the issuance of more than 400 USD bonds, total financing amounted to more than US\$200 billion, both figures being close to two times as compared with 2016.

Management Discussion and Analysis (continued)

OVERALL PERFORMANCE

Due to the improvement of the market atmosphere in 2017, the overall economic development and the dedication of the Group to its three core businesses, the total income of the Group was HK\$273.95 million (2016: HK\$209.64 million), representing an increase of 31% compared with the same of last year, amongst which revenue was HK\$193.28 million (2016: HK\$158.36 million), representing an increase of 22% compared with that of the last year, and other income and gains was HK\$80.67 million (2016: HK\$51.28 million), representing an increase of 57% compared with that of the last year. In respect of expenses, the Group set up several new business departments, recruited additional staff and expanded office space during the year for business development. Since there was still a great demand for talents and office premises within the industry and coupled with the inflationary pressure and the increase of provisions in line with business expansion, operating costs (excluding commission expenses) increased from HK\$142.74 million in 2016 to HK\$190.75 million, representing an increase of 34%. For the increase in commission expenses, it was in same pace with the increase in commission income.

Share of profit from associates and a joint venture was HK\$21.07 million (2016: HK\$12.40 million), mainly due to an increase in profit contribution from three associates. Therefore, the profit for the year amounted to HK\$67.93 million (2016: HK\$49.51 million), and the profit attributable to equity holders amounted to HK\$66.36 million (2016: HK\$41.08 million), representing an increase of 62% as compared with last year.

ASSET MANAGEMENT

Building on the effort and input over the past years, the Group strived to push forward its asset management business from all aspects and achieved a desirable growth in segment revenue. The Group continued to expand the size of assets under management, and focused on managing private equity funds providing unique alternate opportunities to investors. During the year, the Group established several structured private equity funds targeting different sectors and regions, and also formed a special opportunity investment management company focusing on non-performing assets with a partner. Moreover, the seed money injected in the fixed income fund saw satisfactory growth, which included debt investments and investments in other structured products. Funds and investment and financial projects that the Group invested in precedent years performed well, the principal of investment amounts were repaid on schedule this year, and the Group obtained desirable investment return.

The asset management segment recorded a revenue of HK\$63.19 million (2016: HK\$59.79 million), up by 6% year-on-year. The revenue was mainly derived from management fee, performance fee and the advisory fee received from an associate engaged in managing private funds. Coupled with sound returns from seed monies and other two investment projects, the segment recorded a profit of HK\$81.57 million (2016: HK\$70.62 million), up by 16% year-on-year.

The Group recorded share of profit from associates and a joint venture amounted to HK\$21.07 million (2016: HK\$12.4 million). An associate contributed a profit of HK\$13.61 million (2016: HK\$11.61 million) to the Group, and the profit was mainly due to the investment return generated from the private equity investments matured and the service income for managing funds. The absolute return fund the Group invested turned into profits as a result of the improved market environment, from which we recorded share of profit of HK\$4.7 million (2016: loss of HK\$0.16 million). The associate managing the absolute return fund also contributed a profit of HK\$2.4 million (2016: HK\$1.23 million) to the Group.

BROKERAGE

Though the overall market trading volume increased by approximately 34% in 2017, the trading volume of the Group increased by 71% mainly due to the taking up of a portion of the securities dealing of the bank in China Cinda Group. The brokerage commission and underwriting income increased by 29% year-on-year. During the year, we have underwritten the bonds and preferred shares issued by China Cinda Group and the bank, respectively. Margin interest income also increased by 51% year-on-year. Competition in brokerage business remained intense, but new entrants kept on tapping into this market. In response to the market competition, the Group continuously optimised its customer service process so as to attract more clients with quality services. In addition, the Group improved the scope and extent of the underwriting of securities and the synergy with China Cinda Group, resulting in a record of revenue of the brokerage for 2017 amounting to HK\$109.59 million (2016: HK\$81.31 million), representing a year-on-year increase of 35%. The brokerage business segment recorded a profit for 2017 of HK\$8.32 million (2016: HK\$7.46 million), representing an increase of 12% year-on-year.

Management Discussion and Analysis (continued)

CORPORATE FINANCE

The corporate finance segment has gone through restructuring in the first half of 2017 due to staff turnover, and the team has been proactively exploring new customers in the second half of 2017 and successfully concluded nine sponsor agreements and one financial advisor agreement as its reserves for IPO forthcoming projects. Apart from equity business, the Group also established a financial product division to expand businesses on issuance and underwriting of bonds and successfully completed nine bonds and preferred shares issuance projects during the year with issuance scale totaling US\$10 billion. Consequentially, the segment recorded a revenue of HK\$20.55 million (2016: HK\$17.53 million), representing an increase of 17% year-on-year, and the segment loss was HK\$0.31 million (2016: a loss of HK\$3.65 million), representing an decrease of 92% year-on-year.

FINANCIAL RESOURCES

The Group has maintained sound financial strength during the year, and all subsidiaries licensed by the Securities and Futures Commission (“SFC”) have kept liquid capital in excess of regulatory requirements. The Group is aware of the need to use the capital for further business expansion, continuously seeking various means of financing. Among the credit facilities from authorized institutions of HK\$1.46 billion made available to the Group as at the end of the year, a total amount of HK\$537 million was drawn by the Group. Furthermore, the aggregate principal amount of the outstanding fixed-rate medium-term bonds of the Group at the end of the year was HK\$86 million.

FLUCTUATION IN FOREIGN EXCHANGE RATES

A significant portion of assets and liabilities of the Group are denominated in Hong Kong dollar (“HK\$”) and United States dollar (“US dollar”) to which HK\$ is pegged with. The Group only exposes to the fluctuation in the exchange rate of Renminbi against HK\$ because of part of its revenue generated in the PRC and certain financial assets held by it were denominated in RMB. No hedging has been made against the fluctuation in the exchange rate of RMB as the size of the assets held is not large enough to make hedging economically feasible.

REMUNERATION AND HUMAN RESOURCES DEVELOPMENT

During the year, the Group continues to recruit and retain personnel of high calibre to support its business need and to meet the tight regulatory requirements. Employees are remunerated by a fixed monthly salary and a discretionary bonus calculated in accordance to the performance of both the Group and the staff. Incentive schemes are in place to motivate frontline staff. Performance of supporting staff is appraised at least twice a year to provide a basis for deciding bonus. The Group adopted a multi-dimension appraisal policy. The Group also provides regulatory training to the staff and the account executives to update their knowledge. Education allowance was also provided to staff for attending relevant pre-approved courses.

The Group’s staff remuneration committee comprising the senior management regularly reviews the remuneration policy and determines the remuneration package of each staff member. The remuneration package of executive directors is determined by the Group’s Remuneration Committee, which is mainly comprised of independent non-executive directors.

CONTINGENT LIABILITIES

The Group continues to provide corporate guarantees to its subsidiaries to secure bank financing facilities. The outstanding litigation and indemnities given by the Group will be considered case-by-case. As at 31st December 2017, the probability of any material claims against the Group was remote. In case of economic outflows is envisioned, the Group will make appropriate provision.

Management Discussion and Analysis (continued)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) REPORT

The Group recognizes ESG issues are fundamental to the Group’s sustainability and strives to be a responsible corporate citizen. The protection of environment and adoption of best practices underpin the Group’s commitment to safeguarding the environment and be responsible to its employees and stakeholders. As far as the Company is aware, the Group complied in all material aspects of the relevant laws and regulations pertinent to the business and operation of the Group. Continuous improvements are sought on ESG performance. An ESG report prepared in accordance with ESG Reporting Guide contained in Appendix 27 to the Listing Rules is set out in pages 20 to 26 of this annual report.

KEY RISKS AND UNCERTAINTIES

The Group’s financial condition, results of operation and business may be affected by a number of risks and uncertainties. Set out in note 37 – Financial Risk Management are the major risks and uncertainties that the Group confronts with and may have significant impact on the Group. The Group manages those risks and uncertainties continuously.

LOOKING FORWARD

In the coming year, the global economy is expected to increase continuously and US, Eurozone, UK, Japan and emerging market countries will maintain the overall economic expansion, despite of which, the inflation level will generally remain mild. The Chinese economy maintains a medium-high rate of growth. Since the 19th National Congress of the Communist Party of China stated the direction for China’s future development, and specified key areas and policy orientation for the economic development in the next stage, the Chinese overall economic vitality will be improved. As the China Cinda Group further penetrates into the international market, the Group will make contributions to the development of the real economy in promoting the One Belt One Road Initiative, and provide overall customized financial services to customers by giving full play to the features and advantages of diversified financial instruments and prudent risk culture in Hong Kong in deep operation of non-performing assets. The Group will further enhance its business cooperation with China Cinda Group by exploring business in both domestic and overseas capital markets, so as to achieve further synergy and further reinforce the role of the Group as the overseas financial platform of China Cinda Group.

The Group will continue to expand its three core businesses – asset management, brokerage and corporate finance businesses. The focus of growth is the asset management business. We continue to capture special investment opportunities and set up special opportunities funds focusing on Belt and Road Initiative and Guangdong-Hong Kong-Macao Greater Bay Area Development Strategy, acting as the asset manager of different overseas projects. Meanwhile, the Group will make full use of the platform and information advantages of China Cinda Group to further expand and develop new products, such as cross-border merger and acquisition funds, bond funds, non-performing assets funds, structured funds and asset securitization funds, with a view to vigorously growing our customer base of institutional clients and high-net-worth clients.

In respect of the brokerage business, the Group will continue to proactively develop institutional clients and high-net-worth clients and build up synergy in securities business sector through the relationships with our direct shareholder. We will utilize the client resources of different platforms within the China Cinda Group to collaborate with the members of the Group in Mainland. We will use margin and underwriting services to drive the growth of the entire brokerage business so as to enhance the overall income and with a hope to step up to a higher level in the industry. For corporate finance, we strive to complete the IPO on hand with the objective to successful listing. In addition, we will continue to recruit new projects as reserves. Based on the foundation we already built on IPO business, we strive to explore into in merger & acquisitions opportunities and to set up an all-round bond-related business by building the financial product division to cover both the primary issuance and secondary dealing. Leveraging on the foundation already established by the Group, we look forward to boosting our results in the coming year.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Gong Zhijian, aged 51, was appointed as an executive director, the Managing Director and the acting Chairman of the Company on 2nd December 2008, 19th January 2015 and 29th November 2016 respectively. He is the Chairman of the Nomination Committee of the Company. He is also a director of certain subsidiaries of the Company, a director of JianXinJinYuen (Xiamen) Equity Investment Management Limited (a joint venture company of the Company), a director of Cinda Plunkett International Holdings Limited and Cinda International Investment Holdings Limited (both are the associated company of the Company), a director of China Cinda Foundation Management Company Limited and 華建國際實業(深圳)有限公司 and Cinda Agriculture Investment Limited (all are the subsidiaries of China Cinda (HK) Holdings Company Limited, a substantial shareholder of the Company), and a director of Pengda Value Fund SPC (a segregated portfolio company managed by a subsidiary of the Company). Prior to joining the Group, Mr. Gong has worked and held management positions in China Construction Bank Corporation (Xiamen Branch), the Accounts Department of China Construction Bank Corporation (Head Office), China Construction Bank Corporation (Shenzhen Branch) and China Cinda (HK) Holdings Company Limited.

Mr. Gong graduated from Lujiang University and Zhongnan University of Economics and Law in 1987 and 2004 respectively. He has nearly 30 years of experience in commercial banking, investment banking, corporate finance and accounting management.

Mr. Lau Mun Chung, aged 53, was appointed as an executive director of the Company on 3rd March 2007. He is the Deputy General Manager of the Group, a director and/or a secretary of certain subsidiaries of the Company and the Company Secretary of the Company. Mr. Lau is also a director of Cinda Agriculture Investment Limited (a subsidiary of China Cinda (HK) Holdings Company Limited, a substantial shareholder of the Company), and a director of an associated company of the Company and a company invested/interested by the Group. Mr. Lau graduated from the University of Hong Kong with a Bachelor Degree in Social Science in 1986 and received his Master Degree in Laws (Corporate and Financial Law) in the same university in 2013. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Prior to joining the Group in 1999, Mr. Lau had already gained extensive experience in accounting, finance and taxation.

NON-EXECUTIVE DIRECTORS

Mr. Chow Kwok Wai, aged 51, was appointed as a non-executive director of the Company on 2nd December 2008. He is a member of the Remuneration Committee of the Company. Mr. Chow is currently a Deputy General Manager and the Company Secretary of Silver Grant International Industries Limited the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 171). Mr. Chow has worked in Price Waterhouse, which is now known as PricewaterhouseCoopers, and accumulated valuable audit experience there. Mr. Chow received his Bachelor Degree in Social Sciences from the University of Hong Kong in 1990. He is a fellow member of the Association of Chartered Certified Accountants, a fellow CPA of the Hong Kong Institute of Certified Public Accountants and a fellow member and a registered Certified Tax Adviser of The Taxation Institute of Hong Kong. Mr. Chow has over 20 years of experience in accounting, financial management and corporate finance. He is also an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd. the shares of which are listed on the Stock Exchange (stock code: 2005), and an independent non-executive director of Youyuan International Holdings Limited the shares of which are also listed on the Stock Exchange (stock code: 2268).

Ms. Zheng Yi, aged 39, was appointed as a non-executive director of the Company on 28th July 2016. Ms. Zheng graduated from Griffith University with a master degree of Banking Finance in 2005. She has joined China Cinda Asset Management Co., Ltd. ("China Cinda"), the issued shares of which are listed on the Stock Exchange (stock code: 1359) and the ultimate holding company of the Company, since 2005, and has been appointed as the manager or senior deputy manager of various departments thereof, and is currently acting as the director of group management department of China Cinda.

Biographical Details of Directors and Senior Management (continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hung Muk Ming, aged 53, was appointed as an independent non-executive director of the Company on 2nd December 2008. He is the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Hung is a Certified Public Accountant (Practising) and is a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Directors, an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He is a Certified Tax Adviser and a member of The Taxation Institute of Hong Kong. Mr. Hung received his Bachelor Degree in Social Sciences from the University of Hong Kong in 1990, and a Master Degree in Corporate Governance from the Hong Kong Polytechnic University in 2008. He has over 20 years of experience in the accounting and audit sector. Mr. Hung is an independent non-executive director of Silver Grant International Industries Limited the shares of which are listed on the Stock Exchange (stock code: 171), an independent non-executive director of Century Sage Scientific Holdings Limited the share of which are listed on the Stock Exchange (stock code: 1450), an independent non-executive director of China Animation Characters Company Limited the shares of which are listed on the Stock Exchange (stock code: 1566) and an independent non-executive director of IBO Technology Company Limited the shares of which are listed on the Stock Exchange (stock code: 2708).

Mr. Xia Zhidong, aged 63, was appointed as an independent non-executive director of the Company on 28th July 2016. He is the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Mr. Xia worked as deputy director of Chinese Academy of Fiscal Sciences from 1985 to 1988. He worked as senior management or director of various well-known financial institution and accounting firms including China Construction Bank, Ernst & Young, Tin Wah CPA Limited (天華會計師事務所) and Grant Thornton. He is currently the external director of China Qingling Motors (Group) Limited (中國慶鈴汽車(集團)公司) since 2014, the independent director of China Jingu International Trust Co., Ltd (中國金谷國際信託有限責任公司) since 2014, and the independent director of Citic-prudential Fund Management Limited (信誠基金管理有限公司) since 2005. He graduated from Tianjin University of Finance and Economics with a Bachelor degree of Finance in 1982 and completed his master degree of Finance of Chinese Academy of Fiscal Sciences in 1985. He was a qualified accountant and senior qualified accountant in the People's Republic of China since 1995.

Mr. Liu Xiaofeng, aged 55, was appointed as an independent non-executive director of the Company on 28th July 2016. He is a member of the Audit Committee and the Nomination Committee of the Company. Mr. Liu has over 24 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, NM Rothschild & Sons (Hong Kong) Limited, JP Morgan Chase, DBS Asia Capital Limited, China Resources Capital Holdings Company Limited. He is currently an independent non-executive director of Kunlun Energy Company Limited (stock code: 135) since April 2004, an independent non-executive director of Honghua Group Limited (stock code: 196) since January 2008, an independent non-executive director of Sunfonda Group Holdings Limited (stock code: 1771) since May 2017, an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited (stock code: 00921) since September 2017, the issued shares of all of which are listed on the Stock Exchange. He is also currently an independent director of UBS Securities Co., Ltd. Mr. Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in 1988 and 1994 respectively, a Master of Science degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Southwest University of Finance and Economics, China (previously known as Sichuan Institute of Finance and Economics, China) in 1983.

Biographical Details of Directors and Senior Management (continued)

SENIOR MANAGEMENT

Ms. Lau Yuk Ping, aged 52, is the Deputy General Manager of the Group responsible for overseeing the divisions of compliance and internal audit function, human resources, administration and settlement of the Group. She is also a director of certain subsidiaries of the Company. Prior to joining the Group in August 1999, Ms. Lau worked in the compliance division of the Stock Exchange. Ms. Lau holds a Bachelor Degree in Business from Monash University, Australia and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She has over 20 years of experience in regulatory and compliance matters.

Mr. Liu Jialin, aged 55, is the Managing Director of the Group's asset management department responsible for overseeing the operation of various funds. He is also a shareholder and a director of Cinda Plunkett International Holdings Limited, an associated company of the Company, an independent non-executive director of Far East Horizon Limited the shares of which are listed on the Stock Exchange (stock code: 3360) and was an independent non-executive director of China Merchants Securities Co., Ltd. the shares of which are listed on the Stock Exchange (stock code: 6099). Prior to joining the Group in February 2011, Mr. Liu worked for Morgan Stanley group of companies and once served as a member of the Management Committee and Asia Executive Committee as well as a Managing Director in the Fixed Income Division in Hong Kong between 1992 to 2007. In 2008, Mr. Liu established Shelter Cove Capital Limited. Mr. Liu has over 25 years of experience in finance and securities industry.

Mr. Liu obtained a bachelor's degree in science from Peking University and master of science in Physics from Massachusetts Institute of Technology.

Ms. Zhou Lu, aged 38, is the assistant general manager of the Group in charge of the asset management department and assisting to oversee the cross-border business department of the Group. She is also a director of certain subsidiaries of the Company, a director of High Grade (HK) Investment Management Limited and Cinda Agriculture Investment Limited and Cinda International HGB Investment (UK) Limited (all are the subsidiaries of China Cinda (HK) Holdings Company Limited, a substantial shareholder of the Company), and a director of certain companies invested/interested by the Group. Prior to joining the Group, Ms. Zhou worked in China Cinda (HK) Holdings Company Limited as an investment manager. Ms. Zhou has over 10 years of experience in investment and asset management industry. Ms. Zhou received her Bachelor Degree in Law from the Central University of Finance and Economics in 2001, and a Master Degree in Commerce from the University of New South Wales in 2003. Save as disclosed above, Ms. Zhou has not held any directorship in other publicly listed companies in the last three years and does not hold any other positions with the Group.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving and maintaining high standards of corporate governance and has established policies and procedures for compliance with the principles and code provisions set out from time to time in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange” and “Listing Rules”, respectively) under Appendix 14 (the Corporate Governance Code and Corporate Governance Report (“CG Code”)).

Throughout the financial year 2017, the Group has complied with all the code provisions set out in the CG Code save for the deviation from code provisions specified below:

- Provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Xia Zhidong and Mr. Liu Xiaofeng, the independent non-executive directors of the Company, and Ms. Zheng Yi, non-executive director of the Company, were unable to attend the annual general meeting of the Company held on 25th May 2017 as they have other engagements.
- Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Gong Zhijian serves as both the Managing Director and acting Chairman since 29th November 2016. The board of directors (“Directors”) of the Company (the “Board”) considers that this arrangement, however, will not impair the balance of power and authority between the Board and the management of the Company as a majority of the Board members are represented by the non-executive Directors and independent non-executive Directors and the Board meets regularly to consider major matters affecting the business and operation of the Group and all Directors are properly and promptly briefed on such matters with adequate, complete and reliable information. The Board will seek to identify a suitable candidate to the position of the Chairman.

The Board continues to monitor and review the Group’s corporate governance practices to ensure compliance.

The key corporate governance principles and practices of the Company are summarized as follows:

BOARD OF DIRECTORS

The Board assumed overall responsibility for leading and supervising the Group. The Board laid down the direction of business for the Group and decided on important issues. The implementation of policies laid down by the Board rests with the Executive Management Committee (“EMC”), which at material time comprised certain executive Directors and members from the senior management.

Composition

As at the date of this annual report, the Board comprises two executive Directors, two non-executive Directors (“NEDs”) and three independent non-executive Directors (“INEDs”) and is in compliance with the minimum number of independent non-executive directors required under Rule 3.10(1) and the proportion of INEDs in the Board required by Rule 3.10A of the Listing Rules.

Corporate Governance Report (continued)

The Board comprises the following Directors:

Executive Directors

Gong Zhijian (Managing Director, and appointed as acting Chairman since 29th November 2016)

Lau Mun Chung

NEDs

Chow Kwok Wai

Zheng Yi

INEDs

Hung Muk Ming

Xia Zhidong

Liu Xiaofeng

The Board possesses, with regard to individual Directors and collectively, appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to each of the core business activities that the Group pursues and the associated risks in order to ensure effective governance and oversight.

Members of the Board, who come from different backgrounds, have a diverse range of financial and professional expertise. The biographical particulars of all Directors are disclosed in the section “Biographical Details of Directors and Senior Management”. None of the Directors has any financial, business, family or other material/relevant relationship with one another. The list of Directors is also available on the websites of the Company and the Stock Exchange from time to time.

The Board adopted the Board Diversity Policy in August 2013. Board appointments are based on merit and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company remains committed to meritocracy in the boardroom, which requires a diverse and inclusive culture where Directors believe that their views are heard and their concerns are attended to and they serve in an environment where bias and discrimination on any matter are not tolerated.

Chairman and Chief Executive Officer

The Chairman is primarily responsible for leading the Board and ensuring that it functions effectively and smoothly whereas the Managing Director is responsible for the overall operation of the Group and performs the role of Chief Executive Officer. Directors are encouraged to participate actively in all Board and committee meetings.

Mr. Gong Zhijian serves as the Managing Director since 19th January 2015 and was appointed the acting Chairman on 29th November 2016.

Corporate Governance Report (continued)

NEDs and INEDs

NEDs and the INEDs provide the Group with diversified expertise and experience. Their views and participation in Board and committee meetings bring independent judgment and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, to ensure that the interests of all shareholders are taken into account.

The current two NEDs and the three INEDs are appointed for a term of two years and are subject to rotation in accordance with the provisions in the bye-laws of the Company. The Board has received annual written confirmation from all the INEDs for the year 2017 and is satisfied that all of them were acting independently throughout the year. Mr. Hung Muk Ming has served as INED for 9 years and his further appointment is subject to a separate resolution to be approved by shareholders at the forthcoming annual general meeting.

INEDs are identified as such in all corporate communications containing their names.

Board Meetings

The Board meets regularly and at other time when necessary. All Directors have access to relevant and timely information. They can seek independent professional advice at the Company's expenses when the situation required. They also have access to the advice and services of the Company Secretary, who is responsible for providing Directors with Board papers and related materials, and ensuring that Board procedures are followed. Where queries are raised by Directors, steps would be taken to respond as promptly and as fully as possible.

The attendance of the Directors at the Board meetings and general meeting held during the financial year 2017 was set out below:

| Name of Director | Number of Board meetings attended | Number of general meeting attended |
|----------------------------|--|---|
| <i>Executive Directors</i> | | |
| Mr. Gong Zhijian | 5/5 | 1/1 |
| Mr. Lau Mun Chung | 5/5 | 1/1 |
| <i>NEDs</i> | | |
| Mr. Chow Kwok Wai | 5/5 | 1/1 |
| Ms. Zheng Yi | 4/5 | 0/1 |
| <i>INEDs</i> | | |
| Mr. Hung Muk Ming | 5/5 | 1/1 |
| Mr. Xia Zhidong | 4/5 | 0/1 |
| Mr. Liu Xiaofeng | 5/5 | 0/1 |

In case Directors are unable to meet together, issues are resolved through written resolution in the manner prescribed under the bye-laws of the Company. Materials are circulated and commented mainly through electronic mail.

Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice will be given. Minutes of the Board meetings are prepared and circulated to all Directors in reasonable time.

Corporate Governance Report (continued)

During the year, the Chairman of the Board held a meeting with the NEDs and the INEDs without the presence of the executive Directors.

Board papers are sent to all Directors to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

Commencing from 1st April 2012, the management provides each Director with updates and financial information of the Group on a monthly basis giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties.

Rotation of Directors

The bye-laws of the Company provide that every Director, including the Chairman and/or the Managing Director of the Company, shall retire by rotation at least once every three years. Directors appointed by the Board during the year shall hold office only until the first general meeting (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to the existing Board), at which time they shall retire and be eligible for re-election by the shareholders.

Changes in Directors' Biographical Details

Changes in Directors' biographical details which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below:

Major appointment

- Mr. Hung Muk Ming was appointed as an independent non-executive director of IBO Technology Company Limited, the shares of which are listed on the Stock Exchange (stock code: 2708), effective from 6th December 2017.
- Mr. Liu Xiaofeng was appointed as an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited, the shares of which are listed on the Stock Exchange (stock code: 00921), effective from 22nd September 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct for Directors dealing in its shares. All Directors confirmed that they had complied with the required standards at all times throughout the financial year 2017.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members including two INEDs, Mr. Xia Zhidong and Mr. Hung Muk Ming, and one NED, Mr. Chow Kwok Wai. It is chaired by Mr. Xia Zhidong.

A written terms of reference was adopted by the Remuneration Committee at its inception and is updated when necessary. The Remuneration Committee is responsible for devising the remuneration policy for the Group and determining the specific package of executive Directors. The Remuneration Committee also approves the terms of all executive Directors' service contracts. Recommendations on the remuneration of NEDs (including INEDs) are submitted to the Board for consideration. Full minutes and related materials of the meetings are kept by a designated secretary.

Corporate Governance Report (continued)

The Remuneration Committee held two meetings in the financial year 2017. The following is the attendance record:

| Name of Committee Members | Number of meetings attended | Attendance rate |
|----------------------------------|------------------------------------|------------------------|
| Mr. Xia Zhidong (Chairman) | 2/2 | 100% |
| Mr. Hung Muk Ming | 2/2 | 100% |
| Mr. Chow Kwok Wai | 2/2 | 100% |

In case members are unable to meet together, issues are resolved through written resolution in the manner prescribed under the bye-laws of the Company. Materials are circulated and commented mainly through electronic mail.

Directors' Remuneration

Each executive Director is entitled to a director's fee determined by the Remuneration Committee. Executive Directors Mr. Gong Zhijian and Mr. Lau Mun Chung have entered into service contracts with the Company, the terms of which were approved by the Remuneration Committee. The director's service contracts provide the executive Directors with a fixed monthly salary determined in accordance with the Director's qualification, experience and the prevailing market conditions together with a discretionary bonus decided with reference to the Group's financial performance, the individual's performance during the year and the market conditions. NEDs and the INEDs are entitled to a director's fee decided by the Board. The Board confirms that no Directors or their associates (as defined in the Listing Rules) are involved in determining their own remuneration.

NOMINATION COMMITTEE

The Nomination Committee comprises three members including two INEDs, Mr. Xia Zhidong and Mr. Liu Xiaofeng, and one executive Director, Mr. Gong Zhijian who is also the chairman of the committee.

A written terms of reference was adopted by the Nomination Committee at its inception and is updated when necessary. The main duties of the Nomination Committee are as follows:

1. review the structure, size and composition of the Board at least annually and make recommendations to the Board regarding any proposed changes;
2. identify suitable individuals qualified to become Board members and make recommendations to the Board on suitable candidates to be nominated for directorships;
3. assess the independence of INEDs on its appointment or when their independence is called into question; and
4. make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors.

The Nomination Committee held one meeting in the financial year 2017. The following is the attendance record. Full minutes and related materials of the meetings are kept by a designated secretary.

| Name of Committee Members | Number of meeting attended | Attendance rate |
|----------------------------------|-----------------------------------|------------------------|
| Mr. Gong Zhijian (Chairman) | 1/1 | 100% |
| Mr. Xia Zhidong | 1/1 | 100% |
| Mr. Liu Xiaofeng | 1/1 | 100% |

Corporate Governance Report (continued)

TRAINING FOR DIRECTORS

The Company will provide a comprehensive, formal and tailored induction to each newly appointed Director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. One seminar was organized for and attended by all the Directors during the year.

INSURANCE COVER FOR DIRECTORS

The Company has arranged appropriate insurance cover in respect of legal action against its Directors to comply with the requirement of the code provision.

AUDITORS' REMUNERATION

Ernst & Young ("EY") was appointed as auditor of the Company on 10th June 2015 subsequent to the retirement of Deloitte Touche Tohmatsu ("Deloitte"). The financial statements for the year ended 31st December 2014 were audited by Deloitte.

During the year, the fees paid/payable to EY are set out below:

| Category of services | Fee paid/payable <i>HK\$</i> |
|----------------------|---------------------------------|
| Audit service | 1,037,000 |
| Non-audit service | 570,000 |
| Total | 1,607,000 |

AUDIT COMMITTEE

The Audit Committee comprises three members, all of whom are INEDs. The Committee is chaired by Mr. Hung Muk Ming who possesses appropriate professional qualifications and experience in accounting and financial management. The other members are Mr. Xia Zhidong and Mr. Liu Xiaofeng.

A written terms of reference is in place and is updated when necessary. The major roles and functions of the Audit Committee include:

1. evaluating the effectiveness of the Group's internal control system;
2. reviewing the financial reporting process;
3. reviewing the interim and annual financial statements before they are approved by the Board;
4. endorsing the annual audit plans proposed by the auditor;
5. reviewing and approving connected transactions; and
6. monitoring the appointment and remuneration of the auditor.

Corporate Governance Report (continued)

The Audit Committee held two meetings during 2017. Representative from the executive Directors and a deputy general manager who supervises, among others, the compliance and internal audit department (“CAIA”) of the Group are answerable in the Audit Committee meetings. During the year, two private sessions between the auditor and the INEDs were held immediately after the Audit Committee meeting in March and August 2017 respectively. Full minutes and related materials of the meetings are kept by a designated secretary. The following is the attendance record of the meetings held by the Audit Committee during the year:

| Name of Committee Members | Number of meetings attended | Attendance rate |
|----------------------------------|------------------------------------|------------------------|
| Mr. Hung Muk Ming (Chairman) | 2/2 | 100% |
| Mr. Xia Zhidong | 2/2 | 100% |
| Mr. Liu Xiaofeng | 2/2 | 100% |

A summary of the work performed by the Audit Committee during the financial year 2017 was listed below:

- (1) reviewed and approved the remuneration and the terms of engagement of the external auditor;
- (2) reviewed and commented on each of the half-year and annual financial statements of the Group and the independent auditor’s report before their submission to the Board;
- (3) reviewed the Group’s financial control, internal control and risk management systems;
- (4) reviewed the results of the audit on connected transactions and continuing connected transactions;
- (5) reviewed the findings and the recommendations of the Group’s internal auditor on the Group’s operations and the regulatory review carried out by the regulators; and
- (6) monitored the financial reporting process of the Group.

The work and findings of the Audit Committee have been reported to the Board. During the year, no issue brought to the attention of the Board was of sufficiently important to require disclosure in the annual report.

ACCOUNTABILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of financial statements for the Company which gives a true and fair view of the state of affairs of the Company as at 31st December 2017, and its profit and the cash flows for the year ended. The financial statements are prepared on the assumption of going concern and are in accordance with the statutory requirements and applicable accounting and financial reporting standards. The Directors also ensure that the publication of the financial statements of the Group is done in a timely manner.

The statements of the Directors and the auditor of the Company regarding their respective responsibilities on the financial statements of the Company are set out in the Independent Auditor’s Report on pages 34 to 37 of this annual report.

Corporate Governance Report (continued)

INTERNAL CONTROL AND RISK MANAGEMENT

The Group strives to maintain a sound and effective internal control and risk management system to safeguard the assets of the Group and its clients. To achieve this end, a proper segregation of duties and responsibilities is in place. The Directors have assessed the effectiveness of the internal control and risk management system with the assistance of the Compliance and Internal Audit Department (“CAIA”) during the year and perform it annually. The CAIA assesses the internal control and risk management procedures to validate its effectiveness and regularly reports its findings to the Audit Committee. In addition, to ensure full compliance with related rules and regulations promulgated by the Securities and Futures Commission, the CAIA performs regular compliance and internal control testing. Exceptional results are brought to the management’s attention. Disciplinary actions are in place to deal with identified non-compliance cases.

The Directors have also reviewed from time to time adequacy of resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, internal audit and financial reporting function.

The Group acknowledges that the strengthening of the internal control and risk management system is an ongoing process and will continue to design and implement appropriate measures to meet the changing business environment of the Group.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

1. to develop and review the Company’s policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
5. to review the Company’s compliance with the corporate governance code and disclosure in the corporate governance report.

OTHER CORPORATE GOVERNANCE PRACTICE

There are three management committees, each charged with specific duties of leading and controlling the daily operation and management of the Group. Chaired by the Managing Director of the Group, the Executive Management Committee (the “EMC”) is responsible for setting up and implementing Group policy, exercising control over operational activities, reviewing and approving budgets, and making decisions on all major issues. Other members of the EMC include an executive Director and members from the senior management of the Group.

The Risk Management Committee (the “RMC”) is accountable to the EMC. The RMC is responsible for dealing with all risk management issues of the Group and reviewing clients’ complaints. It is chaired by the deputy general manager who is responsible for overseeing the CAIA.

The Investment Management Committee (the “IMC”) is accountable to the EMC. The IMC is responsible for formulating investment policies of the Group and approving investment projects proposed by business units/departments of the Group. It is chaired by the Managing Director of the Group.

Corporate Governance Report (continued)

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to ensuring that the Group complies with disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by the Company. Information regularly provided to the shareholders includes annual and interim reports, circulars and announcements in accordance with the Listing Rules.

The Company welcomes the attendance of shareholders at general meetings to express their views. All the Directors are encouraged to attend the general meetings in order to have personal communication with shareholders. The external auditor is also required to be present to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

For both institutional and retail investors, the Company's website, www.cinda.com.hk, provides up-to-date information about the Group. All key information such as announcements, annual and interim reports can be downloaded from this website.

SHAREHOLDERS' RIGHT

(1) Procedures for shareholders to convene a special general meeting ("SGM") and putting forward proposals at shareholders' meeting

The Board shall, on the requisition in writing of the shareholders of not less than one-tenth of the paid-up capital of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene a SGM.

The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the shareholders' meeting. It must also be signed by all of the shareholders concerned and be deposited at the Company's office in Hong Kong at 45th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong, for the attention of the Company Secretary.

If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any meeting so convened shall not be held after three months from the date of the original deposit.

The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

As regards proposing a person for election as a director, please refer to the procedures as set out in the "Procedure for shareholders to propose a person for election as a director" on the website of the Company at www.cinda.com.hk.

(2) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Registrar. Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publicly available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's office in Hong Kong at 45th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong.

Corporate Governance Report (continued)

CONSTITUTIONAL DOCUMENTS

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

COMPANY SECRETARY

The Company Secretary is responsible for advising the Board on governance matters and also facilitates induction and professional development of Directors. The Company Secretary reports to the Chairman of the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, all applicable laws, rules and regulations are followed.

Mr. Lau Mun Chung who is a certified public accountant (as defined in the Professional Accountants Ordinance) was appointed Company Secretary of the Company since 25th May 2000. During the financial year 2017, Mr. Lau had received no less than 15 hours of relevant professional training.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to actively contributing to the community and fostering a caring culture. To achieve this end, the Group has organised various social services activities and encourages staff to participate in voluntary works. In addition, the Company has become a Silver Member of WWF-Hong Kong since October 2011 in order to support environmental conservation and education works. The Company has been awarded the 10 years plus Caring Company logo starting from 2015/16 in recognition of its contribution to community service continuously. Furthermore, the Company was awarded the Hong Kong Awards for Environmental Excellence under the sector of Servicing and Trading (Merit) for nine consecutive years, and awarded the HSBC Living Business Awards (Certificate of Merit) for Green Achievement Award, Caring for People Award and Community Engagement Award for 2017. As a corporate citizen, the Group will continue to uphold its corporate social responsibility.

The Environmental, Social and Governance Report was set out in pages 20 to 26 of this annual report.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To comply with the requirements set forth in Appendix 27 Environmental, Social and Governance (“ESG”) Reporting Guide of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “ESG” Guide), Cinda International Holdings Limited (the “Company”, and together with its subsidiaries, the “Group”) hereby presents this Environmental, Social and Governance report (“ESG Report”) for the year ended 31st December 2017 (“Reporting Period”).

The board of directors of the Company (the “Board”) is responsible for our ESG strategy and reporting including evaluating and determining our ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Group has established an ESG working team to engage the management and employees across different departments in order to identify relevant ESG issues and to assess their materiality to the Group’s business as well as the Company’s stakeholders, through reviewing our operations and internal discussions. Disclosures relating to the material ESG issues identified have been included in this ESG Report pursuant to the ESG Guide.

The Group strives to create positive values to shareholders and clients, we are also committed to fulfill our corporate social responsibility through working with the key stakeholders including the employees and clients. The Group believes that the stakeholders’ interest must be taken into account in order to enhance our relationship with the society, employees, clients and other stakeholders.

The Group is principally engaged in the provision of financial services. The Group’s direct environmental impact is immaterial as we are primarily an office-based company with relatively low energy, power and water consumption. We also encourage our clients and our suppliers to adopt the same principles and to invest in socially responsible vehicles.

As a listed company and being the holding company of certain licensed corporations licensed under the Securities and Futures Ordinance, Cap 571 (the “SFO”), we keep full attention to the continuous development of the regulatory environment and have established a practice in gathering the changes of laws and regulations and ensuring that our directors, responsible officers, licensed representatives and other employees attend necessary training programmes so they are equipped to perform their duties.

We are conscious that there are less fortunate individuals in societies and are always looking for effective ways to help those who are less fortunate such as supporting money-raising events organized by various charitable organizations.

Environmental, Social and Governance Report (continued)

A. ENVIRONMENTAL

A.1 Emissions

The Group is principally engaged in the provision of asset management, corporate financial advisory services, securities broking, commodities and futures broking, financial planning and insurance broking, we do not have significant air emission nor do we generate hazardous waste, so the main contributor to the Group's carbon footprint is indirect greenhouse gas (GHG) emission from electricity consumption (which is mainly attributed to the use of lighting system, air-conditioning and office equipment) and direct GHG emission from petrol consumption of the two motor vehicles as follows:

| During the Period Type/Scope | Tonnes | Intensity – Tonnes per employee |
|---|---------------|---------------------------------------|
| Direct GHG emission – petrol consumption | 6.80 | 0.05 |
| Indirect GHG emission – electricity consumption | 258.81 | 1.96 |
| Other indirect GHG emission – paper consumption | 11.49 | 0.09 |
| Total GHG emission | 277.10 | 2.10 |

NOx emissions, SOx emissions and PM emissions arising from the two motor vehicles (private cars) is 2,108.48g/km, 42.34g/L and 155.24g/km respectively.

Waste management

Our Group upholds the principles of waste management and is committed to the proper handling and disposal of all wastes from our business activities. All of our waste management practices comply with relevant laws and regulations.

During the Reporting Period, our Group did not generate significant amount of hazardous waste, while the major non-hazardous waste generated was paper, with a weight of 4,877.32kg.

We strive to reduce, reuse and recycle throughout our operations to minimize the disposal of wastes to the landfill. We also provide appropriate facilities in our offices and deploy our employees to facilitate source separation and waste recycling. The amount of paper being recycled by our Group during the Reporting Period was 2,483.50kg.

A.2 Use of Resources

Our Group conserves resources for environmental and operating efficiency purposes. To pursue our environmental commitment, an environmental policy and a purchasing policy are in place. We have implemented various initiatives throughout our operations such as deploying energy-efficient devices which carry Energy Label issued by the Electrical and Mechanical Services Department, minimizing the use of paper, reducing water consumption and encouraging the use of public transportation. Through actively monitoring and managing the use of resources, we aim to reduce our carbon footprints as well as our operating cost.

Environmental, Social and Governance Report (continued)

The electricity consumption of our Hong Kong offices and petrol consumption for the two motor vehicles during the Reporting Period are as follows:

| Type of consumption | 2017 | Intensity – per employee |
|----------------------------|----------------|--------------------------|
| Electricity (<i>kWh</i>) | 332,385 | 2,518.07 |
| Petrol (<i>Litre</i>) | 2,880 | 21.82 |

The Group applies energy saving measures in the workplace including installation of an energy-saving lighting system with different zoning, setting optimal temperature on the air-conditioning, switching off the lighting and air-conditioning after office hours and a separate room for server/servers and information technology systems with independent air conditioning. The Group also requests employees to switch off their computers and other office equipment when they are not in use. Reminders/signage are posted elsewhere especially near the appliances to remind our employees to switch off the appliances after use. In addition, we encourage the use of teleconferencing to reduce the frequency of business travels.

The Group's water consumption is minimal as we operate in office premises of which both of the water supply and discharge are solely controlled by the building's management office, and so it is considered that provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible. However, in order to build the awareness on water conservation, our Group promotes water saving practices in the workplace. We encourage employees to reduce water use by placing reminder signs in the pantry as well as toilets.

The Group encourages its employees to reduce the use of papers by assessing the necessity of printing and where appropriate to use duplex printing and reuse any single-side printed papers. We encourage paperless by facilitating the use of electronic means for communication such as intranet, email, internal workflow system. For clients, we encourage them to subscribe for e-statement and to place orders electronically. To achieve this end, we have upgraded our trading system, introduced mobile applications, and revamped our website so that our clients can open an account and conduct trading by electronic means efficiently and conveniently. The Group is committed to continue to reduce our paper consumption and waste. The plain paper consumption for our Hong Kong offices is as follows:

| Use of resources | 2017 |
|----------------------------|----------------|
| Plain papers (<i>pc</i>) | 977,500 |

A.3 The Environment and Natural Resources

Although the core business of our Group has remote impact on the environment and natural resources, as an ongoing commitment to good corporate citizenship, we recognize the responsibility in minimizing the negative environmental impact of our business operations and our investments, in order to achieve a sustainable development for generating long-term values to our stakeholders and community as a whole.

We regularly assess the environmental risks of our business, and adopt preventive measures as necessary to reduce the risks and ensure the compliance of relevant laws and regulations.

Environmental, Social and Governance Report (continued)

B. SOCIAL

B1. Employment

Employees are our valuable assets. We strive to attract and retain talents and reconcile economical imperatives with well-beings, aiming at reinforcing satisfaction, loyalty and commitment of human capital. We have developed a written human resources policy and employee handbook to govern the recruitment, promotion, discipline, working hours, leaves and other benefits of our employees, in accordance with the relevant laws and regulations.

The level of compensation of our employees is reviewed annually on a performance basis with reference to the market standard. A wide range of benefits including comprehensive medical (including dental) and life insurance, tuition aid, special leave entitlements, and mandatory provident fund are also provided to employees. The medical insurance even covers the family members of the employees. Social and recreational activities are organized regularly for the employees in achieving work-life balance.

The Company respects cultural and individual diversity. We believe that no one should be treated less favourably on his/her personal characteristics (i.e. gender, pregnancy, marital status, disability, family status, race and religion, etc.). Opportunities for employment, training and career development are equally opened to all qualified employees.

As at 31st December 2017, the Group had a total number of 132 employees, of which 65 were male and 67 were female. As regards the disability, the Company did not record the health status of the employees and no employee was recorded as disabled. During the Reporting Period, a total of 14 employees have been promoted, of which 8 were male and 6 were female.

Employee's age distribution

| | 18–25 | 26–35 | 36–45 | 46–55 | 56 and above |
|------|-------|-------|-------|-------|--------------|
| 2017 | 6 | 61 | 31 | 25 | 9 |

Distribution of annual turnover

| | 18–25 | 26–35 | 36–45 | 46–55 | 56 and above |
|------|-------|-------|-------|-------|--------------|
| 2017 | 2 | 12 | 7 | 3 | 2 |

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

Environmental, Social and Governance Report (continued)

B2. Health and Safety

We are committed to providing and maintaining a safe, healthy, and hygienic workplace for all employees, and all other persons likely to be affected by our operations and activities.

Health and safety standards are given prime consideration in our operations, and regulatory compliance is strongly upheld. Employees at every level are committed to, and accountable for, the delivery of the safety initiatives contained in the employee handbook of the Company, with a view to maintaining a vigorous and injury-free culture. Appropriate measures are taken to continuously improve the safety and health aspects in workplace.

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

B3. Development and Training

The Group is subjected to various ordinances, rules and guidelines such as, but not limited to, the SFO, the Personal Data (Privacy) Ordinance, Cap 486, Main Board Listing Rules and Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the Securities and Futures Commission (“SFC”). The Group pays full attention to the continuous development and updates of relevant laws and regulations, our Compliance and Internal Audit Department (“CAIA”) and Company Secretarial Department are responsible for gathering of the relevant regulatory changes and work closely with different departments to determine the continuous professional training required for relevant staff and directors to update their knowledge and skills to maintain their professional competence.

Besides, we acknowledge the importance of training for the development of our employees as well as our Group. We encourage and support our employees in personal and professional training through sponsoring training programmes, seminars, workshops and conferences, regular sharing sessions, peer learning and on-the-job coaching, as well as reimbursement for external training courses fees. We believe this is a mutually beneficial practice for achieving both personal and corporate goals as a whole.

B4. Labour Standards

The Group strictly complies with the Employment Ordinance, Cap 57. The Group reviews the job applicant’s identity information during the recruitment process and the applicant is also required to provide document proofs of academic qualifications and working experience for verifications. The employment policies of the Group also protect the right of free choice of employment by any person and ensure that all the employment relationship is established on a voluntary basis.

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

Environmental, Social and Governance Report (continued)

B5. Supply Chain Management

We encourage suppliers (mainly professional service providers) to maintain a high standard on business ethics and conducts, with satisfactory environmental and social performance. During the selection and evaluation processes of vendors of administrative supplies and services, we adopt a fair basis with defined assessment criteria to ensure that only suppliers with no conflict of interest are qualified. The evaluation and assessment of the suppliers include but not limited to the professional qualification, services/products quality, financial status, integrity, sociality responsibility, etc. When the evaluation result of a supplier is not satisfactory, the respective supplier will be removed from the approved list.

B6. Product Responsibility

Responsible Investment

The Company's goal is to maximize shareholders' value in medium to long term. We believe that ESG factors have influence to financial performance of individual company, in both positive and negative ways. Hence, in the process of creating returns, ESG is integrated into not only our operations but also our investment processes for long-term value creation. As a responsible investor, we aim to incorporate ESG aspects in our analysis and investment decisions, and continue to monitor the ESG performance of our investments.

Quality of Services

As a holding company of certain number of licensed corporations, the Group is committed to comply with all relevant laws and regulations under the regulatory regime of the financial service industry, in particular, all applicable provisions of the SFO and its supplementary rules and regulations as well as the codes and guidelines issued by SFC. Moreover, one of the Group companies is a member of The Hong Kong Confederation of Insurance Brokers ("CIB"), the Group complies with the relevant code and conduct and guidelines issued by CIB.

Protection of Clients' Data

The Group emphasizes the importance of protecting our clients' personal data and we adhere to the Personal Data (Privacy) Ordinance, Cap 486 when collecting, processing and using clients' personal data.

There were no non-compliance cases noted in relation to our data privacy during the Reporting Period.

B7. Anti-corruption

We aim to maintain the highest standards of openness, uprightness and accountability and all our employees are expected to observe the highest standards of ethical, personal and professional conduct. We do not tolerate corruption, bribery, extortion, money-laundering and other fraudulent activities in connection with any of our business operations.

In addition to the code of conduct on anti-bribery and anti-corruption mentioned in the employee handbook and the Group's code of conduct, employees are encouraged to directly access the top management or CAIA whenever irregularities or fraudulent activities are suspected. Ongoing review of the effectiveness of the internal control systems is conducted on a regular basis in preventing the occurrence of corruption activities.

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

Environmental, Social and Governance Report (continued)

B8. Community Investment

As a corporate citizen, we promote social contributions amongst the members of our Group to the local communities in which we operate. We place great emphasis on cultivating social responsibility awareness among our staff and encourage them to better serve our community at work and during their personal time. We have become a Silver Member of WWF-Hong Kong since October 2011 to support environmental conservation and education works. We will try to maximize our social investments in order to create a more favourable environment for our community and our business.

AWARDS

The Company has been awarded:

- 10 years plus Caring Company logo starting from 2015/16
- the Hong Kong Awards for Environmental Excellence under the sector of Servicing and Trading (Merit) for nine consecutive years since 2008
- HSBC Living Business Green Achievement Award for four consecutive years (Certificate of Merit for 2017 and 2016, Certificate of Excellence for 2015, Certificate of Merit for 2014)
- HSBC Living Business Caring for People Award (Certificate of Merit) for 2015 to 2017
- HSBC Living Business Community Engagement Award (Certificate of Merit) for 2016 and 2017

Report of the Directors

The board (the “Board”) of directors (the “Directors”) of Cinda International Holdings Limited (the “Company”) have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2017.

PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holdings. The activities of the subsidiaries are set out in Note 1 to the financial statements. An analysis of the Group’s performance for the year by business segments is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 38.

No interim dividend has been declared for the year (2016: Nil). The Directors do not recommend the payment of a final dividend in respect of the year ended 31st December 2017 (2016: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31st December 2017 is set out in the sections headed “Management Discussion and Analysis” and “Corporate Governance Report” on pages 3 to 6 and 10 to 19 respectively of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in this annual report, the Company is not aware of any principal risks and uncertainties in this annual report.

SHARE CAPITAL

Details of movements in the Company’s share capital during the year are set out in Note 24 to the financial statements.

BONDS ISSUED

On 21st August 2013, the Company resolved to issue 5-year unsecured, non-guaranteed, fixed interest corporate bonds up to a maximum aggregate principal amount of HK\$200,000,000 to independent third parties at an interest rate between 3% and 5%, determined by market conditions from time to time. The bonds will mature on the fifth anniversary from the date of issue and the net proceeds from the issuance will be utilized for the development of and working capital for the Group.

As at 31st December 2017, the Company issued the bonds to ten individuals for an aggregate principal of HK\$86,000,000 at the interest rate of 4% per annum in which an aggregate principal of HK\$34,000,000 will mature in 2018, HK\$42,000,000 will mature in 2019 and the remaining of HK\$10,000,000 will mature in 2021. Details of the corporate bonds of the Company are set out in Note 28 to the financial statements.

Report of the Directors (continued)

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 42 and in Note 25 to the financial statements.

Distributable reserves of the Company as at 31st December 2017 calculated under the Company Act 1981 of Bermuda (as amended) amounted to HK\$43,471,000 (2016: HK\$69,657,000). Details are set out in Note 25 to the financial statements.

DONATIONS

Charitable donations made by the Group during the year amounted to HK\$35,000 (2016: HK\$35,000).

PROPERTY AND EQUIPMENT

Movements in property and equipment of the Group during the year are set out in Note 13 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five years is set out on page 128.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Chairman

Mr. Gong Zhijian (Managing Director, appointed as acting Chairman on 29th November 2016)

Executive Director

Mr. Lau Mun Chung

Non-executive Directors

Mr. Chow Kwok Wai

Ms. Zheng Yi

Independent Non-executive Directors

Mr. Hung Muk Ming

Mr. Xia Zhidong

Mr. Liu Xiaofeng

In accordance with bye-law 87 of the Company, Mr. Gong Zhijian and Mr. Hung Muk Ming shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Report of the Directors (continued)

DIRECTORS' SERVICE CONTRACT

None of the Directors proposed for re-election has entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, or in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

The Company's bye-laws provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty in their offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any Directors. A Directors Liability Insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

CONTINUING CONNECTED TRANSACTION

Pursuant to an agreement dated 18th December 2015 (the "New Master Agreement") and a supplemental agreement to the New Master Agreement dated 31st March 2016 (the "Supplemental Agreement", which has been approved by the independent shareholders of the Company at the special general meeting held on 26th May 2016) entered into between the Company and China Cinda Asset Management Co., Ltd. ("China Cinda") (a substantial shareholder of the Company which indirectly holds 63% of the issued share capital of the Company) (together with its associates, the "China Cinda Group"), the Group has agreed to provide (i) brokerage services for securities, futures and options trading; placing and underwriting and sub-underwriting services for securities ("Category I Transactions"); (ii) corporate finance advisory service ("Category II Transactions"); and (iii) asset management services ("Category III Transactions"), to the China Cinda Group; as well as to (iv) pay advisory fee to the China Cinda Group for their provision of corporate finance advisory services to the Group ("Category IV Transactions"), for a term of 3 years commencing from 1st January 2016 and ending on 31st December 2018. The annual caps in respect of each category of transactions contemplated under the New Master Agreement as supplemented by the Supplemental Agreement are as follows:

| | For the year ending 31st December 2016 | For the year ending 31st December 2017 | For the year ending 31st December 2018 |
|---------------------------|---|---|---|
| | <i>(HK\$)</i> | <i>(HK\$)</i> | <i>(HK\$)</i> |
| Category I Transactions | 23,000,000 | 46,000,000 | 67,000,000 |
| Category II Transactions | 15,000,000 | 15,000,000 | 15,000,000 |
| Category III Transactions | 90,000,000 | 150,000,000 | 200,000,000 |
| Category IV Transactions | 9,990,000 | 9,990,000 | 9,990,000 |

The above-mentioned continuing connected transactions were determined after arm's length negotiations between the parties thereto and will be no less favourable to the Group than terms offered to or by other independent third parties. The Directors, including the INEDs, are of the view that the terms of the New Master Agreement and the Supplemental Agreement are fair and reasonable so far as the shareholders are concerned and that the New Master Agreement and the Supplemental Agreement were entered into on normal commercial terms and in the interest of the Company and its shareholders as a whole.

Report of the Directors (continued)

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "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. The Directors have received a letter from the auditor containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Facility Agreement I

On 7th July 2016, the Company as borrower entered into a facility agreement with a licensed bank in Hong Kong in relation to a HK\$300,000,000 revolving term loan facility ("Facility Agreement I"). Pursuant to Facility Agreement I, it shall be an event of default if China Cinda Asset Management Co., Ltd. ("China Cinda") ceases to directly or indirectly own at least 50% of the issued share capital of the Company unless prior written consent is obtained from the bank. If an event of default occurs, all the obligations of the Company to the bank shall become immediately due and payable on the bank's demand. The final maturity date of Facility Agreement I shall be the date falling 3 years from 7th July 2016.

As at 31st December 2017, HK\$216,000,000 has been drawn under Facility Agreement I.

Facility Agreement II

On 27th October 2016, Cinda International Securities Limited ("CISL", a wholly-owned subsidiary of the Company), as borrower and the Company, as guarantor, entered into a facility agreement with another licensed bank in Hong Kong in relation to a HK\$150,000,000 revolving loan facility ("Facility Agreement II"). As one of the conditions of the loan facility, China Cinda (HK) Holdings Company Limited ("China Cinda (HK)") shall maintain majority and beneficially ownership and control in CISL. If this condition is not met, any outstanding amount under the loan facility will become immediately due and be repayable in full. The loan facility is subject to an annual review by the bank.

As at 31st December 2017, HK\$30,000,000 has been drawn under Facility Agreement II.

Facility Agreement III

On 28th February 2017, CISL, as borrower and the Company, as guarantor, entered into a facility agreement with another licensed bank in Hong Kong in relation to a HK\$200,000,000 credit facilities ("Facility Agreement III"). As one of the conditions of the credit facilities, China Cinda shall remain the single largest beneficiary shareholder (whether directly or indirectly) of the Company. Failure to comply with this condition will constitute an event of default under the Facility Agreement III, upon which the facilities together with all accrued interest and any other amounts accrued under the facilities will become immediately due and payable. The credit facilities are subject to an annual review by the bank.

As at 31st December 2017, nil balance has been drawn under Facility Agreement III.

Report of the Directors (continued)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December 2017, the Directors of the Company who held office and their respective associates did not hold any interest or short position in the shares and underlying shares or debentures of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) as recorded in the register of directors’ interests and short positions required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE EQUITY OR DEBT SECURITIES

As at 31st December 2017, so far as was known by the Directors and the chief executives of the Company, the following are details of the persons (other than Directors or chief executives of the Company) who had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which need to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position

| Name of substantial shareholder | Capacity | Number of shares or underlying shares held | Approximate percentage of the Company’s issued share capital |
|--|---|--|--|
| Sinoday Limited | Beneficial owner | 403,960,200 (Note) | 63.00% |
| China Cinda (HK) Holdings Company Limited (“China Cinda (HK)”) | Interest through a controlled corporation | 403,960,200 (Note) | 63.00% |
| China Cinda Asset Management Co., Ltd. (“China Cinda”) | Interest through a controlled corporation | 403,960,200 (Note) | 63.00% |

Note:

These shares were held by Sinoday Limited. The issued share capital of Sinoday Limited was wholly-owned by China Cinda (HK) which was a wholly-owned subsidiary of China Cinda. By virtue of the provisions of the SFO, China Cinda (HK) and China Cinda were deemed to be interested in all the shares in which Sinoday Limited was interested.

Report of the Directors (continued)

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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of turnover for the year attributable to the Group's major customers are as follows:

| | |
|---------------------------------------|--------|
| – the largest customer | 8.94% |
| – the five largest customers combined | 28.48% |

As at 31st December 2017, the largest customer is independent third party. The remaining four largest customers consisted of two corporations controlled by the ultimate holding company of the Company, and an associated company of the Company. Saved as disclosed, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers.

As the Group is engaged in the provision of financial services, the Directors are of the opinion that giving information on counterparties would be of limited or no value.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year ended 31st December 2017. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that was publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

Report of the Directors (continued)

AUDITOR

The financial statements of the Company for the year ended 31st December 2017 have been audited by Ernst & Young (“EY”). EY were appointed as auditor of the Company at the annual general meeting of the Company held on 10th June 2015 for the financial year ended 31st December 2015 upon the retirement of Deloitte Touche Tohmatsu who have acted as auditor of the Company for the financial year ended 31st December 2014.

EY shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of EY as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report was set out in pages 20 to 26 of this annual report.

By order of the Board

Gong Zhijian
Chairman

Hong Kong, 27th March 2018

Independent Auditor's Report



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CINDA INTERNATIONAL HOLDINGS LIMITED (Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Cinda International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 38 to 127, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (continued)

Key audit matters

How our audit addressed the key audit matters

Impairment assessment on loans receivable and margin loans arising from securities broking

Refer to summary of significant accounting policies in note 2 and the disclosures on loans receivable and margin loans arising from securities broking and the related credit risk in note 18, 22 and 37.1(b) to the financial statements.

As at 31 December 2017, gross loans receivable and margin loans arising from securities broking (included as part of the trade and other receivables) amounted to approximately HK\$190.2 million and HK\$382.7 million respectively.

No impairment allowances were provided for loans receivable.

The impairment of HK\$12.9 million was provided on margin loans arising from securities broking.

The assessment of impairment for loans receivable and margin loans arising from securities broking involved significant management judgements and estimates on the amount of losses already incurred as at 31 December 2017.

The Group's methodology and assumptions used for estimating both the amount and timing of future cash flows require the regular review of individual outstanding amount which depends on individual circumstances or market condition. Impairment allowances on individually assessed accounts were determined by an evaluation of the incurred loss as at 31 December 2017 on a case-by-case basis. The assessment normally encompasses the nature and value of the collateral held and the anticipated receipts.

Impairment assessment on unlisted available-for-sale financial assets

Refer to summary of significant accounting policies in note 2 and the disclosures on available-for-sale financial assets in note 14 to the financial statements.

As at 31 December 2017, the unlisted available-for-sale investments that are measured at cost less impairment amounted to HK\$16.5 million. The impairment assessment involved significant management judgement and estimation, taking into account a number of factors, including the net book value, projected cash flow of the investments and recoverability of personal guarantee of the investments.

We obtained an understanding of the Group's methodology and assumptions used for estimating the impairment allowances on loans receivable and margin loans arising from securities broking. Our procedures to assess the Group's impairment allowance included the following:

- For loans receivable, we formed an independent view on the level of provisions recognised by the Group through reviewing the borrowers' detailed information about their financial performance, recoverable cash flows and valuation of collateral.
- For margin loans arising from securities broking, we evaluated the control procedures performed by the Group and checked each individual account to determine whether there was any shortfall by comparing the loan outstanding with the value of collateral. We also reviewed the valuation of the collateral.

We obtained an understanding of the Group's methodology and assumptions used for estimating the impairment allowances on unlisted available-for-sale financial assets.

We evaluated the management's assessment methodology and the inputs and assumptions applied by management in performing the impairment assessment at the year end. We also assessed the recoverability of personal guarantee and compared the projected cash flows of the unlisted available-for-sale investments with the respective carrying values as at the year end.

Independent Auditor's Report (continued)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 HKSAAs 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 HKSAAs, we exercise professional judgement 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.

Independent Auditor's Report (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Shu Hing.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31st December 2017

| | <i>Notes</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Revenue | 5 | 193,276 | 158,357 |
| Other income | 5 | 87,938 | 36,788 |
| Other (losses)/gains, net | 5 | (7,264) | 14,494 |
| | | 273,950 | 209,639 |
| Staff costs | 6 | 95,070 | 82,519 |
| Commission expenses | | 22,317 | 15,270 |
| Operating leases for land and buildings | | 22,876 | 19,027 |
| Other operating expenses | 7 | 51,272 | 27,864 |
| Finance costs | 8 | 21,533 | 13,327 |
| | | 213,068 | 158,007 |
| Share of profits of associates and a joint venture, net | 16 | 60,882 21,069 | 51,632 12,395 |
| Profit before taxation | | 81,951 | 64,027 |
| Income tax | 9 | (14,019) | (14,521) |
| Profit for the year | | 67,932 | 49,506 |
| Attributable to: | | | |
| Equity holders of the Company | | 66,361 | 41,080 |
| Non-controlling interests | | 1,571 | 8,426 |
| | | 67,932 | 49,506 |
| Basic and diluted earnings per share attributable to equity holders of the Company | 11 | HK10.35 cents | HK6.41 cents |

The notes on pages 44 to 127 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2017

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit for the year | 67,932 | 49,506 |
| Other comprehensive income for the year: | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Change in fair value of available-for-sale financial assets | (4,363) | 21,166 |
| Reclassification adjustments for gain on disposal of available-for-sale financial assets | (24,337) | (3,276) |
| Share of an associate's investment revaluation reserve relating to available-for-sale financial assets: | | |
| – Change in fair value, net of deferred tax | 13,005 | 10,076 |
| Net movement in investment revaluation reserve | (15,695) | 27,966 |
| Share of an associate's exchange difference | 6,027 | (6,956) |
| Exchange differences on translation of: | | |
| – Financial statements of a joint venture | 2,035 | (1,172) |
| – Financial statements of foreign operations | 9,383 | (4,186) |
| Net movement in exchange difference | 17,445 | (12,314) |
| Item that would not be reclassified subsequently to profit or loss | | |
| Share of a joint venture's capital reserve | 48 | 68 |
| Net movement in capital reserve | 48 | 68 |
| Other comprehensive income for the year | 1,798 | 15,720 |
| Total comprehensive income for the year | 69,730 | 65,226 |
| Total comprehensive income attributable to: | | |
| Equity holders of the Company | 67,398 | 57,307 |
| Non-controlling interests | 2,332 | 7,919 |
| | 69,730 | 65,226 |

The notes on pages 44 to 127 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31st December 2017

| | <i>Notes</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Non-current assets | | | |
| Intangible assets | <i>12</i> | 1,439 | 1,439 |
| Property and equipment | <i>13</i> | 13,348 | 7,223 |
| Available-for-sale financial assets | <i>14</i> | 37,639 | 55,756 |
| Interests in associates and a joint venture | <i>16</i> | 338,731 | 312,642 |
| Other assets | <i>17</i> | 14,174 | 10,974 |
| | | 405,331 | 388,034 |
| Current assets | | | |
| Loans receivable | <i>18</i> | 190,230 | 77,115 |
| Available-for-sale financial assets | <i>14</i> | 395,014 | 380,050 |
| Financial assets designated at fair value through profit or loss | <i>20</i> | 88,963 | 85,443 |
| Financial instruments held-for-trading | <i>21</i> | 10,072 | 36,360 |
| Trade and other receivables | <i>22</i> | 726,933 | 639,126 |
| Taxation recoverable | | 1,286 | – |
| Pledged bank deposits | <i>23</i> | 15,093 | 15,084 |
| Bank balances and cash | <i>23</i> | 269,391 | 181,570 |
| | | 1,696,982 | 1,414,748 |
| Current liabilities | | | |
| Trade and other payables | <i>26</i> | 308,462 | 237,272 |
| Borrowings | <i>27</i> | 815,865 | 622,613 |
| Taxation payable | <i>19(a)</i> | 10,132 | 7,786 |
| Bonds issued | <i>28</i> | 34,000 | – |
| | | 1,168,459 | 867,671 |
| Net current assets | | 528,523 | 547,077 |
| Total assets less current liabilities | | 933,854 | 935,111 |

Consolidated Statement of Financial Position (continued)

As at 31st December 2017

| | <i>Notes</i> | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Capital and reserves | | | |
| Share capital | 24 | 64,121 | 64,121 |
| Other reserves | | 495,125 | 494,088 |
| Retained earnings | | 262,255 | 195,894 |
| Total equity attributable to equity holders of the Company | | 821,501 | 754,103 |
| Non-controlling interests | | 13,054 | 10,722 |
| TOTAL EQUITY | | 834,555 | 764,825 |
| Non-current liabilities | | | |
| Bonds issued | 28 | 52,000 | 86,000 |
| Financial liabilities at fair value through profit or loss | 29 | 46,870 | 58,517 |
| Borrowings | 27 | – | 24,541 |
| Deferred tax liabilities | 19(b) | 429 | 1,228 |
| | | 99,299 | 170,286 |
| | | 933,854 | 935,111 |

Approved and authorised for issue by the Board of Directors on 27th March 2018 and are signed on its behalf by:

Gong Zhijian
Executive Director

Lau Mun Chung
Executive Director

The notes on pages 44 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2017

| | Attributable to equity holders of the Company | | | | | | | Non-controlling interests | Total equity | |
|---|---|---------------|---------------|-----------------|--------------------------------|------------------|-------------------|---------------------------|--------------|----------|
| | Note | Share capital | Share premium | Capital reserve | Investment revaluation reserve | Exchange reserve | Retained earnings | | | Total |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Balance at 1st January 2016 | | 64,121 | 421,419 | 43,059 | 14,560 | (1,177) | 154,814 | 696,796 | 61,666 | 758,462 |
| Profit for the year | | - | - | - | - | - | 41,080 | 41,080 | 8,426 | 49,506 |
| Other comprehensive income | | - | - | 68 | 27,966 | (11,807) | - | 16,227 | (507) | 15,720 |
| Total comprehensive income for the year | | - | - | 68 | 27,966 | (11,807) | 41,080 | 57,307 | 7,919 | 65,226 |
| Distribution to non-controlling interests | 38(j) | - | - | - | - | - | - | - | (58,863) | (58,863) |
| Balance at 31st December 2016 | | 64,121 | 421,419 | 43,127 | 42,526 | (12,984) | 195,894 | 754,103 | 10,722 | 764,825 |
| Balance at 1st January 2017 | | 64,121 | 421,419 | 43,127 | 42,526 | (12,984) | 195,894 | 754,103 | 10,722 | 764,825 |
| Profit for the year | | - | - | - | - | - | 66,361 | 66,361 | 1,571 | 67,932 |
| Other comprehensive income | | - | - | 48 | (15,695) | 16,684 | - | 1,037 | 761 | 1,798 |
| Total comprehensive income for the year | | - | - | 48 | (15,695) | 16,684 | 66,361 | 67,398 | 2,332 | 69,730 |
| Distribution to non-controlling interests | 38(j) | - | - | - | - | - | - | - | - | - |
| Balance at 31st December 2017 | | 64,121 | 421,419 | 43,175 | 26,831 | 3,700 | 262,255 | 821,501 | 13,054 | 834,555 |

The notes on pages 44 to 127 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31st December 2017

| | Notes | 2017 HK\$'000 | 2016 HK\$'000 |
|--|-------|------------------|------------------|
| Net cash outflow from operating activities | 34 | (81,760) | (278,014) |
| Investing activities | | | |
| Purchase of property and equipment | 13 | (8,847) | (4,388) |
| Capital injection in investments in associates | 16(a) | – | (6,320) |
| Capital withdrawal from a joint venture | | 13,059 | – |
| Purchase of financial instruments held-for-trading | | – | (53,702) |
| Interest received from debt securities | | 30,424 | 7,464 |
| Proceeds from disposal of financial assets held-for-trading | 21 | 24,606 | 43,834 |
| Purchase of available-for-sale financial assets | | (241,934) | (244,472) |
| Purchase of financial assets designated at fair value through profit or loss | | (89,435) | (78,000) |
| Proceeds from disposal of available-for-sale financial assets | | 214,577 | 146,440 |
| Proceeds from disposal of financial assets designated at fair value through profit or loss | | 78,000 | 70,200 |
| Dividends from associates | 16(a) | 3,036 | 2,760 |
| Withdrawal of fixed deposits with maturity over three months | | – | 3,000 |
| Repayment of available-for-sale financial assets | | 6,053 | 12,483 |
| Net cash inflow/(outflow) from investing activities | | 29,539 | (100,701) |
| Financing activities | | | |
| Interest paid | | (19,932) | (12,987) |
| Proceeds from bank loans | 27 | 182,000 | 532,696 |
| Repayment of bank loans | 27 | (179,155) | (106,000) |
| Proceeds from borrowing under a securities sale agreement | 27 | 177,054 | 101,400 |
| Repayment from borrowing under a securities sale agreement | 27 | – | (101,400) |
| Proceeds from margin loan from a broker | 27 | – | 13,058 |
| Repayment of margin loan from broker | 27 | (13,058) | (73,272) |
| Issuance of a new bond | 28 | – | 10,000 |
| Distribution to non-controlling interest | 38(j) | – | (58,863) |
| Capital contribution from financial liabilities at fair value through profit or loss | | – | 54,600 |
| Distribution to financial liabilities at fair value through profit or loss | | (14,682) | (2,308) |
| Net cash inflow from financing activities | | 132,227 | 356,924 |
| Increase/decrease in cash and cash equivalents | | 80,006 | (21,791) |
| Cash and cash equivalents at the beginning of the year | | 181,570 | 205,678 |
| Effect of foreign exchange rate changes, net | | 7,815 | (2,317) |
| Cash and cash equivalents at the end of the year | 23 | 269,391 | 181,570 |
| Analysis of balances of cash and cash equivalents: | | | |
| Bank balances – general accounts and cash in hand | 23 | 269,391 | 181,570 |

The notes on pages 44 to 127 form part of these financial statements.

Notes to the Financial Statements

1 CORPORATE AND GROUP INFORMATION

The principal activity of the Company is investment holding.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company has its listing on The Stock Exchange of Hong Kong Limited.

Information about subsidiaries

The following is the list of subsidiaries at 31st December 2017 and 2016:

| Name | Place of incorporation and operation | Principal activities | Particulars of issued share capital/share capital held | Interest held directly | | Interest held indirectly | |
|--|--------------------------------------|--|--|------------------------|------|--------------------------|------|
| | | | | 2017 | 2016 | 2017 | 2016 |
| Cinda International Capital Limited ("CICL") | Hong Kong | Corporate finance services | 14,000,100 ordinary shares of HK\$1 each, and 21,000,000 non-voting deferred shares of HK\$1 each | – | – | 100% | 100% |
| Cinda International Securities Limited ("CISL") | Hong Kong | Securities broking and margin financing services | 150,000,100 ordinary shares of HK\$1 each, and 50,000,000 non-voting deferred shares of HK\$1 each | – | – | 100% | 100% |
| Cinda International Futures Limited ("CIFL") | Hong Kong | Commodities and futures broking | 40,000,100 ordinary shares of HK\$1 each, and 10,000,000 non-voting deferred shares of HK\$1 each | – | – | 100% | 100% |
| Cinda International Asset Management Limited ("CIAM") | Hong Kong | Asset management | 20,500,100 ordinary shares of HK\$1 each, and 2,000,000 non-voting deferred shares of HK\$1 each | 100% | 100% | – | – |
| Cinda Asset Management (Cayman) Limited ("CAMCL") | Cayman Islands | Fund management | 1 ordinary share of US\$1 each | – | – | 100% | 100% |
| Cinda International Wealth Management Advisor Limited ("CIWM") | Hong Kong | Financial planning and insurance broking | 13,500,000 ordinary shares of HK\$1 each | – | – | 100% | 100% |
| Chinacorp Nominees Limited ("CNL") | Hong Kong | Provision of administrative support services | 100 ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each | – | – | 100% | 100% |
| Cinda Strategic (BVI) Limited ("CSBVIL") | British Virgin Islands | Investment holding | 50,000 ordinary shares of US\$1 each | 100% | 100% | – | – |

Notes to the Financial Statements (continued)

1 CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

The following is the list of subsidiaries at 31st December 2017 and 2016: (continued)

| Name | Place of incorporation and operation | Principal activities | Particulars of issued share capital/share capital held | Interest held directly | | Interest held indirectly | |
|---|--------------------------------------|--|---|------------------------|------|--------------------------|------|
| | | | | 2017 | 2016 | 2017 | 2016 |
| Cinda (BVI) Limited ("CBVIL") | British Virgin Islands | Investment holding | 7 ordinary shares of US\$1 each | 100% | 100% | – | – |
| Cinda International Direct Investment Limited ("CIDI") | British Virgin Islands | Investment holding | 1,000 ordinary shares of US\$1 each | 100% | 100% | – | – |
| Cinda International Research Limited ("CIRL") | Hong Kong | Provision of research services | 1,000,000 ordinary shares of HK\$1 each | – | – | 100% | 100% |
| Cinda International Nominees Limited ("CINL") | Hong Kong | Provision of administrative support services | 100,000 ordinary shares of HK\$1 each | – | – | 100% | 100% |
| Cinda International Consultant Limited ("CICON") | Hong Kong | Investment holding | 120,000 ordinary shares of HK\$1 each | 100% | 100% | – | – |
| Cinda International Capital Management Limited ("CICM") | British Virgin Islands | Investment holding | 1 ordinary share of US\$1 each | 100% | 100% | – | – |
| 信達國際(上海)投資諮詢有限公司 | PRC | Provision of consultancy services | RMB20,000,000 | 100% | 100% | – | – |
| Cinda Resources Investment Limited | Cayman Islands | Asset management | 1 ordinary share of US\$1 each | – | – | 100% | 100% |
| Cinda International Strategic Limited | Hong Kong | Investment | 100,000 ordinary shares of HK\$1 each | – | – | 100% | 100% |
| Cinda International Investment Management Limited (formerly known as Cinda International FX Limited ("CIFX")) | Hong Kong | Dormant | 100 ordinary shares of HK\$1 each, and 100,000,000 non-voting deferred shares of HK\$1 each | – | – | 100% | 100% |

Notes to the Financial Statements (continued)

1 CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

The following is the list of subsidiaries at 31st December 2017 and 2016: (continued)

| Name | Place of incorporation and operation | Principal activities | Particulars of issued share capital/share capital held | Interest held directly | | Interest held indirectly | |
|--|--------------------------------------|---|--|------------------------|------|--------------------------|--------------------|
| | | | | 2017 | 2016 | 2017 | 2016 |
| Cinda Agriculture Investment Limited | Cayman Islands | Disposed | 1 ordinary share of US\$1 each | – | – | N/A | 100% |
| Rainbow Stone Investments Limited | British Virgin Islands | Investment holding | 1 ordinary share of US\$1 each | – | – | 100% | 100% |
| Cinda General Partner Limited | Cayman Islands | Asset management | 1 ordinary share of US\$1 each | – | – | 100% | 100% |
| Cinda Asia Investments Limited | Cayman Islands | Dissolved | 1 ordinary share of US\$1 each | – | – | N/A | 100% |
| 福建海峽文化產業股權投資管理有限公司 (“FJSC”) | PRC | Private equity investment and fund management | RMB10,000,000 | – | – | 55% | 55% |
| Cinda Retail and Consumer Fund L.P. (“CRC Fund”) | Cayman Islands | Investment | US\$273,078 | – | – | 38.89% (Note 1) | 38.89% (Note 1) |
| Cinda Agriculture Industry Investments Fund L.P. | Cayman Islands | Dissolved | US\$2 | – | – | N/A | 50% |
| Cinda International Finance Limited (“CIFIN”) | Hong Kong | Money lender | 1,000,000 ordinary shares of HK\$1 each | – | – | 100% | 100% |
| Full Creation Investments Ltd (“FCL”) | British Virgin Islands | Investment holding | 1 ordinary share of US\$1 each | – | – | 100% | 100% |
| Cinda International GP Management Limited (“CIGP”) | Cayman Islands | Asset management | 1 ordinary share of US\$1 each | – | – | 100% | 100% |
| 信達匯理(深圳)投資諮詢有限公司 | PRC | Provision of consultancy services | RMB4,000,000 | – | – | 100% | 100% |

Notes to the Financial Statements (continued)

1 CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

The following is the list of subsidiaries at 31st December 2017 and 2016: (continued)

| Name | Place of incorporation and operation | Principal activities | Particulars of issued share capital/share capital held | Interest held directly | | Interest held indirectly | |
|---------------------------------------|--------------------------------------|-----------------------------------|--|------------------------|-----------------|--------------------------|------|
| | | | | 2017 | 2016 | 2017 | 2016 |
| Wisdom Fortune Investments Limited | British Virgin Islands | Investment holding | 1 ordinary share of US\$1 each | – | – | 100% | 100% |
| 信達領先(深圳)股權投資基金管理有限公司 | PRC | Provision of consultancy services | RMB2,600,000 | – | – | 100% | 100% |
| Special Praise Investments Ltd | British Virgin Islands | Investment holding | 1 ordinary share of US\$1 each | 100% | 100% | – | – |
| Stayreal Investments Ltd | British Virgin Islands | Investment holding | 1 ordinary share of US\$1 each | 100% | 100% | – | – |
| Cinda Advance Investment (HK) Limited | Hong Kong | Investment | 1 ordinary share of HK\$1 each | – | – | 100% | 100% |
| Jianda Value Investment Fund L.P. | Cayman Islands | Investment | US\$9,000,000 | 33.3% (Note 2) | 30% (Note 2) | – | – |

Notes:

- Notes 4.5 and 15 describe the details of CRC Fund. Notes 38(j) and 38(l) describe CRC Fund's transactions with the CRC Fund's non-controlling interest.
- Note 4.8 describes the details of Jianda Value Investment Fund L.P.. The Interests not held by the Group were included as part of the financial liabilities at fair value through profit or loss (Note 29).

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$'000) unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27th March 2018.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (the “Hong Kong Companies Ordinance”). The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs, that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2.2 Basis of preparation

These financial statements have been prepared under the historical cost convention, except for certain financial instruments are measured at their fair value as explained in the accounting policies set out below. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 Basis of consolidation

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Investments in associates and a joint venture

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong Dollars ("HK Dollars"), which is the Company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation (continued)

(c) Group companies (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in profit or loss during the financial period in which they are incurred.

Depreciation of property and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|-------------------------------|--|
| Leasehold improvements | Over the lease periods or 5 years if shorter |
| Furniture and fixtures | 20% |
| Computer software | Over the useful life or 5 years if shorter |
| Office and computer equipment | 20% |
| Motor vehicles | 25% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2.8).

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets

(a) Trading rights

Trading rights held in The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited (the “Stock Exchange trading rights” and “Futures Exchange trading right” respectively) are classified as intangible assets. Trading rights have an indefinite useful life and are carried at cost less accumulated impairment losses (see note 2.8). 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 are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

The useful life of the trading rights is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is account for on a prospective basis.

(b) Club membership

Club membership is classified as intangible assets. Club membership has an indefinite useful life and is carried at cost less accumulated impairment losses (see note 2.8).

2.8 Impairment of assets

At the end of each 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 the asset 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 the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments

The Group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments are acquired. Management determines the classification of financial instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represents financial assets held for trading and those designated at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is 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 as defined by HKAS 39.

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 to be designated as at FVTPL.

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 incorporates any dividend or interest earned on the financial asset and is included in the ‘other (losses)/gains, net’ line item. Fair value is determined in the manner described in note 37.2.

Financial assets under this category are carried at fair value. Changes in the fair value exclude any interest earned (which is included in “other income”) and are included in the consolidated statement of profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the statement of profit or loss.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

(b) Loan and note receivables

Loan and note receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities more than 12 months after the end of the reporting period which are classified as non-current assets. Loan and note receivables are carried at amortised cost using the effective interest methods less impairment losses, if any (see note 2.10(b)). Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

Purchases and sales of financial instruments are recognised on a trade date basis – the date on which the Group commits to purchase or sell the asset. Financial instruments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial instruments are derecognised when the rights to receive cash flows from the financial instruments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are removed from other comprehensive income and recognised in the statement of profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

(d) Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is 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.

(e) Derecognition of financial assets

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

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

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

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

(f) Fair value measurement

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, borrowings, bonds issued and financial liabilities at fair value through profit or loss.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

(f) Fair value measurement (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Loans and borrowings

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

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

(g) Derecognition of financial liabilities

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

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

(h) Fair value measurement

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

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

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial instruments (continued)

(h) Fair value measurement (continued)

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.10 Trade and other receivables

- (a) Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

- (b) A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit or loss.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.12 Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2.17, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

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

2.15 Employee benefits

(a) Pension obligations

The Group contributes to the mandatory provident fund (“MPF Scheme”), a defined contribution plan in Hong Kong, which is available to all employees. The assets of the MPF Scheme are held separately from the Group in an independently administered fund.

The Group’s contributions to the MPF Scheme are based on 5% of the monthly relevant income of each employee up to a maximum monthly relevant income of HK\$30,000 since 1st June 2014 in accordance with the Mandatory Provident Fund Schemes Ordinance. The contributions are recognised as employee benefit expenses when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Employee benefits (continued)

(b) Equity-settled share-based transactions

The fair value of share options granted to employees and directors is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the grantees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that are expected to vest is reviewed. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve.

If the Company cancels or settles a grant of equity instruments during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Company shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. Any payment made to the employees on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense.

2.16 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

2.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Brokerage commission income arising from securities broking and commodities and futures broking are recognised and accounted for on a trade date basis.

Brokerage commission income arising from the brokerage insurance products is recognised when services are rendered.

Underwriting commissions and management fee income are recognised when the relevant work or service has been rendered.

Revenue from corporate finance and investment advisory services is recognised in accordance with the terms of agreement for the underlying transactions and/or when the relevant work or service has been rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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.

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are expensed in profit or loss on a straight-line basis over the period of the lease.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.21 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the Financial Statements (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Related parties (continued)

- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

2.22 Finance costs

Finance costs are charged to profit or loss in the year in which they are incurred.

2.23 Borrowings

Borrowings, including bonds issued, are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

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.

2.24 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.25 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Notes to the Financial Statements (continued)

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 34 to the financial statements.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- (c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have a subsidiary classified as a disposal group held for sale as at 31st December 2017.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1 Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4.2 Deferred tax assets

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences arising from depreciation of non-current assets. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. Management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. Further details are available in note 19(b) to the financial statements.

4.3 Litigation

The Group considers each case involving litigation individually to assess the probability of any outflow of resources. If in the opinion of the directors, an outflow of resources embodying economic benefits will be required to settle the litigation, a provision will be made to the extent of the probable outflow. In other cases, unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability will be disclosed.

4.4 Estimation of fair values

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. For unlisted investments held by the Group and the Group's associate, where direct market prices in an active market are not available, the fair value of such instruments is calculated on the basis of valuation techniques using current market parameters. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence cannot be used as an indicator of value realisable in a future sale.

Notes to the Financial Statements (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.5 Control over Cinda Retail and Consumer Fund L.P. (“CRC Fund”)

Note 15 describes that CRC Fund, which was set up in the prior year, is a subsidiary of the Group although the Group had only a 38.89% ownership interest in CRC Fund as at 31st December 2017 and 2016. The Group is the investment manager, general partner and limited partner of CRC Fund. The Group considered that it has the power to direct the relevant activities of CRC Fund taking into account (a) its 38.89% ownership in CRC Fund, and (b) its roles as the investment manager and general partner of CRC Fund which give it wide ranging discretion in directing CRC Fund’s relevant activities, pursuant to the agreement entered into between the Group and the other limited partner, a fellow subsidiary of the Group. Accordingly, the Group has accounted for CRC Fund as a subsidiary.

4.6 Significant influence over Cinda Plunkett International Asia Absolute Return Fund (“CPIAAR Fund”)

Note 16(a) describes that CPIAAR Fund is an associate of the Group. The assessment was made taking into account that (a) the Group has 11.75% (2016: 12.08%) ownership in CPIAAR Fund, (b) the Group has significant influence over the investment manager of CPIAAR Fund and (c) the Group is the investment advisor which holds the license to perform regulatory activities – asset management under the SFO of CPIAAR Fund which give it significant influence over CPIAAR Fund.

Details of CPIAAR Fund are set out in note 16(a).

4.7 Classification of JianXinJinYuan (Xiamen) Equity Investment Management Limited (“JXJY”) as a joint venture

JXJY is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Pursuant to the shareholder agreement between the parties to the joint arrangement, the decisions about the relevant activities of JXJY require the unanimous consent of these parties. Furthermore, there are no contractual arrangements or any other facts and circumstances that give the parties to the joint arrangement rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, JXJY is classified as a joint venture of the Group. See note 16(b) for details.

4.8 Control over Jianda Value Investment Fund L.P. (“Jianda Fund”)

Jianda Fund, which was set up in prior year, is a subsidiary of the Group although the Group had only a 33.3% ownership interest in Jianda Fund as at 31st December 2017. The Group is the investment manager, general partner and one of the limited partners of Jianda Fund. The Group considered that it has the power to direct the relevant activities of Jianda Fund taking into account (a) its 33.3% ownership in Jianda Fund, and (b) its roles as the investment manager and general partner of Jianda Fund which give it wide ranging discretion in directing Jianda Fund’s relevant activities, pursuant to the agreement entered into between the Group and the other limited partners. Accordingly, the Group has accounted for Jianda Fund as a subsidiary.

Jianda Fund, as part of the normal course of business, issues redeemable units to unrelated third party limited partners. Pursuant to the relevant offering memorandums, the third party investors can redeem the invested units for cash after the end of the commitment period. As of 31st December 2017, the redeemable unit held by third party investors were classified as a financial liability in the consolidated statement of financial position, with changes in fair value recognised in statement of profit or loss.

Notes to the Financial Statements (continued)

5. REVENUE, OTHER INCOME, OTHER (LOSSES)/GAINS AND SEGMENT INFORMATION

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Revenue | | |
| Fees and commission | | |
| – Asset management | 15,780 | 15,636 |
| – Brokerage | 66,694 | 41,895 |
| – Corporate finance | 19,374 | 17,530 |
| – Others | – | 2 |
| | 101,848 | 75,063 |
| Underwriting income and placing commission | | |
| – Brokerage | 5,033 | 13,667 |
| – Corporate finance | 1,170 | – |
| | 6,203 | 13,667 |
| Interest income | | |
| – Asset management | 348 | 878 |
| – Brokerage | 37,797 | 25,459 |
| – Corporate finance | 5 | 1 |
| – Others | 15 | 12 |
| | 38,165 | 26,350 |
| Management fee and service fee income | | |
| – Asset management | 47,060 | 43,277 |
| | 47,060 | 43,277 |
| | 193,276 | 158,357 |
| Other income | | |
| Loan interest income | 12,916 | 6,727 |
| Interest income from debt securities classified as: | | |
| – Available-for-sale financial assets | 22,429 | 16,302 |
| – Financial assets designated at fair value through profit or loss | 10,129 | 8,064 |
| Investment income | 7,059 | 3,000 |
| Dividend income | 33,011 | 248 |
| Others | 2,394 | 2,447 |
| | 87,938 | 36,788 |

Notes to the Financial Statements (continued)

5. REVENUE, OTHER INCOME, OTHER (LOSSES)/GAINS AND SEGMENT INFORMATION (continued)

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Other (losses)/gains, net | | |
| Net exchange gains/(losses) | 3,433 | (3,061) |
| Net (losses)/gains on disposal of financial instruments held- for-trading | (1,846) | 4,512 |
| Net (losses)/gains on disposal of financial assets designated at fair value through profit or loss | (7,443) | 4,920 |
| Net gain on disposal of available-for-sale financial assets | 19,085 | 1,145 |
| Gain from changes in fair value of financial instruments classified as held-for-trading | 163 | 5,760 |
| (Loss)/gain from changes in fair value of financial assets designated at fair value through profit or loss | (471) | 7,443 |
| Loss from impairment of available-for-sale financial assets | (17,150) | – |
| Loss from changes in fair value of financial liabilities at fair value through profit or loss | (3,035) | (6,225) |
| | (7,264) | 14,494 |
| | 273,950 | 209,639 |

Segment information

The Group manages its businesses by divisions. Under HKFRS 8 *Operating Segments*, and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. Asset management – provision of advisory and managing private funds and auxiliary services and other related investment income.
2. Brokerage – provision of brokering services in securities, equity linked products, unit trusts and stock options, commodities and futures contracts traded in Hong Kong and selected overseas markets, underwriting, placing and margin financing services to those broking clients, and acting as an agent for the sale of savings plans, general and life insurance and other investment linked insurance products.
3. Corporate finance – provision of corporate finance and advisory services to companies listed or seeking listing in Hong Kong and other unlisted corporates.

The Group's senior executive management monitors the assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates and a joint venture and other unallocated head office and corporate assets. Segment liabilities include trade creditors, accruals and borrowings attributable to the operating activities of the individual segments with the exception of unallocated head office and corporate liabilities.

Notes to the Financial Statements (continued)

5. REVENUE, OTHER INCOME, OTHER (LOSSES)/GAINS AND SEGMENT INFORMATION (continued)

Segment information (continued)

The measure used for reporting segment results is earnings before finance costs and taxes (“EBIT”). To arrive at the Group’s profit for the year, the Group’s reportable segment profit is further adjusted for items not specifically attributed to individual segments, such as share of profits or losses of associates and a joint venture, finance costs and other head office or corporate administration costs or other income.

Year ended 31st December 2017

| | Asset Management <i>HK\$'000</i> | Brokerage <i>HK\$'000</i> | Corporate finance <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|------------------------------|---|--------------------------|
| Revenue from external customers | 54,297 | 109,524 | 20,548 | 184,369 |
| Revenue from an associate (<i>note</i>) | 8,890 | – | – | 8,890 |
| Inter-segment revenue | – | 62 | – | 62 |
| Reportable segment revenue | 63,187 | 109,586 | 20,548 | 193,321 |
| Reportable segment results (EBIT) | 81,572 | 8,320 | (312) | 89,580 |
| Interest income from bank deposits | 159 | 1,287 | 4 | 1,450 |
| Interest expense | (12,541) | (7,967) | – | (20,508) |
| Depreciation for the year | (153) | (974) | (57) | (1,184) |
| Reportable segment assets | 899,626 | 740,334 | 35,357 | 1,675,317 |
| Additions to non-current segment assets during the year | 753 | 1,662 | 112 | 2,527 |
| Reportable segment liabilities | 690,142 | 452,491 | 4,575 | 1,147,208 |

Note: This represents service fee income received by the Group from an associate. See note 38(b).

Notes to the Financial Statements (continued)

5. REVENUE, OTHER INCOME, OTHER (LOSSES)/GAINS AND SEGMENT INFORMATION (continued)

Segment information (continued)

Year ended 31st December 2016

| | Asset Management <i>HK\$'000</i> | Brokerage <i>HK\$'000</i> | Corporate finance <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|------------------------------|---|--------------------------|
| Revenue from external customers | 50,606 | 81,021 | 17,531 | 149,158 |
| Revenue from an associate (<i>note</i>) | 9,185 | – | – | 9,185 |
| Inter-segment revenue | – | 289 | – | 289 |
| Reportable segment revenue | 59,791 | 81,310 | 17,531 | 158,632 |
| Reportable segment results (EBIT) | 70,616 | 7,455 | (3,650) | 74,421 |
| Interest income from bank deposits | 101 | 1,173 | 1 | 1,275 |
| Interest expense | (4,028) | (5,268) | (721) | (10,017) |
| Depreciation for the year | (108) | (846) | (42) | (996) |
| Reportable segment assets | 674,458 | 727,438 | 14,409 | 1,416,305 |
| Additions to non-current segment assets during the year | 570 | 4,054 | 99 | 4,723 |
| Reportable segment liabilities | 442,756 | 490,718 | 1,299 | 934,773 |

Note: This represents service fee income received by the Group from an associate. See note 38(b).

Notes to the Financial Statements (continued)

5. REVENUE, OTHER INCOME, OTHER (LOSSES)/GAINS AND SEGMENT INFORMATION (continued)

Reconciliations of reportable revenue

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Revenue | | |
| Reportable segment revenue | 193,321 | 158,632 |
| Elimination of inter-segment revenue | (62) | (289) |
| Unallocated head office and corporate revenue | 17 | 14 |
| Consolidated revenue | 193,276 | 158,357 |

Reconciliations of reportable results

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Results | | |
| Reportable segment profit (EBIT) | 89,580 | 74,421 |
| Elimination of inter-segment profits (EBIT) | (5) | (8,304) |
| Share of profits of associates and a joint venture, net | 89,575 | 66,117 |
| Finance costs | 21,069 | 12,395 |
| Unallocated head office and corporate expense | (21,533) | (13,327) |
| | (7,160) | (1,158) |
| Consolidated profit before taxation | 81,951 | 64,027 |
| Income tax | (14,019) | (14,521) |
| Profit for the year | 67,932 | 49,506 |

Notes to the Financial Statements (continued)

5. REVENUE, OTHER INCOME, OTHER (LOSSES)/GAINS AND SEGMENT INFORMATION (continued)

Reconciliations of reportable assets and liabilities

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Assets | | |
| Reportable segment assets | 1,675,317 | 1,416,305 |
| Elimination of inter-segment receivables | (17,410) | (3,567) |
| | 1,657,907 | 1,412,738 |
| Interests in associates and a joint venture | 338,731 | 312,642 |
| Taxation recoverable | 1,286 | – |
| Unallocated head office and corporate assets | 104,389 | 77,402 |
| Consolidated total assets | 2,102,313 | 1,802,782 |
| Liabilities | | |
| Reportable segment liabilities | 1,147,208 | 934,773 |
| Elimination of inter-segment payables | (13,530) | (7,506) |
| | 1,133,678 | 927,267 |
| Unallocated head office and corporate liabilities | 134,080 | 110,690 |
| Consolidated total liabilities | 1,267,758 | 1,037,957 |

Notes to the Financial Statements (continued)

5. REVENUE, OTHER INCOME, OTHER (LOSSES)/GAINS AND SEGMENT INFORMATION (continued)

Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers (including its associates) and (ii) the Group's property and equipment, intangible assets and interests in associates and a joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment; and the location of the core operations in the case of other specified non-current assets.

| | Revenue from external customers | | Specified non-current assets | |
|----------------|---------------------------------|------------------|------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Hong Kong | 147,421 | 112,710 | 105,865 | 93,433 |
| Mainland China | 45,855 | 45,647 | 247,653 | 227,871 |
| | 193,276 | 158,357 | 353,518 | 321,304 |

Information about major customer:

Revenue from a customer contributing over 10% of the total revenue of the Group is as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| A customer from asset management segment | – | 21,049 |

6 STAFF COSTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------------------|------------------|------------------|
| Salaries and allowances | 92,919 | 80,458 |
| Defined contribution plans | 2,151 | 2,061 |
| | 95,070 | 82,519 |

Staff costs include directors' emoluments as set out in note 31.

Notes to the Financial Statements (continued)

7 OTHER OPERATING EXPENSES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Auditor's remuneration | 1,607 | 1,416 |
| Depreciation | 2,722 | 2,233 |
| Equipment rental expenses | 5,885 | 5,284 |
| Loss on disposal of property and equipment | 2 | – |
| Impairment loss on trade receivables (<i>note 22</i>) | 15,802 | – |
| Reversal of impairment loss on loan receivables (<i>note 18</i>) | – | (1,440) |
| Bad debt written off | – | 80 |
| Bad debt recovery | – | (125) |

8 FINANCE COSTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Interest on borrowings – repayable on demand and within one year | 18,093 | 9,290 |
| Interest on borrowings – repayable more than one year but not more than two years | – | 713 |
| Interest on bonds issued – repayable in more than two years but not more than five years | 3,440 | 3,324 |
| | 21,533 | 13,327 |

Notes to the Financial Statements (continued)

9 INCOME TAX

Under the Enterprise Income Tax Law of the People's Republic of China ("PRC"), the Corporate Income Tax Rate for domestic entities in the PRC is 25% for the current and prior years.

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits for the current and prior years.

The amount of taxation charged to the consolidated statement of profit or loss:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------|-------------------------|-------------------------|
| Current taxation – Hong Kong | | |
| – Charge for current year | 6,520 | 5,891 |
| – Over provision in prior year | (946) | (330) |
| Current taxation – PRC | | |
| – Charge for current year | 9,237 | 9,520 |
| – Under provision in prior year | 7 | 77 |
| | 14,818 | 15,158 |
| Deferred taxation | | |
| – Hong Kong | (799) | (637) |
| | 14,019 | 14,521 |

Reconciliation between tax expense and accounting profit at applicable domestic tax rates in each individual jurisdiction where the Company and its subsidiaries operate:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit before taxation | 81,951 | 64,027 |
| Statutory tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned | 13,522 | 10,564 |
| Tax effect of share of profits of associates and a joint venture | (3,476) | (2,045) |
| Tax effect of income not subject to taxation purposes | (8,509) | (2,442) |
| Tax effect of expenses not deductible for taxation purposes | 3,754 | 3,518 |
| Utilisation of previously unrecognised tax losses and other temporary differences | (525) | (180) |
| Tax losses for which no deferred income tax assets were recognised | 6,169 | 1,793 |
| Effect of higher tax rate enacted by PRC tax authority | 3,143 | 3,313 |
| Over provision | (59) | – |
| Income tax expenses | 14,019 | 14,521 |

Notes to the Financial Statements (continued)

10 DIVIDENDS

The directors do not recommend the payment of the final dividend for the year ended 31st December 2017 (2016: nil).

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of HK\$66,361,000 (2016: HK\$41,080,000) and the number of 641,205,600 ordinary shares (2016: 641,205,600 ordinary shares) in issue during the year, calculated as follows:

(i) Earnings attributable to equity holders of the Company

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Earnings for the year attributable to equity holders of the Company | 66,361 | 41,080 |

(ii) Number of ordinary shares

| | 2017 | 2016 |
|--|-------------|-------------|
| Issued ordinary shares at 1st January and at 31st December | 641,205,600 | 641,205,600 |

(b) Diluted earnings per share

No diluted earnings per share was presented for both years because there were no potential dilutive ordinary shares during both the current and prior years.

12 INTANGIBLE ASSETS

| | Stock Exchange trading rights <i>HK\$'000</i> | Futures Exchange trading right <i>HK\$'000</i> | Club membership <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|---|---------------------------------------|--------------------------|
| Cost and carrying amount | | | | |
| At 1st January 2016, 31st December 2016 and 31st December 2017 | 913 | 406 | 120 | 1,439 |

Notes to the Financial Statements (continued)

13 PROPERTY AND EQUIPMENT

| | Leasehold improvements <i>HK\$'000</i> | Furniture & fixtures <i>HK\$'000</i> | Office & computer equipment and computer software <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|--|--|--------------------------------------|--------------------------|
| Cost | | | | | |
| At 1st January 2016 | 4,094 | 2,183 | 18,684 | 1,825 | 26,786 |
| Additions | 106 | 90 | 4,192 | – | 4,388 |
| Disposals | – | (52) | (1,682) | – | (1,734) |
| Exchange difference | (8) | (1) | (1) | – | (10) |
| At 31st December 2016 and 1st January 2017 | 4,192 | 2,220 | 21,193 | 1,825 | 29,430 |
| Additions | 3,918 | 746 | 4,183 | – | 8,847 |
| Disposals | (252) | (320) | (288) | – | (860) |
| Exchange difference | (3) | – | – | – | (3) |
| At 31st December 2017 | 7,855 | 2,646 | 25,088 | 1,825 | 37,414 |
| Accumulated depreciation | | | | | |
| At 1st January 2016 | 4,076 | 2,109 | 14,388 | 1,142 | 21,715 |
| Charge for the year | 29 | 51 | 1,921 | 232 | 2,233 |
| Disposals | – | (52) | (1,682) | – | (1,734) |
| Exchange difference | (21) | 7 | 7 | – | (7) |
| At 31st December 2016 and 1st January 2017 | 4,084 | 2,115 | 14,634 | 1,374 | 22,207 |
| Charge for the year | 212 | 36 | 2,242 | 231 | 2,721 |
| Disposals | (252) | (318) | (288) | – | (858) |
| Exchange difference | (2) | (1) | (1) | – | (4) |
| At 31st December 2017 | 4,042 | 1,832 | 16,587 | 1,605 | 24,066 |
| Net book value | | | | | |
| At 31st December 2017 | 3,813 | 814 | 8,501 | 220 | 13,348 |
| At 31st December 2016 | 108 | 105 | 6,559 | 451 | 7,223 |

Notes to the Financial Statements (continued)

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Non-current: | | |
| Unlisted equity investments: | | |
| – equity securities | – | 1 |
| – private equity funds | 13,629 | 7,422 |
| Unlisted investment funds | 24,010 | 22,310 |
| Other unlisted investments | – | 26,023 |
| | 37,639 | 55,756 |
| Current: | | |
| Listed debt investment: | | |
| – debt securities with fixed interest | 392,191 | 282,255 |
| Unlisted equity investments: | | |
| – an equity fund | – | 50,163 |
| – equity securities | 1 | 3,012 |
| Unlisted investment funds | – | 44,620 |
| Other unlisted investment | 2,822 | – |
| | 395,014 | 380,050 |
| | 432,653 | 435,806 |

The Group's non-current unlisted equity investments, non-current other unlisted investments, current unlisted equity securities and current other unlisted investment are measured at cost less impairment at the end of the reporting period as the range of reasonable fair value estimates is so significant that the management of the Group are of the opinion that their fair values cannot be measured reliably and stated its transaction costs. The cost of unlisted investment funds were approximate to their fair value as at 31st December 2017.

As at 31st December 2017, listed debt securities with fair value of HK\$192,856,000 (31st December 2016: HK\$166,527,000) and HK\$128,932,000 (31st December 2016: Nil) out of the total HK\$392,191,000 (2016: HK\$282,255,000) were held by financial institutions under securities sales agreements (Note 27(c)) and repurchase agreements (Note 27(d)) respectively. As at 31st December 2016, the remaining listed debt securities with fair value of HK\$115,728,000 were placed in a broker to secure the margin loan from that broker for margin financing as disclosed in Note 27(b).

An analysis of the maturity profile of listed debt securities of the Group analysed by the remaining period at the end of the reporting period to the contractual maturity date is as follows:

| | Within 1 year HK\$'000 | Between 1 to 2 years HK\$'000 | Between 2 to 5 years HK\$'000 | Over 5 years HK\$'000 | Indefinite HK\$'000 | Total HK\$'000 |
|--------------------|---------------------------|-------------------------------------|-------------------------------------|-----------------------------|------------------------|-------------------|
| 31st December 2017 | – | 102,484 | 259,263 | 22,347 | 8,097 | 392,191 |
| 31st December 2016 | 11,738 | – | 211,109 | – | 59,408 | 282,255 |

Notes to the Financial Statements (continued)

15 PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of incorporation | Principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|--|------------------------|-----------------------------|---|--------|---|----------|---------------------------------------|----------|
| | | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | | | | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 福建海峽文化產業股權投資管理公司 | PRC | PRC | 45% | 45% | 1,563 | 2,704 | 11,541 | 9,217 |
| Immaterial non-controlling interests of CRC Fund | Cayman Islands | Hong Kong | 61.11% | 61.11% | 8 | 5,722 | 1,513 | 1,505 |
| | | | | | | | 13,054 | 10,722 |

Summarised financial information in respect of 福建海峽文化產業股權投資管理公司 is set out below. The summarised financial information below represents amounts prepared in accordance with HKFRSs.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| 福建海峽文化產業股權投資管理公司 | | |
| Current assets | | |
| – Bank balances and cash | 8,509 | 10,976 |
| – Other current assets | 18,602 | 11,324 |
| | 27,111 | 22,300 |
| Non-current assets | | |
| – Available-for-sale financial assets | 7,627 | 6,306 |
| | 7,627 | 6,306 |
| Current liabilities | (9,090) | (8,123) |
| Total equity | 25,648 | 20,483 |
| Equity attributable to owners of the Company | 14,107 | 11,266 |
| Non-controlling interest | 11,541 | 9,217 |

Notes to the Financial Statements (continued)

15 PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST (continued)

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Revenue | 8,629 | 10,981 |
| Other (losses)/gains | (149) | 545 |
| Operating expenses | (3,833) | (3,505) |
| Income tax | (1,174) | (2,017) |
| Profit and total comprehensive income for the year | 3,473 | 6,004 |
| Profit and total comprehensive income attributable to non-controlling interests | 1,563 | 2,704 |
| Net cash inflow from operating activities | 2,544 | 4,752 |
| Net cash (outflow)/inflow from investing activities | (5,011) | 1,026 |
| Net cash outflow from financing activities | – | – |
| Net cash (outflow)/inflow | (2,467) | 5,778 |

Notes to the Financial Statements (continued)

16 INTERESTS IN ASSOCIATES AND A JOINT VENTURE

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-----------------------------|-------------------------|-------------------------|
| Interests in associates | 329,326 | 292,693 |
| Interest in a joint venture | 9,405 | 19,949 |
| | 338,731 | 312,642 |

(a) Interests in associates

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Share of net assets at 1st January | 292,693 | 273,956 |
| Capital injection in investments in associates | – | 6,320 |
| Share of profits for the year, net | 20,637 | 12,057 |
| Share of other comprehensive income for the year | 19,032 | 3,120 |
| Dividend income from an associate | (3,036) | (2,760) |
| | 36,633 | 18,737 |
| Share of net assets at 31st December | 329,326 | 292,693 |

Notes to the Financial Statements (continued)

16 INTERESTS IN ASSOCIATES AND A JOINT VENTURE (continued)

(a) Interests in associates (continued)

The Group's interests in its principal associates, all of which are unlisted, are as follows:

| Name | Particulars of issued shares held | Place of incorporation | Effective equity interest to the Group | | Principal activities |
|---|--|------------------------|--|--------|---|
| | | | 2017 | 2016 | |
| Sino-Rock Investment Management Company Limited ("Sino-Rock") | 18,000,000 ordinary shares of HK\$1 each | Hong Kong | 27.6% | 27.6% | Investment holding and provision of capital management and consultancy services |
| Cinda Plunkett International Holdings Limited ("CPHL") | 4,000,000 ordinary shares of HK\$1 each | Cayman Islands | 40% | 40% | Fund management |
| Cinda Plunkett International Asia Absolute Return Fund ("CPIAAR Fund") (note 1) | 100,000 units of US\$100 each | Cayman Islands | 11.75% | 12.08% | Investment fund |
| Dawen Investment Management Limited ("DIML") (Formerly known as Cinda Culture Investment Management Limited) (note 2) | 49 ordinary shares of US\$1 each | Cayman Islands | 49% | 49% | Asset management |
| 信達海勝(深圳)基金管理有限公司 | Registered capital of RMB3,000,000 | PRC | 30% | 30% | Private equity investment and fund management |
| Cinda International Investment Holdings Limited ("CIH") | 2,820,000 Class-A shares | British Virgin Islands | 47% | 47% | Investment holding |

Notes:

1. It is considered that the Group had significant influence over CPIAAR Fund through the Group's significant influence over the investment manager of CPIAAR Fund who has wide discretion over the relevant activities of CPIAAR Fund. Note 4.6 provides more details about the management judgment.
2. DIML was incorporated in 2015 with net liabilities value of HK\$77,379 (2016: HK\$24,461). No additional disclosure was considered meaningful from the perspective of directors.

Notes to the Financial Statements (continued)

16 INTERESTS IN ASSOCIATES AND A JOINT VENTURE (continued)

(a) Interests in associates (continued)

Summarised consolidated financial information of associates

Summarised consolidated financial information in respect of the Group's material associates is set out below.

The associates have a reporting date of 31st December and are accounted for using the equity method in these consolidated financial statements prepared in accordance with HKFRSs.

Sino-Rock

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Current assets | | |
| – Financial assets at fair value through profit or loss | – | – |
| – Bank balances and cash | 387,631 | 343,636 |
| – Other current assets | 207,358 | 260,593 |
| | 594,989 | 604,229 |
| Non-current assets | | |
| – Available-for-sale financial assets | 552,141 | 448,589 |
| – Other non-current assets | 85,549 | 78,432 |
| | 637,690 | 527,021 |
| Current liabilities | (360,013) | (369,959) |
| Non-current liabilities | (37,292) | (33,150) |
| Net assets | 835,374 | 728,141 |
| Revenue | 98,497 | 114,146 |
| Other income, gains and losses | 51,695 | 30,305 |
| Profit for the year | 49,328 | 42,081 |
| Other comprehensive income for the year | 68,899 | 11,306 |
| Total comprehensive income for the year | 118,227 | 53,387 |
| Group's effective interest on profit for the year | 13,614 | 11,614 |
| Group's effective interest on other comprehensive income for the year | 19,016 | 3,120 |

Notes to the Financial Statements (continued)

16 INTERESTS IN ASSOCIATES AND A JOINT VENTURE (continued)

(a) Interests in associates (continued)

Summarised consolidated financial information of associates (continued)

Sino-Rock (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net assets of Sino-Rock | 835,374 | 728,141 |
| Proportion of the Group's ownership interest in Sino-Rock | 27.6% | 27.6% |
| Carrying amount of the Group's interest in Sino-Rock | 230,563 | 200,967 |

CPIAAR Fund

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Current assets | | |
| – Financial assets at fair value through profit or loss | 645,511 | 563,086 |
| – Bank balances and cash | 145 | 11 |
| – Other current assets | 499,143 | 312,921 |
| | 1,144,799 | 876,018 |
| Current liabilities | | |
| – Other current liabilities | (407,116) | (197,200) |
| | (407,116) | (197,200) |
| Net assets | 737,683 | 678,818 |

Notes to the Financial Statements (continued)

16 INTERESTS IN ASSOCIATES AND A JOINT VENTURE (continued)

(a) Interests in associates (continued)

Summarised consolidated financial information of associates (continued)

CPIAAR Fund (continued)

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Revenue, other gains and losses, net | 78,769 | 85,228 |
| Profit/(loss) and total comprehensive income for the year | 58,502 | (8,310) |
| Group's share of profit/(loss) for the year | 4,703 | (156) |
| Net assets of CPIAAR Fund | 737,683 | 678,818 |
| Proportion of the Group's ownership interest in CPIAAR Fund | 11.75% | 12.08% |
| Carrying amount of the Group's interest in CPIAAR Fund | 86,705 | 82,003 |

CPHL

The Group recognised a profit of HK\$3,401,504 (31st December 2016: HK\$1,226,730) from the interest in CPHL for the year ended 31st December 2017.

信達海勝(深圳)基金管理有限公司

The Group recognised a profit of HK\$133,848 (31st December 2016: HK\$627,949) from the interest in 信達海勝(深圳)基金管理有限公司 for the year ended 31st December 2017.

CIIH

The Group recognised a loss of HK\$197,250 (31st December 2016: nil) from the interest in CIIH for the year ended 31st December 2017.

Notes to the Financial Statements (continued)

16 INTERESTS IN ASSOCIATES AND A JOINT VENTURE (continued)

(b) Interest in a joint venture

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Share of net assets at 1st January | 19,949 | 20,715 |
| Share of profit for the year | 432 | 338 |
| Share of other comprehensive income for the year | 48 | 68 |
| Translation difference | 2,035 | (1,172) |
| Repayment of capital | (13,059) | – |
| | (10,544) | (766) |
| Share of net assets at 31st December | 9,405 | 19,949 |

Details of the Group's interest in an unlisted joint venture are as follows:

| Name | Particulars of share capital held | Country of establishment | Effective equity interest to the Group | | Principal activity |
|---|--|--------------------------|--|--------------------------|---|
| | | | 31st December 2017 | 31st December 2016 | |
| JianXinJinYuan (Xiamen) Equity Investment Management Limited (“JXJY”) | RMB7,000,000 of registered capital (2016: RMB17,500,000 of registered capital) | PRC | 35% | 35% | Private equity investment and fund management |

Notes to the Financial Statements (continued)

16 INTERESTS IN ASSOCIATES AND A JOINT VENTURE (continued)

(b) Interest in a joint venture (continued)

Summarised financial information of a joint venture

Summarised financial information in respect of the Group's material joint venture is set out below. The joint venture has a reporting date of 31st December and is accounted for using the equity method in these consolidated financial statements.

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Non-current assets | 10,687 | 35,125 |
| Current assets | 22,764 | 25,184 |
| Current liabilities | (6,578) | (3,307) |
| Net assets | 26,873 | 57,002 |
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Revenue | 6,603 | 6,695 |
| Profit for the year | 1,237 | 968 |
| Other comprehensive income for the year | 138 | 194 |
| Total comprehensive income for the year | 1,375 | 1,162 |
| Group's effective interest on profit for the year | 433 | 338 |
| Group's effective interest on total comprehensive income for the year | 481 | 406 |

Notes to the Financial Statements (continued)

17 OTHER ASSETS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Stock Exchange stamp duty deposit | 250 | 250 |
| Stock Exchange Fidelity Fund deposit | 100 | 100 |
| Stock Exchange Compensation Fund deposit | 100 | 100 |
| Guarantee Fund deposits with the Hong Kong Securities Clearing Company Limited | 3,487 | 2,056 |
| Clearing link deposits with Hong Kong Securities Clearing Company Limited | 330 | 249 |
| Statutory deposits and deposits with the Hong Kong Futures Exchange Limited ("HKFE") | 1,605 | 1,643 |
| Reserve fund deposit with the SEHK Options Clearing House Limited ("SEOCH") | 1,914 | 1,678 |
| Rental deposits | 6,286 | 4,795 |
| Others | 102 | 103 |
| | 14,174 | 10,974 |

18 LOANS RECEIVABLE

Loan advanced to an independent third party with minimum guaranteed return of 20% amounting to HK\$29,115,000 as at 31st December 2016 has been fully settled in January 2017.

An unsecured, non-interest bearing loan advanced to a private entity in which the Group had an 18.6% equity interest amounting to HK\$48,000,000 as at 31st December 2017 and 2016 has been fully settled in January 2018.

During the year, the Group has advanced one secured, interest bearing loan of HK\$70,200,000 at the rate of 7% per annum with maturity date in June 2018. The Group has also advanced one unsecured, interest bearing loan of HK\$72,030,000 at a rate of 6% per annum with maturity date in July 2018.

19 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation payable

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Provision for | | |
| Hong Kong Profits Tax for the year | 7,214 | 3,126 |
| PRC Corporate Income Tax for the year | 2,918 | 4,660 |
| | 10,132 | 7,786 |

Notes to the Financial Statements (continued)

19 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred income tax

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

| | Unrealised gain on investments <i>HK\$'000</i> | Accelerated tax depreciation <i>HK\$'000</i> | Tax losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|-------------------------------|--------------------------|
| At 1st January 2016 | 1,865 | 3,072 | (3,072) | 1,865 |
| Charged/(credited) to consolidated statement of profit or loss | (637) | (2,635) | 2,635 | (637) |
| At 31st December 2016 and 1st January 2017 | 1,228 | 437 | (437) | 1,228 |
| Charged/(credited) to consolidated statement of profit or loss | (1,228) | 1,509 | (1,080) | (799) |
| At 31st December 2017 | – | 1,946 | (1,517) | 429 |

The Group has unrecognised tax losses and temporary differences arising from depreciation of property and equipment in excess of related depreciation allowances as at 31st December 2017 of HK\$135,258,000 (2016: HK\$101,350,000) and HK\$2,583,000 (2016: HK\$72,000) respectively. These tax losses have no expiry date.

No deferred tax asset is recognised as the management of the Group consider that it is not probable that future assessable profit will be available to utilise the recognised deferred tax assets.

20 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Listed debt securities (<i>note (a)</i>) | 88,963 | – |
| Convertible bond (<i>note (b)</i>) | – | 85,443 |
| | 88,963 | 85,443 |

Notes:

- (a) As at 31st December 2017, the debt securities with fair value of HK\$88,963,000 (31st December 2016: Nil) were listed perpetual bonds subscribed during 2017. Listed debt securities with fair value of HK\$47,081,000 and HK\$18,467,000 out of the total HK\$65,548,000 were held by financial institutions under securities sales agreements (Note 27(c)) and repurchase agreements (Note 27(d)) respectively.
- (b) The convertible bond was subscribed in May 2016 with principal amount of HK\$78,000,000 and bore interest at a fixed interest rate of 8% per annum payable semi-annually. Upon the closing date, the Group can either redeem the bond or exercise the right to subscribe equity securities from the issuers. During the current year, the convertible bond was redeemed at a cash consideration of HK\$78,000,000.

Notes to the Financial Statements (continued)

21 FINANCIAL INSTRUMENTS HELD-FOR-TRADING

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------|------------------|------------------|
| Listed equity securities | 10,072 | 36,360 |

22 TRADE AND OTHER RECEIVABLES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Trade receivables from clients arising from | | |
| – corporate finance | 9,187 | 3,679 |
| – securities broking | 115,462 | 59,103 |
| Margin and other trade related deposits with brokers and financial institutions arising from <i>(note (d))</i> | | |
| – commodities and futures broking | 19,848 | 27,604 |
| – securities broking | 8,471 | 7,862 |
| Margin loans arising from securities broking <i>(note (e))</i> | 382,705 | 450,506 |
| Trade receivables from clearing houses arising from securities broking | 90,601 | 42,663 |
| Less: impairment allowance for trade receivable arising from | | |
| – corporate finance <i>(note (c))</i> | (3,373) | (500) |
| – securities broking <i>(note (c))</i> | (12,929) | – |
| Total trade receivables <i>(notes (a) and (b))</i> | 609,972 | 590,917 |
| Deposits | 828 | 536 |
| Prepayments and other receivables <i>(note (f))</i> | 116,215 | 47,755 |
| Less: impairment allowance for other receivables <i>(note (c))</i> | (82) | (82) |
| Total trade and other receivables | 726,933 | 639,126 |

The carrying amounts of trade and other receivables approximate their fair value. All of the trade and other receivables are expected to be recovered or realized within one year.

Notes:

- (a) For those cash securities trading clients, it normally takes two to three days to settle after trade date of those transactions. These outstanding unsettled trades due from clients are reported as trade receivables from clients.

The settlement terms of margin and other deposits from brokers and financial institutions are at specific agreed terms. The settlement terms of trade receivables from corporate finance clients are usually 30 days from the date of invoice.

The margin clients of the securities broking business are required to pledge their shares to the Group for credit facilities for securities trading.

The settlement terms of trade receivables from clearing houses are usually one to two days after the trade date.

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

Notes to the Financial Statements (continued)

22 TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(a) (continued)

Credits are extended to brokerage clients on a case-by-case basis in accordance with the financial status of clients such as their financial conditions, trading records, business profile and collateral available to the Group. Clients trading in commodities and futures contracts and obtaining securities margin financing from the Group are required to observe the Group's margin policies. For commodities and futures contracts, initial margins are required before trading and thereafter clients are required to keep the equity position at a prescribed maintenance margin level.

(b) For trade receivable arising from corporate finance of HK\$9,187,000, impairment allowance of HK\$2,873,000 (31st December 2016: nil) was provided for the current year. The aging analysis of trade receivable arising from corporate finance at the reporting date, based on the date of invoice was as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------|------------------|------------------|
| Current | 4,514 | – |
| 30–60 days | – | 430 |
| Over 60 days | 4,673 | 3,249 |
| | 9,187 | 3,679 |

(c) The movements in the impairment allowance for trade and other receivables during the year are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------|------------------|------------------|
| At 1st January | 582 | 582 |
| Provision of impairment loss | 15,802 | – |
| At 31st December | 16,384 | 582 |

For trade receivables related to margin clients of HK\$382,705,000 (31st December 2016: HK\$450,506,000), individual impairment of HK\$12,929,000 was provided for the current year. No aging analysis is disclosed as in the opinion of the Directors, the aging analysis does not give additional value in view of the nature of revolving margin loans.

Other than the above, the Group's trade and other receivables included overdue balance of HK\$6,893,947 (31st December 2016: HK\$6,128,865). The majority of these overdue balances were past due within 60 days. The Group has not provided for impairment loss as the Group has performed a collective impairment assessment and the balances are either subsequently settled after the reporting date or fully collateralised by listed securities.

(d) The Group executes client trades on overseas securities, commodities and futures contracts with local or overseas brokers as appropriate. Trade receivables at 31st December 2017 and 2016 comprised securities, commodities and futures broking with brokers and are current in nature.

(e) The margin clients of the securities broking business are required to pledge their shares to the Group for credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of shares acceptable by the Group after making reference in industry practices. As at 31st December 2017, the fair value of shares accepted as collateral amounted to HK\$3,059,965,149 (2016: HK\$3,381,380,215) and the fair value of the majority of client's listed securities is higher than the carrying amount of those individual loans to margin clients. Special approvals from the Group were granted to those clients whose fair values of collaterals were less than the carrying amount of their individual loans by considering their historical repayment records, credit quality of those margin clients and other factors affecting the market prices of collaterals. Credit risks from those margin clients were therefore considered minimal.

The Group is allowed to use clients' securities up to the amount of 140% of the loans to margin clients as collateral of the Group's bank facilities (with client's consent). However, no securities held as collateral have been repledged to secure the Group's bank facilities for the year ended 31st December 2017 and 31st December 2016.

(f) Other receivables for the Group included a shareholder loan advanced to an associate of HK\$4,000,000 (2016: HK\$4,000,000), which is unsecured, non-interest bearing and repayable on demand.

(g) The Group maintains designated accounts with the SEOC and HKFE Clearing Corporation Limited ("HKFECC") as a result of its normal business transactions. At 31st December 2017, the designated accounts with the SEOC and HKFECC not otherwise dealt with in these accounts amounted to HK\$3,883,076 (2016: HK\$3,923,011) and HK\$7,567,678 (2016: HK\$8,025,761) respectively.

(h) The Group has no concentration of credit risk with respect to trade receivables from clients and margin loans, as the Group has a large number of customers, widely dispersed. In addition, margin and trade related deposits are deposited with high-credit-quality financial institutions.

(i) The effective interest rate charged on trade receivables from clients arising from securities broking subsequent to the settlement date and margin loans ranged from 8% to 13% per annum (2016: 8% to 13%). The effective interest rate for margins and other trade related deposits is 0.01% per annum (2016: 0.01%).

Notes to the Financial Statements (continued)

23 PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Cash in hand | 21 | 20 |
| Bank balances | | |
| – pledged deposits | 15,093 | 15,084 |
| – general accounts | 269,370 | 181,550 |
| | 284,484 | 196,654 |
| By maturity: | | |
| Bank balances | | |
| – current and savings accounts | 265,370 | 177,550 |
| – fixed deposits (maturing within three months) | 15,093 | 19,084 |
| – fixed deposits (maturing over three months) | 4,000 | – |
| | 284,463 | 196,634 |

As at 31st December 2017, bank deposits amounting to HK\$15,093,000 (31st December 2016: HK\$15,084,000) which included principal of HK\$15,000,000 (31st December 2016: HK\$15,000,000) plus accrued interest that have been pledged to banks as security for the provision of securities broking facilities for a total amount of HK\$220 million (31st December 2016: HK\$170 million).

Certain subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of their respective business activities. As at 31st December 2017, segregated trust accounts not dealt with in these consolidated financial statements amounted to HK\$711,308,230 (2016: HK\$635,351,640).

As at 31st December 2017, the bank balances and deposits bore interest at rates from 0.01% to 0.5% per annum (2016: 0.01% to 0.5%).

Cash and cash equivalents

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Analysis of balances of cash and cash equivalents | | |
| Cash in hand and at banks (excluding pledged bank deposits) | 269,391 | 181,570 |
| Less: fixed deposits (with original maturing over three months) | (4,000) | – |
| Cash and cash equivalents at the end of the year | 265,391 | 181,570 |

Notes to the Financial Statements (continued)

24 SHARE CAPITAL

| | 2017 | | 2016 | |
|---------------------------------|---------------|--------------------|---------------|--------------------|
| | No. of shares | Amount HK\$'000 | No. of shares | Amount HK\$'000 |
| Authorised share capital | | | | |
| Ordinary shares | 1,000,000,000 | 100,000 | 1,000,000,000 | 100,000 |
| Issued and fully paid | | | | |
| Ordinary shares | | | | |
| At 1st January | 641,205,600 | 64,121 | 641,205,600 | 64,121 |
| At 31st December | 641,205,600 | 64,121 | 641,205,600 | 64,121 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. In addition, subsidiaries of the Group licensed by the SFC are obliged to meet the regulatory liquid capital requirements under the Securities and Futures (Financial Resources) Rules ("SF(FR)R") at all times.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. For the licensed subsidiaries, the Group ensures each of them maintains a liquid capital level adequate to support the activities level with sufficient buffer to accommodate the increase in liquidity requirements arising from potential increases in business activities. SF(FR)R returns are filed to the SFC by the licensed subsidiaries on a monthly or semi-annually basis as required. During the current and prior financial years, all the licensed subsidiaries complied with the liquid capital requirements under the SF(FR)R.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose, the Group defines net debt as total debt (which includes interest-bearing borrowings and bonds issued, trade and other payables), less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

Further, the Group strived to maintain highly liquid assets to prepare for any unexpected sudden changes in the market. As at the end of the reporting period, the current ratio was 145% (2016: 163%).

Notes to the Financial Statements (continued)

24 SHARE CAPITAL (continued)

Capital management (continued)

The net debt-to-adjusted capital ratios at 31st December 2017 and 2016 are as follows:

| | <i>Notes</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------------------------------|--------------|--------------------------------|-------------------------|
| Current liabilities: | | | |
| Trade and other payables | 26 | 308,462 | 237,272 |
| Borrowings | 27 | 815,865 | 622,613 |
| Bonds issued | | 34,000 | – |
| | | 1,158,327 | 859,885 |
| Non-current liabilities: | | | |
| Bonds issued | 28 | 52,000 | 86,000 |
| Borrowings | | – | 24,541 |
| Total debt | | 1,210,327 | 970,426 |
| Less: Cash and cash equivalents | 23 | (284,484) | (196,654) |
| Adjusted net debt | | 925,843 | 773,772 |
| Total equity and adjusted capital | | 834,555 | 764,825 |
| Adjusted net debt-to-capital ratio | | 110.94% | 101.17% |

Notes to the Financial Statements (continued)

25 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Non-current assets | | |
| Intangible assets | 120 | 120 |
| Available-for-sale financial assets | – | 26,023 |
| Investment in subsidiaries | 323,081 | 323,081 |
| Investment in an associate | 78,000 | 78,000 |
| | 401,201 | 427,224 |
| Current assets | | |
| Loan receivable | – | 29,115 |
| Other receivables | 8,168 | 16,221 |
| Available-for-sale financial assets | 395,013 | 335,430 |
| Financial assets designated at fair value through profit or loss | 88,963 | – |
| Financial instruments held-for-trading | 10,072 | 36,360 |
| Amounts due from subsidiaries | 569,395 | 531,046 |
| Bank balances | 85,530 | 10,321 |
| | 1,157,141 | 958,493 |
| Current liabilities | | |
| Other payables | 21,167 | 97,525 |
| Borrowings | 759,454 | 491,458 |
| Amounts due to subsidiaries | 162,710 | 155,537 |
| Bonds issued | 34,000 | – |
| | 977,331 | 744,520 |
| Net current assets | 179,810 | 213,973 |
| Total assets less current liabilities | 581,011 | 641,197 |
| Capital and reserves | | |
| Share capital | 64,121 | 64,121 |
| Other reserves | 498,324 | 527,024 |
| Accumulated losses | (33,434) | (35,948) |
| TOTAL EQUITY | 529,011 | 555,197 |
| Non-current liabilities | | |
| Bonds issued | 52,000 | 86,000 |
| | 581,011 | 641,197 |

Gong Zhijian
Executive Director

Lau Mun Chung
Executive Director

Notes to the Financial Statements (continued)

25 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of reserve during the year are set out below:

| | The Company | | | | | Total HK\$'000 |
|--|------------------------------|--------------------------------|--|------------------------------------|-----------------------------------|-------------------|
| | Share premium HK\$'000 | Capital reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Contributed surplus HK\$'000 | Accumulated losses HK\$'000 | |
| At 1st January 2016 | 421,419 | 22,468 | 12,224 | 53,023 | (20,633) | 488,501 |
| Loss for the year | – | – | – | – | (15,315) | (15,315) |
| Other comprehensive income | – | – | 17,890 | – | – | 17,890 |
| Total comprehensive income for the year | – | – | 17,890 | – | (15,315) | 2,575 |
| At 31st December 2016 | 421,419 | 22,468 | 30,114 | 53,023 | (35,948) | 491,076 |
| Profit for the year | – | – | – | – | 2,514 | 2,514 |
| Other comprehensive income | – | – | (28,700) | – | – | (28,700) |
| Total comprehensive income for the year | – | – | (28,700) | – | 2,514 | (26,186) |
| At 31st December 2017 | 421,419 | 22,468 | 1,414 | 53,023 | (33,434) | 464,890 |

Notes:

- The capital reserve of the Group represents (i) capital contribution from the Company's shareholders, (ii) notional capital contribution from the Company's shareholders arising on acquisition of an associate, (iii) the difference between the nominal value of the shares issued by the Company in exchange for the nominal value of the deferred share capital of a subsidiary acquired in 2000 and (iv) the fair value of the actual or estimated number of unexercised share options granted to employees of the Company. All share options were cancelled in prior years.
- Contributed surplus arose as a result of the Group's reorganisation in 2000 and represents the difference between the aggregate net asset value of subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition.

Notes to the Financial Statements (continued)

26 TRADE AND OTHER PAYABLES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Trade payables to margin clients arising from securities broking | 18,610 | 14,349 |
| Trade payables to securities trading clients arising from securities broking | 188,032 | 58,677 |
| Margin and other deposits payable to clients arising from commodity and futures broking | 19,748 | 27,505 |
| Trade payables to brokers arising from securities broking | 11 | 6,690 |
| Trade payables to clearing houses arising from securities broking | 694 | 408 |
| Total trade payables | 227,095 | 107,629 |
| Accruals and other payables | 81,367 | 129,643 |
| Total trade and other payables | 308,462 | 237,272 |

The carrying amounts of trade and other payables approximate their fair value. All trade and other payables are expected to be settled within one year. The trade payables are aged within 30 days.

The settlement terms of payable to clearing houses and securities trading clients from the ordinary course of business of broking in securities range from two to three days after the trade date of those transactions. Margin and other deposits received from clients for their trading of commodities and futures contracts were payable on demand.

27 BORROWINGS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Non-current | | |
| Bank loan (<i>note (a)</i>) | – | 24,541 |
| Current | | |
| Bank loans (<i>note (a)</i>) | 537,411 | 497,000 |
| Margin loan from a broker (<i>note (b)</i>) | – | 13,058 |
| Borrowings under securities sale agreements (<i>note (c)</i>) | 153,072 | 101,400 |
| Borrowings under repurchase agreements (<i>note (d)</i>) | 125,382 | – |
| Amount due to a fellow subsidiary (<i>note (e)</i>) | – | 11,155 |
| | 815,865 | 622,613 |
| | 815,865 | 647,154 |

Notes to the Financial Statements (continued)

27 BORROWINGS (continued)

- (a) At 31st December 2017, the bank loans was repayable and carried interest with reference to HIBOR as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------|-------------------------|-------------------------|
| Within one year | 537,411 | 497,000 |
| More than one year | – | 24,541 |
| | 537,411 | 521,541 |

As at 31st December 2017, the Group had total banking facilities of HK\$1,460,000,000 (31st December 2016: HK\$1,430,000,000). Among these banking facilities, HK\$220,000,000 (31st December 2016: HK\$170,000,000) was secured by pledged deposits with a principal of HK\$15,000,000 (31st December 2016: HK\$15,000,000). As at 31st December 2016, banking facilities of HK\$510,000,000 were further supported by a corporate guarantee provided by an intermediate holding company. No corporate guarantee was provided by the intermediate holding company in 2017.

As at 31st December 2017, HK\$537,411,000 was drawn from the banking facilities without any corporate guarantee. As at 31st December 2016, HK\$521,541,000 was drawn from the facilities and in which HK\$251,541,000 was guaranteed by an intermediate holding company as corporate guarantor.

As at 31st December 2016 and 2017, the Group has not utilised any of the banking facilities secured by the pledged deposits.

The effective interest rate on the bank loans is also equal to the contracted interest rate.

- (b) At 31st December 2016, the margin loan from a broker was secured by the Group's debt securities of HK\$115,728,000, with no determined maturity and carried interest with reference to LIBOR. The entire loan was repaid in 2017.
- (c) On 28th April 2016, the Group entered into a securities sale agreement with a financial institution in which the Group sold a portfolio of debt securities (notes 14 and 20) it held to the financial institution in exchange for a cash consideration of HK\$101,400,000. Under the agreement, the Group was required to repurchase the debt securities at HK\$101,400,000 plus interest calculated at a fixed rate of 2.3086% upon its maturity in April 2017. The Group has renewed the agreement on 28th April 2017 at a fixed rate of 3.016% upon it with a maturity in April 2018. As at 31st December 2017, the borrowing under the securities sale agreement of HK\$101,400,000 (31st December 2016: HK\$101,400,000) was collateralised by the Group's debt securities of HK\$162,502,000 (31st December 2016: HK\$166,527,000).

On 19th June 2017, the Group entered into another securities sale agreement with a financial institution in which the Group sold a portfolio of debt securities (note 14) it held to the financial institution in exchange for a cash consideration of HK\$51,672,000. Under the agreement, the Group is required to repurchase the debt securities at HK\$51,672,000 plus interest calculated with reference to LIBOR upon its maturity in June 2018. As at 31st December 2017, the borrowing under such securities sale agreement of HK\$51,672,000 was collateralised by the Group's debt securities of HK\$77,435,000.

Notes to the Financial Statements (continued)

27 BORROWINGS (continued)

- (d) On 1st September 2017 and 21st December 2017, the Group entered into repurchase agreements (note 20) with a financial institution in which the Group sold a portfolio of debt securities (notes 14 and 20) it held to the financial institution in exchange for cash considerations of HK\$108,720,000 and HK\$16,662,000 respectively. There are no stated interest rates and maturity dates in the agreements. The Group is required to repurchase the debt securities at HK\$108,720,000 and HK\$16,662,000 plus interest at variable rates calculated upon the termination of the agreements. As at 31st December 2017, the borrowings under repurchase agreements were collateralised by the Group's debt securities of HK\$147,400,000.
- (e) As at 31st December 2016, the amount due to a fellow subsidiary was unsecured, bore interest bearing at a fixed rate per annum and repayable within one year. The amount was repaid in 2017.

28 BONDS ISSUED

Bonds issued represented a number of fixed rate 5-year coupon bonds at fixed interest rate of 4% per annum, payable semi-annually and with an aggregated principal amount of HK\$86,000,000 (31st December 2016: HK\$86,000,000). The exposure and the contractual maturity dates of which are as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Within one year | 34,000 | – |
| More than one year but within 5 years | 52,000 | 86,000 |
| | 86,000 | 86,000 |

The bonds are non-secured, non-guaranteed and issued to independent third parties without any early redemption options. The carrying amounts of bonds issued approximate their fair values.

29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

As part of the Group's normal course of business, the Group set up an investment fund that issues redeemable units to unrelated third party investors. Pursuant to the relevant offering memorandums, the third party investors can redeem the invested units for cash after the end of the commitment period. As of 31st December 2017 and 31st December 2016, the redeemable units held by third party investors were classified as financial liabilities in the consolidated statement of financial position, with changes in fair value recognized in consolidated statement of profit or loss. The investment fund's underlying asset is a loan receivable of HK\$70,200,000 (2016: a convertible bond of HK\$85,443,000).

30 DEFINED CONTRIBUTION PLANS – MPF SCHEME

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the consolidated statement of profit or loss for the year amounted to:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Employer's contributions charged to consolidated statement of profit or loss | 2,151 | 2,061 |

Notes to the Financial Statements (continued)

31 DIRECTORS' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation.

The remuneration of the directors for the year ended 31st December 2017 is set out below:

| Name of Director | Fee HK\$'000 | Basic salaries HK\$'000 | Housing allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Employer's contribution to pension scheme HK\$'000 | Total HK\$'000 |
|--|-----------------|-------------------------------|---|--------------------------------------|--|-------------------|
| Executive Directors | | | | | | |
| Gong Zhijian | 240 | 1,416 | 384 | – | – | 2,040 |
| Lau Mun Chung | 240 | 2,160 | – | 1,080 | 18 | 3,498 |
| Non-executive Director | | | | | | |
| Chow Kwok Wai | 240 | – | – | – | – | 240 |
| Independent Non-executive Directors | | | | | | |
| Hung Muk Ming | 240 | – | – | – | – | 240 |
| Xia Zhidong ¹ | 240 | – | – | – | – | 240 |
| Liu Xiaofeng ¹ | 240 | – | – | – | – | 240 |
| | 1,440 | 3,576 | 384 | 1,080 | 18 | 6,498 |

¹ Appointed effective from 28th July 2016

Note: The evaluation of the performance of the Executive Directors has not yet been finalised. The discretionary bonuses payable are not finalised and the final amount will be disclosed in due course. The discretionary bonuses of certain executive directors are payable by instalments.

Notes to the Financial Statements (continued)

31 DIRECTORS' EMOLUMENTS (continued)

The remuneration of the directors for the year ended 31st December 2016 is set out below:

| Name of Director | Fee <i>HK\$'000</i> | Basic salaries <i>HK\$'000</i> | Housing allowances and benefits in kind <i>HK\$'000</i> | Discretionary bonuses <i>HK\$'000</i> (restated) | Employer's contribution to pension scheme <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|------------------------|--------------------------------------|---|---|---|--------------------------|
| Executive Directors | | | | | | |
| Zhao Hongwei ¹ | 275 | 1,973 | 352 | – | 12 | 2,612 |
| Gong Zhijian | 240 | 1,416 | 384 | 1,114 | 12 | 3,166 |
| Lau Mun Chung | 240 | 2,160 | – | 1,080 | 18 | 3,498 |
| Non-executive Director | | | | | | |
| Chow Kwok Wai | 240 | – | – | – | – | 240 |
| Independent Non-executive Directors | | | | | | |
| Wang Tongsan ² | – | – | – | – | – | – |
| Chen Gongmeng ² | 140 | – | – | – | – | 140 |
| Hung Muk Ming | 240 | – | – | – | – | 240 |
| Xia Zhidong ³ | 103 | – | – | – | – | 103 |
| Liu Xiaofeng ³ | 103 | – | – | – | – | 103 |
| | 1,581 | 5,549 | 736 | 2,194 | 42 | 10,102 |

¹ Resigned effective from 29th November 2016

² Resigned effective from 28th July 2016

³ Appointed effective from 28th July 2016

Note: The evaluation of the performance of the Executive Directors for the year ended 31st December 2016 was finalised in 2017 and the amount was restated accordingly. The discretionary bonus of certain executive directors are payable by instalments.

Notes to the Financial Statements (continued)

32 KEY MANAGEMENT PERSONNEL'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Key management personnel's emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, including executive directors and executive officers, non-executive directors and independent non-executive directors.

The remuneration of key management personnel during the year are as follows:

| | Group | |
|--|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Basic salaries, discretionary bonuses, housing allowances and benefits in kind | 21,688 | 19,158 |
| Defined contribution plans | 99 | 105 |
| | 21,787 | 19,263 |

The remuneration of Executive Directors are reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

The number of the key management personnel whose emoluments within the following bands is as follows:

| | Number of individuals | |
|-------------------------------|-----------------------|-----------|
| | 2017 | 2016 |
| Emolument bands | | |
| HK\$Nil – HK\$1,000,000 | 5 | 9 |
| HK\$1,000,001 – HK\$1,500,000 | – | 1 |
| HK\$1,500,001 – HK\$2,000,000 | 1 | – |
| HK\$2,000,001 – HK\$2,500,000 | 2 | 2 |
| HK\$2,500,001 – HK\$3,000,000 | 2 | 2 |
| HK\$3,000,001 – HK\$3,500,000 | 1 | 2 |
| HK\$3,500,001 – HK\$5,000,000 | – | – |
| HK\$5,000,001 – HK\$5,500,000 | 1 | – |
| | 12 | 16 |

Notes to the Financial Statements (continued)

32 KEY MANAGEMENT PERSONNEL'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one director (2016: two) whose emoluments are reflected in note 31. The emoluments payable to the remaining four (2016: three) individuals during the year are as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Basic salaries, discretionary bonuses, housing allowances and benefits in kind | 13,634 | 10,054 |
| Defined contribution plans | 67 | 54 |
| | 13,701 | 10,108 |

The emoluments of the remaining four (2016: three) individuals fell within the following bands:

| | Number of individuals | |
|-------------------------------|-----------------------|----------|
| | 2017 | 2016 |
| Emolument bands | | |
| HK\$Nil – HK\$1,000,000 | – | – |
| HK\$1,000,001 – HK\$1,500,000 | – | – |
| HK\$1,500,001 – HK\$2,000,000 | – | – |
| HK\$2,000,001 – HK\$2,500,000 | 1 | – |
| HK\$2,500,001 – HK\$3,000,000 | 2 | 1 |
| HK\$3,000,001 – HK\$3,500,000 | – | 1 |
| HK\$3,500,001 – HK\$4,000,000 | – | – |
| HK\$4,000,001 – HK\$4,500,000 | – | 1 |
| HK\$4,500,001 – HK\$5,000,000 | – | – |
| HK\$5,000,001 – HK\$5,500,000 | 1 | – |
| | 4 | 3 |

Notes to the Financial Statements (continued)

33 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has adopted a share option scheme whereby the Board of the Company may at its discretion granted to any employees, including executive directors, of the Group options to subscribe for shares of the Company.

During the years ended 31st December 2017 and 2016, no share options were granted.

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to net cash inflow from operating activities:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit before taxation | 81,951 | 64,027 |
| Depreciation | 2,722 | 2,233 |
| Fair value gain/(loss), net: | | |
| – Financial instruments classified as held-for-trading | (163) | (5,760) |
| – Financial instruments designated as fair value through profit or loss | 471 | (7,443) |
| – Financial liabilities at fair value through profit or loss | 3,035 | 6,225 |
| Net losses/(gains) on disposal of financial instruments held-for-trading | 1,846 | (4,512) |
| Net gains on disposal of available-for-sale financial assets | (19,085) | (1,145) |
| Net losses/(gains) on disposal of financial assets designated at fair value through profit or loss | 7,443 | (4,920) |
| Interest expenses | 21,533 | 13,327 |
| Interest income from debt securities | (22,429) | (16,302) |
| Share of profits of associates and a joint venture | (21,069) | (12,395) |
| Loss on disposal of property and equipment | 2 | – |
| Impairment loss recognised | 32,952 | – |
| Reversal of impairment loss recognised on loan receivables | – | (1,440) |
| Bad debt recovery | – | (125) |
| Increase in pledged deposits | (9) | (10) |
| Operating profit before working capital changes | 89,200 | 31,760 |
| Increase in other assets | (3,200) | (2,987) |
| Decrease in loan receivable | (113,115) | – |
| Increase in trade and other receivables | (111,606) | (334,169) |
| Increase in trade and other payables | 69,590 | 43,185 |
| Cash outflow from operations | (69,131) | (262,211) |
| Hong Kong profits tax paid | (2,431) | (6,545) |
| Overseas profits tax paid | (10,198) | (9,258) |
| Net cash outflow from operating activities | (81,760) | (278,014) |

Notes to the Financial Statements (continued)

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Changes in liabilities arising from financing activities

| | Bank and other loans <i>HK\$'000</i> | Bonds issued <i>HK\$'000</i> | Interest payable <i>HK\$'000</i> | Financial liabilities at fair value through profit or loss <i>HK\$'000</i> |
|--------------------------------------|--|---------------------------------|-------------------------------------|--|
| At 1st January 2017 | 647,154 | 86,000 | 1,678 | 58,517 |
| Changes from financing cash flows | | | | |
| New borrowings | 359,054 | – | – | – |
| Repayment | (192,213) | – | – | – |
| Distribution | – | – | – | (14,682) |
| Interest paid | – | – | (19,932) | – |
| Non-cash changes | | | | |
| Exchange difference | 1,870 | – | – | – |
| Interest expense | – | – | 21,533 | – |
| Changes in fair value | – | – | – | 3,035 |
| At 31st December 2017 | 815,865 | 86,000 | 3,279 | 46,870 |

Notes to the Financial Statements (continued)

35 CONTINGENT LIABILITIES

35.1 Outstanding litigation cases

A company named Hantec Investment Limited (the “plaintiff”), which is unrelated to the Group, filed a writ to the Company on 28th July 2000 seeking for injunction to restrain the Company from using the plaintiff’s alleged trade name and damages. The plaintiff has not taken further action after the Company filed a defence.

Under the share sale agreement dated 13th August 2008 (the “Agreement”), Hantec Holdings Investment Limited (“HHIL”, formerly known as Hantec Holdings Limited) and the then chairman of the Company, Mr. Tang Yu Lap (“Mr. Tang”), have undertaken to indemnify and keep indemnified the Company on a fully indemnified basis of any loss or liability suffered by the Group as a result of or in connection with this outstanding litigation case above. Based on the merits of this case, the directors considered that it was unlikely that any material claim against the Company will crystallise and hence no provision has been made.

35.2 Financial guarantees issued

As at 31st December 2017, a subsidiary of the Company engaging in securities broking and providing securities margin financing has secured banking facilities from certain authorised institutions for a total amount of HK\$470 million (31st December 2016: HK\$420 million). In addition, the Company has issued corporate guarantees for a total principal amount of HK\$470 million (31st December 2016: HK\$420 million) for these facilities. As at 31st December 2017, bank loan of HK\$30 million (31st December 2016: HK\$120 million) was drawn under the banking facilities.

36 LEASE, CAPITAL AND INVESTMENT COMMITMENTS

(a) Lease commitments

At 31st December 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Land and buildings

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Within one year | 22,434 | 17,054 |
| After one year but within five years | 18,015 | 24,338 |
| | 40,449 | 41,392 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are mainly negotiated for a fixed lease term of one to three years.

Notes to the Financial Statements (continued)

36 LEASE, CAPITAL AND INVESTMENT COMMITMENTS (continued)

(b) Capital commitments

Capital commitments in respect of property and equipment outstanding but not provided for in the consolidated financial statements are as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------|-------------------------|-------------------------|
| Contracted but not provided for | 524 | 132 |

(c) Investment commitments

As part of the Group's asset management business, the Group sets up structured entities (for example, investment funds) and generate fees from managing assets on behalf of third party investors. The Group may also co-invest in these structured entities in the capacity as general partners or investment managers of these structured entities. The Group did not control and did not consolidate these structured entities.

As at 31st December 2017, the carrying values of interest held by the Group in the above unconsolidated structured entities managed by the Group amounted to HK\$13,630,000 (2016: HK\$7,422,000), which was recognised in available-for-sale financial assets. The maximum exposure to loss is the carrying value of the assets held. Other than the invested amounts above, the Group has no significant outstanding capital commitment to these unconsolidated structured entities. Other than the committed capital, the Group has no intention to provide financial or other support to these structured entities.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT

37.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign exchange risk, equity price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a Risk Management Committee (the "RMC") under policies approved by the Board of Directors. The RMC identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The RMC also recommends the overall risk management policy for the approval of the Board or the Executive Management Committee (the "EMC") of the Group, covering specific areas, such as foreign exchange risk, equity price risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

The exposures of the Group to market risk include foreign exchange risk, equity price risk and interest rate risk.

Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from its financial assets and financial liabilities denominated in foreign currencies. The currencies giving rise to this risk are primarily Renminbi and the United States Dollars. The RMC reviews the exposures from time to time to cope with changes in volatility in the market.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Financial risk factors (continued)

(a) Market risk (continued)

Foreign exchange risk (continued)

The following table details the Group's exposure at the end of the reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | Japanese Yen <i>HK\$'000</i> | United States Dollars <i>HK\$'000</i> | Renminbi <i>HK\$'000</i> | Others <i>HK\$'000</i> |
|--|---------------------------------|---|-----------------------------|---------------------------|
| At 31st December 2017 | | | | |
| Loans receivable, trade and other receivables | 7 | 109,960 | 1,112 | – |
| Available-for-sale financial assets | – | 395,762 | – | – |
| Financial assets designated at fair value through profit or loss | – | 88,964 | – | – |
| Cash and cash equivalents | 74 | 83,939 | 9,855 | 21 |
| Trade and other payables | – | (301,901) | (180) | – |
| Financial liabilities at fair value through profit or loss | – | (46,870) | – | – |
| Net exposure arising from recognised net assets | 81 | 329,854 | 10,787 | 21 |

| | Japanese Yen <i>HK\$'000</i> | United States Dollars <i>HK\$'000</i> | Renminbi <i>HK\$'000</i> | Others <i>HK\$'000</i> |
|--|---------------------------------|---|-----------------------------|---------------------------|
| At 31st December 2016 | | | | |
| Loans receivable, trade and other receivables | 1 | 85,455 | 38,627 | – |
| Available-for-sale financial assets | – | 282,255 | 3,012 | – |
| Financial assets designated at fair value through profit or loss | – | 85,443 | – | – |
| Cash and cash equivalents | – | 26,294 | 8,639 | 19 |
| Trade and other payables | – | (198,711) | (374) | – |
| Financial liabilities at fair value through profit or loss | – | (58,517) | – | – |
| Net exposure arising from recognised net assets | 1 | 222,219 | 49,904 | 19 |

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Financial risk factors (continued)

(a) Market risk (continued)

Sensitivity analysis

The following table indicates the approximate change in the Group's profit before tax in response to possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

| | 2017 | | 2016 | |
|-----|---|--|---|--|
| | Appreciation/ depreciation of foreign currencies | Effect on profit before tax <i>HK\$'000</i> | Appreciation/ depreciation of foreign currencies | Effect on profit before tax <i>HK\$'000</i> |
| RMB | + 10% | 1,079 | + 10% | 4,990 |
| | - 10% | (1,079) | - 10% | (4,990) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for monetary assets and liabilities in existence at that date, and that all other variables, in particular interest rates, remain constant. Effects of changes in foreign exchange rates certain on non-monetary financial assets are included in equity price risk.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong Dollars and the United States Dollars would be materially unaffected by any changes in movement in value of the United States Dollars against other currencies. Accordingly, no sensitivity analysis has been prepared.

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit before tax measured in the respective functional currencies, translated into Hong Kong Dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2016.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Financial risk factors (continued)

(a) Market risk (continued)

Equity price risk

At 31st December 2017 and 2016, the Group was mainly exposed to equity price changes arising from (i) listed equity securities classified as financial instruments held-for-trading (note 21), (ii) unlisted equity fund classified as available-for-sale financial assets (note 14), (iii) convertible bond classified as financial assets designated at fair value through profit or loss (note 20) and (iv) financial liabilities at fair value through profit or loss (note 29). The investment fund's underlying asset is a loan receivable of HK\$70,200,000 (2016: a convertible bond of HK\$85,443,000).

At 31st December 2017, it was estimated that an increase/(decrease) of 10% in the relevant stock price, with all other variables held constant, would have increased/decreased the Group's profit before tax as follows:

| | Increase/ Decrease | 2017 Effect on profit before tax HK\$'000 | 2016 Effect on profit before tax HK\$'000 |
|---|-----------------------|--|--|
| Listed equity securities classified as financial instruments held-for-trading | 10% (10%) | 1,007 (1,007) | 3,636 (3,636) |
| Unlisted equity funds classified as available-for-sale financial assets | 10% (10%) | – – | 5,016 (5,016) |
| Convertible bond classified as financial assets designated at fair value through profit or loss | 10% (10%) | – – | 7,860 (7,860) |
| Financial liabilities at fair value through profit or loss | 10% (10%) | – – | (5,502) 5,502 |

The sensitivity analysis indicates the instantaneous change in the Group's profit before tax and equity that would arise assuming the changes in the relevant stock price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which exposed the Group to equity price risk at the reporting date.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Financial risk factors (continued)

(a) Market risk (continued)

Interest rate risk

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk in relation to the financial instrument subject to floating interest rate. Financial assets subject to cash flow interest rate risk mainly include margin loans arising from securities broking and bank balances. Financial liabilities subject to floating interest rates are bank loans and margin loan from a broker. The Group currently does not have a cash flow interest rate hedging policy. However, management is closely monitoring the Group's exposure arising from margin financing and other lending activities undertaken by allowing an appropriate margin on the interest received and paid by the Group.

The cash flow interest rate risk exposure of the Group at the end of the reporting period is as follows:

| | 2017 | | 2016 | |
|---|-------------------------|------------------|-------------------------|----------------|
| | Effective interest rate | HK\$'000 | Effective interest rate | HK\$'000 |
| Assets | | | | |
| Bank balances | 0.01% | 89,037 | 0.01% | 95,826 |
| Margin finance loans | 8% | 382,705 | 8% | 450,506 |
| | | 471,742 | | 546,332 |
| Liabilities | | | | |
| Bank loans | 2.82% | (537,411) | 2.44% | (497,000) |
| Margin loan from a broker | – | – | 1.52% | (13,058) |
| Borrowings under securities sale agreements | 3.042% | (51,672) | – | – |
| Borrowings under repurchase agreements | 2.8% | (125,382) | – | – |
| | | (242,723) | | 36,274 |
| Sensitivity analysis | | | | |
| Assume interest rate increased by | | 0.25% | | 0.25% |
| Profit before tax (decreased)/ increased by | | (607) | | 91 |

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 25 basis points increase (2016: 25 basis points increase) represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Financial risk factors (continued)

(a) Market risk (continued)

Fair value interest rate risk

At 31st December 2017 and 2016, the Group is also exposed to fair value interest rate risk in relation to debt securities with fixed interest classified as available-for-sale financial assets (note 14) and financial assets designated as fair value through profit or loss (note 20). The Group does not have a fair value interest rate hedging policy. However, management is closely monitoring the Group's exposure arising from debt securities investments by regularly performing quantitative analysis, including periodic sensitivity analysis.

The sensitivity analysis of the Group's fair value interest rate risk arising from financial assets designated at fair value through profit or loss is included in note 37.2(a).

A sensitivity analysis of the Group's fair value interest rate risk arising from the debt securities classified as available-for-sale financial assets is as follows:

| Change in market interest rate | 2017 Effect on equity HK\$'000 | 2016 Effect on equity HK\$'000 |
|--------------------------------|--------------------------------------|--------------------------------------|
| Increase by 25 basis points | (7,317) | (3,737) |
| Decrease by 25 basis points | 7,884 | 3,886 |

(b) Credit risk

The Group's credit risk is primarily attributable to its debt securities in available-for-sale financial assets, pledged bank deposits bank balances and cash, loans receivable, trade and other receivables and financial assets designated at fair value through profit or loss. It has policies in place to ensure that credits are granted to customers with an appropriate credit history and/or collateral deposited with the Group.

For loans receivable, individual credit evaluations are performed on all customers requiring such credit. These evaluations focus on the customer's past history of making payments when due and current ability to pay, value of collateral held (if any) and take into account information specific to the customer and the guarantor (in case provided) as well as pertaining to the economic environment in which the customer operates. The Group is exposed to the concentration of credit risk from three (2016: two) independent counterparties. In view of estimated fair value of the shares held as collateral and the sound financial position of those independent counterparties, the management of the Group consider the concentration of credit risk is remote.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Financial risk factors (continued)

(b) Credit risk (continued)

For trade receivables arising from securities broking, credits are granted to a large population of clients and hence there is no significant concentration risk. The margin clients' listed securities can be sold at the Group's discretion upon margin shortfall situation to fulfil any margin call.

For commodities and futures broking, an initial margin will be collected before opening of trading positions. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and only brokers having sound credit ratings will be accepted. The open positions of the margin clients of trading of commodities and futures contracts can be closed at the Group's discretion in margin shortfall situation to settle any margin call requirements imposed by their respective commodities and futures contracts transactions.

The Group's pledged bank deposits, bank balances and cash are deposited in respectable and large commercial banks. The credit risk of pledged bank deposits, bank balances and cash are considered to be manageable.

For debt securities in financial assets designated at fair value through profit or loss, the Group structures the levels of credit risk it undertakes by placing limits on the amount of advance in relation to any borrower or issuer. As at 31st December 2017 and 2016, such risks are mitigated by the listed securities and convertible bonds held by the Group as collateral which are subject to periodic review. The fair value of the listed securities was determined by reference to the quoted price of the shares as at 31st December 2017 and 2016, and the fair value of the convertible bonds was estimated by an independent firm of professional valuer. As at 31st December 2017 and 2016, the combined fair value of the listed securities and convertible bonds exceeded the carrying amount of the fair value through profit or loss debt securities.

Part of available-for-sale financial assets are listed debt securities with fixed interest. The Group has a policy in place of spreading the aggregate value of transactions concluded amongst approved counterparties with an appropriate credit quality. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The Group primarily invested in rated debt securities with credit ratings of at least B+ or equivalent as determined by Standard & Poor's, Moody's or Fitch. Any exception shall be approved by the management of the Group. As at 31st December 2017, 45% (2016: over 50%) of the debt securities invested by the Company are B+ or above, 37% (31st December 2016: 47%) of the debt securities invested by the Company are B+. 18% of the debt securities are non-rated as at 31st December 2017 (31st December 2016: 3%). The management of the Group reviews the portfolio of debt securities on a regular basis to ensure that there is no significant concentration risk. In this regards, the management of the Group consider that the credit risk relating to investments in debt securities is closely monitored.

The Group has maintained relationship with various financial institutions, and has policies that limit the amount of credit exposure to any financial institution. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

The maximum credit exposure is the worst case scenario of exposure to the Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For loan commitments and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group employs a prudent liquidity policy.

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

| | Weighted average effective interest rate | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 | Between 1 to 2 years HK\$'000 | Between 2 to 5 years HK\$'000 |
|--|---|--------------------------------|---|--|-------------------------------------|-------------------------------------|
| At 31st December 2017 | | | | | | |
| Trade and other payables | NA | 308,462 | 308,462 | 308,462 | – | – |
| Borrowings under securities sale agreements | 3.025% | 153,072 | 154,822 | 154,822 | – | – |
| Borrowings under repurchase agreements | 2.8% | 125,382 | 125,382 | 125,382 | – | – |
| Bank loan | 2.818% | 537,411 | 538,760 | 538,760 | – | – |
| Bonds issued | 4% | 86,000 | 91,123 | 37,140 | 43,500 | 10,483 |
| Financial liabilities at fair value through profit or loss | 8% | 46,870 | 50,619 | – | – | 50,619 |
| | | 1,257,197 | 1,269,168 | 1,164,566 | 43,500 | 61,102 |
| At 31st December 2016 | | | | | | |
| Trade and other payables | NA | 237,272 | 237,272 | 237,272 | – | – |
| Margin loan from a broker | 1.52% | 13,058 | 13,080 | 13,080 | – | – |
| Borrowing under a securities sale agreement | 2.2341% | 101,400 | 102,570 | 102,570 | – | – |
| Bank loan | 2.44% | 521,541 | 522,815 | 522,815 | – | – |
| Borrowings from a fellow subsidiary | 6% | 11,155 | 11,824 | 11,824 | – | – |
| Bonds issued | 4% | 86,000 | 94,563 | 3,440 | 37,140 | 53,983 |
| Financial liabilities at fair value through profit or loss | 8% | 58,517 | 63,198 | – | – | 63,198 |
| | | 1,028,943 | 1,045,322 | 891,001 | 37,140 | 117,181 |

The Company's policy is to regularly monitor its liquidity requirements including borrowings from subsidiaries, bonds issued to independent third parties, dividend payments to shareholders and accrued payments to ensure that it maintains sufficient reserves of cash to satisfy its contractual and foreseeable obligations as they fall due.

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.2 Fair values measurement of financial instruments

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

Some of the Group's financial assets 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 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 measurement are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from 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).

| Financial instruments | Fair value as at 31 December 2017 HK\$'000 | Fair value as at 31 December 2016 HK\$'000 | Fair value hierarchy | Valuation technique(s) key input(s) |
|--|--|--|-------------------------|--|
| (a) Financial assets designated at fair value through profit or loss | | | | |
| Convertible bonds | – | 85,443 | Level 3 | Note (a) |
| Listed debt securities | 88,964 | – | Level 1 | Quoted prices in an active market |
| (b) Financial instruments held-for-trading | | | | |
| Listed equity securities | 10,072 | 36,360 | Level 1 | Quoted prices in an active market |
| (c) Available-for-sale financial assets | | | | |
| Debt securities | 392,191 | 282,255 | Level 1 | Quoted prices in active market |
| Equity fund | – | 50,163 | Level 2 | Adjusted NAV of equity fund |
| Unlisted investment funds | 24,010 | 66,930 | Level 2 | Adjusted NAV of investment fund |
| (d) Financial liabilities at fair value through profit or loss | 46,870 | – | Level 2 | Adjusted NAV of financial liabilities |
| | – | 58,517 | Level 3 | Note (b) |

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.2 Fair values measurement of financial instruments (continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

Notes:

(a) *Financial assets designated at fair value through profit or loss*

The fair value of the convertible bonds is derived by Binomial Option Pricing Model, which incorporates assumptions not entirely supported by observable market prices or rates. The key inputs are expected volatility and discount rate adjusted for the specific risks of the issuers. The convertible bond was redeemed in current year.

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

In 2016, the financial liabilities at fair value through profit or loss represents redeemable units held by third party investors on an investment fund that was set up to hold a convertible bond. The fair value of the financial liabilities changes as the fair value of the convertible bonds change.

In 2017, the convertible bond was realised, and the investment fund held a loan receivable instead. The fair value of the financial liabilities changes as the loan receivable accrued interests, which approximates its fair value.

Reconciliation of Level 3 fair value measurements of financial instruments

| | Convertible bond HK\$'000 | Debt securities HK\$'000 | Warrants HK\$'000 | Financial liabilities at fair value through profit or loss HK\$'000 | Total HK\$'000 |
|--|---------------------------------|--------------------------------|----------------------|--|-------------------|
| At 1st January 2016 | – | 65,280 | 16,220 | – | 81,500 |
| Capital contribution | – | – | – | (54,600) | (54,600) |
| Addition | 78,000 | – | – | – | 78,000 |
| Realised gain recognised in profit or loss | – | 4,920 | 4,291 | – | 9,211 |
| Unrealised gain/(loss) recognised in profit or loss | 7,443 | – | – | (6,225) | 1,218 |
| Disposal | – | – | (20,511) | – | (20,511) |
| Expiry | – | (70,200) | – | – | (70,200) |
| Distribution | – | – | – | 2,308 | 2,308 |
| At 31st December 2016 | 85,443 | – | – | (58,517) | 26,926 |
| At 1st January 2017 | 85,443 | – | – | (58,517) | 26,926 |
| Capital withdrawal | – | – | – | 7,800 | 7,800 |
| Addition | – | – | – | – | – |
| Realised gain recognised in profit or loss | (7,443) | – | – | – | (7,443) |
| Unrealised gain/(loss) recognised in profit or loss | – | – | – | (3,035) | (3,035) |
| Disposal | (78,000) | – | – | – | (78,000) |
| Expiry | – | – | – | – | – |
| Distribution | – | – | – | 6,882 | 6,882 |
| Transfer to Level 2 | – | – | – | 46,870 | 46,870 |
| At 31st December 2017 | – | – | – | – | – |

Notes to the Financial Statements (continued)

37 FINANCIAL RISK MANAGEMENT (continued)

37.2 Fair values measurement of financial instruments (continued)

Fair value measurement and valuation process

The management is responsible for 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. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Notes to the Financial Statements (continued)

38 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:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Broking commission for securities dealing (<i>note (a)</i>) | 3,572 | 292 |
| Service fee income (<i>note (b)</i>) | 8,932 | 9,185 |
| Placing commission (<i>note (c)</i>) | 5,527 | 10,258 |
| Fund management fee and advisory fee income (<i>note (d)</i>) | 35,908 | 27,340 |
| Bank interest income (<i>note (e)</i>) | 177 | 176 |
| Bank charges (<i>note (f)</i>) | (59) | – |
| Interest expenses (<i>note (g)</i>) | (241) | (153) |
| Rental expenses (<i>note (h)</i>) | (414) | (378) |
| Interest income (<i>note (i)</i>) | 2,510 | 1,222 |
| Capital distribution to non-controlling interest (<i>note (j)</i>) | – | 58,863 |

- (a) In 2017 and 2016, the Group received commission income from its directors and fellow subsidiaries for providing securities brokerage services. Out of which HK\$3,563,340 (2016: HK\$282,769) represented continuing connected transactions.
- (b) In 2017 and 2016, the Group received service fee income from an associate and a joint venture for providing administrative supporting and consulting services. Out of which HK\$74,148 (2016: Nil) represented continuing connected transactions.
- (c) In 2017, the Group received placing commission from its fellow subsidiaries for placing securities. In 2016, the Group received placing commission from its ultimate holding company for placing securities. The total amount represented continuing connected transactions.
- (d) In 2017 and 2016, the Group received management fee income from its connected persons for providing asset management services. The total amount represented continuing connected transactions.
- (e) In 2017 and 2016, the Group received bank interest income from its fellow subsidiary.
- (f) During the current year, the Group paid bank charges to its fellow subsidiary (2016: nil).
- (g) In 2017 and 2016, the Group paid interest expenses to a fellow subsidiary for obtaining short-term financing.
- (h) In 2017 and 2016, the Group paid rental expenses to its fellow subsidiaries for use of office premises.
- (i) In 2017 and 2016, the Group received interest income from the unlisted investment funds which were also owned by its fellow subsidiaries.
- (j) In 2016, the Group distributed cash of HK\$58,863,000 to the non-controlling interests of CRC fund, which is its fellow subsidiary.

Notes to the Financial Statements (continued)

38 RELATED PARTY AND CONNECTED PARTY TRANSACTIONS (continued)

- (k) The Group is indirectly controlled by China Cinda Asset Management Co., Ltd. (“China Cinda”), which is indirectly controlled by the PRC government through the Ministry of Finance (the “MOF”). MOF is the major shareholder of China Cinda as at 31st December 2017 and 2016. For the current and prior years, the Group undertakes some transactions with certain entities directly or indirectly owned by the PRC government, including but not limited to making bank deposits, receiving banking facilities, renting properties and rendering and obtaining other services. The Group is of opinion that these transactions are in normal business terms that do not require separate disclosure.
- (l) In 2016, there was a management fee income of HK\$364,067 within the intragroup transactions of the Group paid to a wholly-owned subsidiary of the Company by a fellow subsidiary of the Group as the non-controlling shareholder of CRC Fund. The total amount represented continuing connected transactions.
- (m) Compensation of key management personnel are disclosed in note 32(a).

39 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31st December 2017 and 2016, the directors consider the immediate parent and ultimate controlling party of the Group to be Sinoday Limited and China Cinda Asset Management Co., Ltd., which are incorporated in the British Virgin Islands and the People’s Republic of China respectively.

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets the following trade receivables and trade payables as the Group currently has a legally enforceable right to set off the balance, and intends either to settle on net basis, or to realise the balance simultaneously.

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 covers similar financial instruments that are either:

- offset in the Group’s consolidated statement of financial position; or
- not offset in the Group’s 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”), the Group has a legally enforceable right to set off the money obligation 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 trade receivables 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.

Notes to the Financial Statements (continued)

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Other balances with HKSCC and brokerage clients that are not to be settled on the same date, or can only be set-off in an event of default are presented in gross.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

| | Gross amounts of recognised financial assets <i>HK\$'000</i> | Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position <i>HK\$'000</i> | Net amounts of financial assets presented in the consolidated statement of financial position <i>HK\$'000</i> | Related amounts not offset in the consolidated statement of financial position Financial instruments held as collateral (<i>note 3</i>) <i>HK\$'000</i> | Net amount <i>HK\$'000</i> |
|---|---|---|--|--|----------------------------------|
| As at 31st December 2017 | | | | | |
| Financial assets by counterparty | | | | | |
| Trade receivables from: | | | | | |
| – Margin clients (<i>note 1</i>) | 439,313 | (56,608) | 382,705 | (368,924) | 13,781 |
| – Clearing houses (<i>note 2</i>) | 244,637 | (154,036) | 90,601 | – | 90,601 |
| Total | 683,950 | (210,644) | 473,306 | (368,924) | 104,382 |
| As at 31st December 2016 | | | | | |
| Financial assets by counterparty | | | | | |
| Trade receivables from: | | | | | |
| – Margin clients (<i>note 1</i>) | 536,925 | (86,419) | 450,506 | (450,386) | 120 |
| – Clearing houses (<i>note 2</i>) | 126,519 | (83,856) | 42,663 | – | 42,663 |
| Total | 663,444 | (170,275) | 493,169 | (450,386) | 42,783 |

Notes to the Financial Statements (continued)

40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets offset in the consolidated statement of financial position | Net amounts of financial liabilities presented in the consolidated statement of financial position | Related amounts not offset in the consolidated statement of financial position Financial instruments held as collateral (note 3) | Net amount |
|--|--|---|---|--|-----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| As at 31st December 2017 | | | | | |
| Financial liabilities by counterparty | | | | | |
| Trade payables to: | | | | | |
| – Margin clients (note 1) | (75,217) | 56,608 | (18,609) | – | (18,609) |
| – Clearing houses (note 2) | (154,730) | 154,036 | (694) | – | (694) |
| Total | (229,947) | 210,644 | (19,303) | – | (19,303) |
| As at 31st December 2016 | | | | | |
| Financial liabilities by counterparty | | | | | |
| Trade payables to: | | | | | |
| – Margin clients (note 1) | (100,768) | 86,419 | (14,349) | – | (14,349) |
| – Clearing houses (note 2) | (84,264) | 83,856 | (408) | – | (408) |
| Total | (185,032) | 170,275 | (14,757) | – | (14,757) |

Notes:

- Under the agreement signed between the Group and the customers, money obligations receivable and payable with the same customer on the same date are settled on net basis simultaneously.
- Under the agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.
- Financial instruments represent the margin clients' listed securities measured at fair value determined by reference to their respective quoted price pledged to the Group for credit facilities for securities trading.

Notes to the Financial Statements (continued)

41 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|--|
| Amendments to HKFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions¹</i> |
| Amendments to HKFRS 4 | <i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i> |
| HKFRS 9 | <i>Financial Instruments¹</i> |
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation²</i> |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i> |
| HKFRS 15 | <i>Revenue from Contracts with Customers¹</i> |
| Amendments to HKFRS 15 | <i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i> |
| HKFRS 16 | <i>Leases²</i> |
| HK(IFRIC)-Int 22 | <i>Foreign Currency Transactions and Advance Consideration¹</i> |
| HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments²</i> |
| Annual Improvements 2014–2016 Cycle | Amendments to HKFRS 1 and HKAS 28 ¹ |

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 No mandatory effective date yet determined but available for adoption

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

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

Notes to the Financial Statements (continued)

41 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1st January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1st January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The adoption of HKFRS 9 is expected to reduce net assets at 1st January 2018 by approximately HK\$3 million, net of tax. The above overall financial impact is subject to change of assumptions, judgement and estimates to be finalised in the accounts of 2018.

The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

– Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Unlisted equity investments currently held as available for sale will be measured at fair value through profit or loss, listed debt investments will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future.

Financial assets are required to be classified into one of the following measurement categories: (1) measured subsequently at amortised cost, (2) measured subsequently at fair value through other comprehensive income or (3) measured subsequently at fair value through profit or loss. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments, or the election of fair value option.

The classification and measurement requirements of financial liabilities have been basically carried forward with minimal amendments from HKAS 39.

The accounting for fair value option of financial liabilities were changed to address own credit risk. The amount of change in fair value attributable to change in credit risk of financial liabilities will be presented in other comprehensive income while the remaining amount of change in fair value will be included in the income statement. The amount recognised in other comprehensive income will not be subsequently reclassified to the income statement but may be transferred within equity.

There is no change in HKFRS 9 to allow designation of financial instruments at fair value through profit or loss to eliminate or significantly reduce measurement or recognition inconsistencies upon initial application.

The Group has performed a detailed analysis on financial assets and financial liabilities. The Group expects the adoption of HKFRS 9 has no significant impact to the measurement of the Group's financial assets and financial liabilities.

Notes to the Financial Statements (continued)

41 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

– Impairment

The standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. The impairment for financial instruments that are subsequently measured at amortised cost, fair value through other comprehensive income (debt instruments) will be governed by this standard. Specifically, it requires entities to assess credit risk and estimate ECL with an unbiased and probability-weighted approach. Not only information about past events, but all available information including current conditions and forecast of future economic conditions should be considered with discounting for time value of money. The Group will account for expected credit losses within the next 12 months as Stage 1 when those financial instruments are first recognised; and to recognise full lifetime expected credit losses as Stage 2 on a more timely basis when there have been significant increases in credit risk since initial recognition. Full lifetime expected credit losses will also be recognised as Stage 3 if objective evidence of impairment occurred and interest accrual will then be net of the impairment amount of associated Stage 3 financial assets. The resulting impairment under HKFRS 9 would be more forward-looking than under HKAS 39.

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

Notes to the Financial Statements (continued)

41 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1st January 2018 and plans to adopt the full retrospective approach. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1st January 2018. The Group expects that the transitional adjustment to be made on 1st January 2018 upon initial adoption of HKFRS 15 will not be material. During the year ended 31st December 2017, the Group has performed a preliminary detailed assessment on the impact of the adoption of HKFRS 15.

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1st January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 36(a) to the financial statements, at 31st December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$40,449,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Notes to the Financial Statements (continued)

41 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration.

Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1st January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Five Year Financial Summary

FIVE YEAR FINANCIAL SUMMARY

| Results | Year ended 31st December | | | | |
|---------------------------------------|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
| Profit attributable to equity holders | 66,361 | 41,080 | 40,586 | 28,230 | 68,254 |

| Assets and liabilities | As at 31st December | | | | |
|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> | 2013 <i>HK\$'000</i> |
| Total assets | 2,102,313 | 1,802,782 | 1,319,738 | 1,326,620 | 982,867 |
| Total liabilities | (1,267,758) | (1,037,957) | (561,276) | (583,140) | (301,211) |
| Total equity | 834,555 | 764,825 | 758,462 | 743,480 | 681,656 |

Notes:

1. The Company was incorporated in Bermuda on 19th April 2000 and became the holding company of the companies now comprising the Group on 10th July 2000.
2. Segregated trust accounts maintained by the Group to hold clients' monies and the corresponding amounts classified under accounts payable are treated as items not recognised in the consolidated statement of financial position.