# Yunfeng Financial Group Limited
# 雲鋒金融集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 376)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the “Board”) of Yunfeng Financial Group Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017. The unaudited condensed consolidated interim results have been reviewed by the Company’s audit committee and the Company’s independent auditor.

# Corporate information

## BOARD OF DIRECTORS

**Chairman**

Mr. Yu Feng *(Non-Executive Director)*

**Executive Directors**

Ms. Li Ting *(Chief Executive Officer)*
Mr. Huang Xin

**Non-Executive Directors**

Mr. Ko Chun Shun, Johnson
Ms. Hai Olivia Ou

**Independent Non-Executive Directors**

Mr. Lin Lijun
Mr. Qi Daqing
Mr. Chu Chung Yue, Howard

## AUDIT COMMITTEE

Mr. Chu Chung Yue, Howard *(Chairman)*
Mr. Lin Lijun
Mr. Qi Daqing

## REMUNERATION COMMITTEE

Mr. Lin Lijun *(Chairman)*
Mr. Qi Daqing
Mr. Huang Xin
Mr. Chu Chung Yue, Howard

## NOMINATION COMMITTEE

Mr. Yu Feng *(Chairman)*
Mr. Lin Lijun
Mr. Qi Daqing
Mr. Chu Chung Yue, Howard

## AUTHORISED REPRESENTATIVES

Ms. Li Ting
Mr. Chan Man Ko

## COMPANY SECRETARY

Mr. Chan Man Ko

## AUDITOR

KPMG
Certified Public Accountants

**BANKERS**

The Hongkong and Shanghai Banking Corporation Limited
China Citic Bank International
China Construction Bank (Asia)
Bank of China (Hong Kong)
Bank of Communications

**REGISTERED AND PRINCIPAL OFFICE**

Suites 3201-3204
One Exchange Square
8 Connaught Place
Hong Kong

**SHARE REGISTRAR**

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

**WEBSITE**

http://www.yff.com

**STOCK CODE**

376

# Management discussion and analysis

The board of directors (the “Board”) of Yunfeng Financial Group Limited (the “Company”) submit herewith the unaudited condensed consolidated interim results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018 (the “First Half of 2018” or the “Period”), together with the comparative figures for the corresponding period in 2017 (the “Prior Period”).

## Business review

## Overview

For the First Half of 2018, the Group's major sources of revenue includes subscription fees and management fees for products launched by the Group, platform fees for distribution of third-parties products, administration fee for employee stock ownership plan management services, brokerage commission income and corporate advisory fee income, etc. In addition, the Group generates other operating income and gains from its own general capital. The Group is still in the process of building its client base and scale of asset under management. The Group’s revenue and other operating income were HK$15.5 million and HK$77.4 million respectively, representing an increase of 63.2% and 1.3 times compared to the Prior Period respectively. The increase in revenue was mainly attributable to the increase in corporate finance consultancy service fee and securities brokerage commission during the Period. The operating income (mainly derived from Company’s own capital fund management) also increased significantly.

Apart from this, the amortization expense recorded in the First Half of 2018 in relation to share awards granted by the Company, amounted to HK$112 million compared to HK$44 million recorded in the Prior Period resulting in higher overall operating expenses than those in the Prior Period. Taking into account the above factors, the loss attributable to equity shareholders of the Company for the Period is HK$186.3 million (Prior Period: HK$236.6 million). If the amortization expense in relation to share awards granted by the Company is excluded, the net loss attributable to equity shareholders of the Company for the Period would be HK$74.3 million (Prior Period: HK$192.6 million) representing a significant decrease of HK$118.3 million or 61.4% compared to the Prior Period.

## Brokerage business

In the First Half of 2018, the Group launched eight version updates for "Youyu Stock" mobile application adding new features to help customers resolve investment problems encountered in different investment stages. The new features differentiated the Group from other competitors using artificial intelligence technological advantages including information intelligence recommendation function to retain and attract customers. The Group focused on its brokerage business through three major target client groups including retail clients, financial institutions and listed companies. The development of the retail client market was mainly through online cooperation and operation. For financial institution market, the Group's focused on cooperation with the banks and other securities firms. For the listed companies market, the Group focused on service opportunities including employee stock ownership plan administration, corporate actions like share repurchase and reduction in holding and shares pledging by major shareholders. During the Period, the turnover of brokerage business amounted to HK$2,554.7 million, representing an increase of 4.6 times as compared with the Prior Period.

## Corporate finance consultancy service

The Group's corporate finance business primarily provides financial consultancy service primarily to Hong Kong listed companies. In the First Half of 2018, the Group has completed 16 financial consultancy projects. During the Period, this business segment recorded an income of HK$9.9 million, representing an increase of 83.3% as compared with the Prior Period.

## Employee stock ownership plan administration

In the First Half of 2018, employee stock ownership plan administration ("ESOP") brought new inflows of client assets to the Group and growth in client net assets value managed by the Group. As the Group's important strategic business, the employee stock ownership team actively expanded the network and sought for suitable partners to attract new customers while successfully achieving synergy with other business lines. In terms of business development, the team reached out to customers with high potential through various seminars and roundtable conferences organised with different organisations.

## Wealth and asset management

Wealth management

In the First Half of 2018, the Group launched a total of 9 online versions for "Youyu Wealth" online mobile application with special features including fund comparison, six-dimensional map, and "Fish Recommended" selection etc. The special features were able to attract new customers and improve customer's loyalty and retention. "Youyu Wealth" entered into distribution agreements with 21 global fund managers and offered more than 350 online selected fund products for subscription.

Asset management

On the other hand, our wealth management business has made substantial progress offline in fund management through forming strategic partnership with other reputable financial institutions to expedite the process to build up the scale of asset under management.

| *Offline Fund product managed or jointly managed by the Group* | *Investment focus* |
|---|---|
| Majik Access USD Fund 1 LP | Third-party managed private credit funds - directly or indirectly invest in credit and real estate-related debt market sectors |
| Majik Access USD Fund 2 LP | Third-party managed distressed assets funds - specialising in different distressed credit strategies |
| Majik Access USD Fund 3 LP | Third-party managed collateralised loan obligations - investing in senior secured first lien bank loans, second lien loans, unsecured loans, and other debt obligations |

For the above fund products still opened for subscription, we continue to attract new professional investors. During the Period, we have successfully secured a handful of rare investment targets including credit linked note and distressed fund investment opportunities managed by top tier managers to facilitate further growth in the offline wealth management operation. As at 30 June 2018, the total capital commitment and investment acquired by the three offline products amounted to US$187.9 million.

## General capital management

The Group adopted the following capital usage and management strategies:

1) To achieve positive synergies between the Company's capital management and growth of its asset management business, and to facilitate external fundraising for such products, the Company intends to provide seed capital, as a direct investor or co-investor in fund products and high-quality early-stage private equity products developed by the Company;

2) Use as standby capital to support the securities brokerage business and the securities financing business when needed;

3) Towards acquisition or development of projects related to the Company's personal wealth management business or financial technologies development or into opportunities that provide synergies with other businesses of the Company; and

4) To increase effectiveness and returns in respect of the Company's capital management, and to improve cash flow management, the Company adopted a treasury management model that may involve (but not be limited to) holding fixed income instruments, high grade equity instruments and other financial investments.

For the First Half of 2018, the use of Group's general capital is as follows:

***HK$ million***

| | ***At 30 June 2018*** | *At 31 December 2017* | Change |
|---|---|---|---|
| Fixed bank deposits and cash (Note 1) | **3,075.8** | 3,544.7 | -13.2% |
| Mutual fund investment (Note 2) | **323.5** | 326.7 | -1.0% |
| Fixed income type of investment (Note 3) | **273.5** | 77.3 | 2.5 times |
| Equity and option | **0.9** | 5.9 | -84.7% |
| Majik Access USD Fund 3 LP (Note 4) | **180.2** | 199.0 | -9.4% |
| Majik Access USD Fund 2 LP | **19.5** | (3.0) | - |
| Interest in an associate | **59.3** | - | - |
| | **3,932.7** | 4,150.6 | -5.2% |

Note 1: The amount includes US$25 million committed for investing in Majik Access USD Fund 1 LP and US$17 million for investing in Majik Access USD Fund 2 LP.

Note 2: This includes investments in more than five mutual fund investments managed by different fund management companies with abundant international investment experiences. The investment portfolio of the mutual funds mainly comprises fixed income securities and equity, with a higher proportion being fixed-income securities. The mutual funds are liquid assets which can be readily converted into cash.

Note 3: This includes both perpetual capital, note investment, leveraged bond linked note and trust products.

Note 4: The amount represents the Group's share of net asset in the respective fund after capital injection is made.

## Prospects

In the second half of 2018, the Group will continue to push forward on the completion of the acquisition of an equity interest in MassMutual Asia Limited ("MassMutual"). The uncertainties in the global economy related to instances like Sino-US trade war, and the Brexit are expected to adversely affect the market. The Group will remain flexible and adjust its strategy in light of market conditions.

## Financial result review

## Significant financial information

Consolidated profit and loss analysis for the period ended 30 June

| ***HK$ million*** | ***1H 2018*** | *1H 2017* | Change |
|---|---|---|---|
| **Revenue** | **15.5** | 9.5 | 63.2% |
| Other operating income and gains | **77.4** | 33.2 | 1.3 times |
| Net loss on financial assets and financial liabilities at fair value through profit or loss | **(26.8)** | (82.6) | -67.6% |
| Staff costs | **(193.7)** | (122.1) | 58.6% |
| Other operating expenses (including net provision for impairment loss) | **(51.1)** | (70.1) | -27.1% |
| | **(178.7)** | (232.1) | -23.0% |
| Finance cost | **(6.6)** | (3.6) | 83.3% |
| **Loss before taxation** | **(185.3)** | (235.7) | -21.4% |
| Income tax | **(1.0)** | (1.0) | - |
| **Loss for the period** | **(186.3)** | (236.7) | -21.3% |
| **Loss for the period attributable to:** | | | |
| Equity shareholders of the Company | **(186.3)** | (236.6) | -21.3% |
| Non-controlling interests | **-** | (0.1) | - |
| | **(186.3)** | (236.7) | -21.3% |

## Analysis on loss for the period

| *HK$ million* | *1H 2018* | *1H 2017* | Change |
|---|---|---|---|
| **Loss for the period** | **(186.3)** | (236.7) | -21.3% |
| Adjust for the impact of the following profit or loss or expenses impact: | | | |
| Less: Net loss on financial assets and liabilities at fair value through profit or loss | **26.8** | 82.6 | -67.6% |
| Less: Staff share award amortisation expense | **111.6** | 44.0 | 1.5 times |
| Less: Legal and professional fee for acquisition of MassMutual | **1.8** | 18.7 | -90.4% |
| | **(46.1)** | (91.4) | -49.6% |

## Revenue

For the First Half of 2018, revenue amounted to HK$15.5 million (2017: HK$9.5 million), representing a 63.2% increase compared to that of the Prior Period as follows:

| *HK$ million* | *1H 2018* | *1H 2017* | Change |
|---|---|---|---|
| Brokerage commission | **2.8** | 0.6 | 3.7 times |
| Consultancy and advisory fees | **9.9** | 5.4 | 83.3% |
| Subscription, management and rebate fees income | **2.2** | 1.1 | 100% |
| Interest income from loan receivables | **-** | 2.2 | - |
| Interest income from clients and other service income | **0.6** | 0.2 | 2.0 times |
| | **15.5** | 9.5 | 63.2% |

## Other operating income and gains

For the First Half of 2018, other operating income and gains amounted to HK$77.4 million (2017: HK$33.2 million), representing a 1.3 times increase compared to that of the Prior Period as follows:

***HK$ million***

| | ***1H 2018*** | *1H 2017* | Change |
|---|---|---|---|
| Bank and other interest income | **55.9** | 27.3 | 104.8% |
| Handling and settlement fees | **0.6** | 0.2 | 2 times |
| Dividend and distribution income | **15.6** | 3.3 | 3.7 times |
| Miscellaneous income | **2.6** | 0.7 | 2.7 times |
| Gain on deconsolidated fund and partial disposal of a consolidated fund | **2.7** | - | - |
| Gain on disposal of a subsidiary | **-** | 0.8 | - |
| Disposal gain of available-for-sale financial assets | **-** | 0.9 | - |
| | **77.4** | 33.2 | 1.3 times |

## Net loss on financial assets and financial liabilities at fair value through profit or loss

For the First Half of 2018, the net loss on financial assets and financial liabilities at fair value through profit or loss amounted to HK$26.8 million (2017: HK$82.6 million), representing a 67.6% decrease compared to that of Prior Period as follows:

***HK$ million***

| | ***1H 2018*** | *1H 2017* | Change |
|---|---|---|---|
| Net unrealised loss on financial assets at fair value through profit or loss | **(18.1)** | (16.3) | 11.0% |
| Net realised loss on financial assets at fair value through profit or loss | **(1.5)** | (64.7) | -97.7% |
| Fair value change of financial liabilities at fair value through profit or loss | **(7.2)** | (1.6) | 3.5 times |
| Total net loss on financial assets and financial liabilities at fair value through profit or loss | **(26.8)** | (82.6) | -67.6% |

## Staff costs

For the First Half of 2018, the staff costs amounted to HK$193.7 million (2017: HK$122.1 million), including the amortisation of share-based payment expense of HK$111.6 million (2017: HK$44 million). Excluding this expense, the staff costs increased by 5% compared to the Prior Period.

## Other operating expenses

For the First Half of 2018, other operating expenses amounted to HK$51.1 million, representing a 27.1% decrease compared to that of the Prior Period as follows:

***HK$ million***

| | ***1H 2018*** | *1H 2017* | Change |
|---|---|---|---|
| Information, data and communication expenses | **(13.8)** | (16.1) | -14.3% |
| Legal and professional fee expenses | **(8.1)** | (28.1) | -71.2% |
| Operating lease and related charges in respect of properties | **(14.9)** | (14.8) | 0.7% |
| Business promotion and marketing expenses | **(0.9)** | (2.5) | -64.0% |
| Depreciation and amortisation | **(10.6)** | (8.1) | 30.9% |
| Net exchange gain | **7.9** | 12.5 | -36.8% |
| Others | **(10.7)** | (13.0) | -17.7% |
| | **(51.1)** | (70.1) | -27.1% |

## Changes in owner's equity

***HK$ million***

| | 2018 |
|---|---|
| Balance at 1 January | 4,139.3 |
| Loss for the Period | (186.3) |
| Others | (5.5) |
| Balance at 30 June | 3,947.5 |
| **Attributable to :** | |
| – Equity shareholders of the Company | 3,947.5 |
| – Non-controlling interests | - |
| Total equity | 3,947.5 |

As at 30 June 2018, equity attributable to shareholders of the Company per share is HK$1.63 (31 December 2017: HK$1.71).

## Liquidity, financial resources and capital structure

As at 30 June 2018, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalents amounting to HK$3,182.5 million (31 December 2017: HK$3,762.7 million) and had no bank or other borrowings. The Group generally financed its daily operations with internal resources.

## Foreign exchange risk

The Group has assets and liabilities denominated in currencies other than its functional currency and that are subject to fluctuation in foreign exchange amounts in the different currencies. The Group is exposed to currency risk arising from various currency exposures mainly to the extent of its bank balances in US dollar. Management of the Group monitors the foreign exchange exposure and will hedge significant foreign currency exposure should the need arise. During the First Half of 2018, the Group did not engage in the use of any financial instruments for hedging purposes, and there was no hedging instrument outstanding as at 30 June 2018.

## Material acquisitions and disposals of subsidiaries and associates

The Group did not have any material acquisitions or disposals of subsidiaries and associates during the Period except those set out in note 13.

## Charge on assets

At the end of the Period, the Group did not have any charges on assets, other than security deposits of HK$30 million (2017: HK$30 million) for bank overdraft facilities and bank deposit of HK$78.5 million (2017: HK$78.1 million) as collateral for performance linked note, a financial product, issued by the Group.

## Commitments

As at 30 June 2018, rental payments for office premises under non-cancellable operating leases amounted to HK$54.4 million (31 December 2017: HK$24.5 million).

As at 30 June 2018, the Group has a total of HK$1.1 million (31 December 2017: HK$0.6 million) intangible asset and leasehold improvement capital commitment contracted but not provided for and US$113.8 million other capital commitment (31 December 2017: US$127 million) related to third party managed funds with US$44.5 million (31 December 2017: US$37 million) having been contributed.

As at 30 June 2018, the Group has a capital commitment to a joint venture for an amount of US$20 million of which US$2.7 million has been contributed.

As disclosed in the announcement of the Company dated 4 February 2016, Yunfeng Financial Markets Limited ("YFM") (formerly known as Reorient Financial Markets Limited), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Giant Investment Co., Ltd., and Jiangsu YuWell Technology Development Co., Ltd. ("Jiangsu Limited") on that day. As disclosed in the circular of the Company dated 29 April 2016, the joint venture agreement was superseded and replaced by the amended and restated joint venture agreement entered among YFM, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu Limited on 13 April 2016. Upon establishment of the joint venture after obtaining all necessary approval as defined and disclosed in the circular, YFM is committed to contribute RMB1,290,000,000 of the registered capital of the joint venture.

As disclosed in the announcement of the Company dated 17 August 2017, the Company and the other Asian investors and MassMutual International LLC, entered into the Share Purchase Agreement pursuant to which the Company has conditionally agreed to acquire 60% of the issued share capital of MassMutual which is located in Hong Kong. The portion of the consideration payable by the Company is HK$7,860 million of which HK$5,200 million will be satisfied by the issue of an aggregate of 800,000,000 shares of the Company at the issue price of HK$6.50 per share representing approximately 24.82% of the issued shares of the Company as enlarged by the issue of the shares.

## Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2018 and 31 December 2017.

## Staffing and remuneration

As at 30 June 2018, the Group employed 235 (31 December 2017: 240) full-time employees mainly located in Hong Kong and the People's Republic of China and stringently abided by the relevant labour laws and regulations. To foster a motivated and skilled working team, the Group provides on-the-job training and competitive remuneration packages including salaries and discretionary bonuses for employees. During the Period, the Group also granted share awards to provide incentives to the employees as set out in note 27.

The remuneration policy and package, including the share options and share awards (if any), of the Group's employees are maintained at market level and are reviewed annually by the management. There have been no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 31 December 2017.

## Events after reporting period

Details of events after reporting period are set out in Note 34 to the condensed consolidated interim financial report.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2018, the interests and short positions of each director of Yunfeng Financial Group Limited (the "Company") (the "Director") and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, or known to the Company, were as follows:

**Long positions in the ordinary shares of the Company ("Shares") and the underlying Shares:**

| | | Number of Shares held | |
|---|---|---|---|
| **Name of Director** | **Capacity/Nature of interests** | **Long position** | **Percentage of shareholding** |
| Mr. Yu Feng *(Note 1)* | Held by controlled corporation/Corporate interest | 1,342,976,000 | 55.42% |
| Mr. Ko Chun Shun, Johnson *(Note 2)* | Held by controlled corporation/Corporate interest | 159,180,726 | 6.57% |
| Ms. Li Ting | Beneficial owner/Beneficial interest | 18,550,000 | 0.77% |

*Notes:*

(1) Mr. Yu Feng, chairman of the Group and non-executive Director, was interested in 1,342,976,000 Shares through Jade Passion Limited ("Jade Passion"), a company which is owned as to 73.21% of its issued share capital by Key Imagination Limited ("Key Imagination"). 91% of the issued share capital of Key Imagination is owned by Yunfeng Financial Holdings Limited ("YFHL"), the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu Feng.

(2) Mr. Ko Chun Shun, Johnson, a non-executive Director, was interested in 159,180,726 Shares through Gainhigh Holdings Limited ("Gainhigh"). 100% of the issued share capital of Gainhigh was held by Insula Holdings Limited, a company wholly-owned by Mr. Ko Chun Shun, Johnson.

**Long positions in the shares and the underlying shares of associated corporations:**

| | | | Number of Shares held in Associated Corporation | |
|---|---|---|---|---|
| **Name of Associated Corporation** | **Name of Director** | **Capacity/ Nature of Interests** | **Long position** | **Percentage of shareholding** |
| Yunfeng Financial Holdings Limited | Mr. Yu Feng | Beneficial owner/Beneficial interest | 94 | 70.15% |
| Key Imagination Limited | Mr. Yu Feng *(Note 1)* | Held by controlled corporation/Corporate interest | 9,100 | 91% |
| | Mr. Huang Xin *(Note 2)* | Held by controlled corporation/Corporate interest | 900 | 9% |
| Jade Passion Limited | Mr. Yu Feng *(Note 1)* | Held by controlled corporation/Corporate interest | 7,321 | 73.21% |

*Notes:*

(1) Mr. Yu Feng, chairman of the Group and non-executive Director, was interested in 9,100 shares, representing 91% of equity interest in Key Imagination through YFHL, the substantial shareholder of the Company. Mr. Yu Feng was also interested in 7,321 shares, representing 73.21% of equity interest in Jade Passion through Key Imagination. Both Key Imagination and Jade Passion are substantial shareholders of the Company.

(2) Mr. Huang Xin, an executive Director, is the sole shareholder of Perfect Merit Limited which owns 900 shares, representing 9% of equity interest in Key Imagination.

Save as disclosed above, as at 30 June 2018, none of the Directors and chief executives of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

## LONG-TERM INCENTIVE SCHEMES

The Company has adopted the share option scheme and share award schemes to recognise the contributions of certain employees and help to retain them for the Group's operations and further development.

**Share Option Scheme**

A share option scheme (the "Share Option Scheme") was adopted by the Company on 21 July 2011 with a useful life of ten years from the date of adoption. Summary of the Share Option Scheme is set out in the 2017 annual report.

During the six months ended 30 June 2018, no share options had been granted and as at 30 June 2018, no share options were outstanding.

**Share Award Schemes**

The Board had approved the adoption of two share award schemes respectively on 30 October 2014 (the "2014 Share Award Scheme") and on 12 December 2016 (the "2016 Share Award Scheme").

The maximum number of shares that can be issued or purchased under the 2016 Share Award Scheme and the 2014 Share Award Scheme is 10% of the Shares in issue from time to time (i.e. 242,332,639 Shares, representing 10% of total issued Shares as at the date of this announcement).

**2014 Share Award Scheme**

Since the date of adoption of 2014 Share Award Scheme (i.e. 30 October 2014) (the "2014 Adoption Date") and up to the date of this announcement, a total of 9,330,239 Shares have been awarded under the 2014 Share Award Scheme, representing about 2.09% of the total number of Shares in issue as at the 2014 Adoption Date and about 0.39% of the total issued Shares as at the date of this announcement.

During the six months ended 30 June 2018, no Shares had been granted under the 2014 Share Award Scheme and as at 30 June 2018, 26,667 Shares were held by the trustee under the 2014 Share Award Scheme.

**2016 Share Award Scheme**

Since the date of adoption of 2016 Share Award Scheme (i.e. 12 December 2016) (the "2016 Adoption Date") and up to the date of this announcement, 9,330,239 Shares have been awarded pursuant to the 2014 Share Award Scheme while 43,040,000 Shares have been awarded pursuant to the 2016 Share Award Scheme, representing in aggregate about 2.18% of the total number of Shares in issue as at the 2016 Adoption Date and about 2.16% of the total issued Shares as at the date of this announcement.

During the six months ended 30 June 2018, 22,850,000 Shares had been awarded under the 2016 Share Award Scheme. Among these shares, a total of 18,550,000 Shares were awarded to Ms. Li Ting, being the executive Director and chief executive officer of the Company, and the Shares had been fully vested as at 30 June 2018. As at 30 June 2018, 15,395,000 Shares were held by the trustee under the 2016 Share Award Scheme. Details of movements in the number of shares awarded under the 2016 Share Award Scheme are disclosed in Note 27(ii).

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in this announcement, at no time during the six months ended 30 June 2018 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of the shares or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2018, the Company had been notified of the following substantial shareholders' and other persons' interests, being 5% or more of the Company's issued shares that are recorded in the register under Section 336 of the SFO.

| Name of Substantial Shareholder | Capacity/ Nature of interests | Number of Shares held Long position | Percentage of shareholding |
|---|---|---|---|
| Mr. Yu Feng *(Note 1)* | Held by controlled corporation/Corporate interest | 1,342,976,000 | 55.42% |
| Yunfeng Financial Holdings Limited *(Note 1)* | Held by controlled corporation/Corporate interest | 1,342,976,000 | 55.42% |
| Key Imagination Limited *(Note 1)* | Held by controlled corporation/Corporate interest | 1,342,976,000 | 55.42% |
| Jade Passion Limited *(Note 1)* | Beneficial owner/Beneficial interest | 1,342,976,000 | 55.42% |
| Massachusetts Mutual Life Insurance Company *(Note 2)* | Held by controlled corporation/Corporate interest | 800,000,000 | 33.01% |
| MassMutual International LLC *(Note 2)* | Beneficial owner/Beneficial interest | 800,000,000 | 33.01% |
| Ms. Lian Yi *(Note 3)* | Held by controlled corporation/Corporate interest | 167,872,000 | 6.93% |
| Clear Expert Limited *(Note 3)* | Held by controlled corporation/Corporate interest | 167,872,000 | 6.93% |
| Violet Passion Holdings Limited *(Note 3)* | Beneficial owner/Beneficial interest | 167,872,000 | 6.93% |
| Mr. Ko Chun Shun, Johnson *(Note 4)* | Held by controlled corporation/Corporate interest | 159,180,726 | 6.57% |
| Insula Holdings Limited *(Note 4)* | Held by controlled corporation/Corporate interest | 159,180,726 | 6.57% |
| Gainhigh Holdings Limited *(Note 4)* | Beneficial owner/Beneficial interest | 159,180,726 | 6.57% |

*Notes:*

(1) Mr. Yu Feng, chairman of the Group and a non-executive Director was interested in 1,342,976,000 Shares through Jade Passion, a company which is owned as to 73.21% of its issued share capital by Key Imagination. 91% of the issued share capital of Key Imagination is owned by YFHL, the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu Feng.

(2) MassMutual International LLC was interested in 800,000,000 shares, being the consideration shares to be allotted and issued to MassMutual International LLC upon completion of the Acquisition (refer to the circular of the Company dated 21 December 2017 for the definition). Massachusetts Mutual Life Insurance Company is the sole member of MassMutual International LLC.

(3) Ms. Lian Yi was interested in 167,872,000 Shares through Violet Passion Holdings Limited, a wholly-owned subsidiary of Clear Expert Limited, which in turn is a company wholly-owned by Ms. Lian Yi.

(4) Mr. Ko Chun Shun, Johnson, a non-executive Director, was interested in 159,180,726 Shares through Gainhigh. 100% of the issued share capital of Gainhigh was held by Insula Holdings Limited, a company wholly-owned by Mr. Ko Chun Shun, Johnson.

Save as disclosed above, as at 30 June 2018, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under divisions 2 and 3 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, other than acting as an agent for clients of the Group and purchase of a total of 19,952,000 Shares on the market as well as from independent third parties by trustee under the 2016 Share Award Scheme, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## CORPORATE GOVERNANCE

During the six months ended 30 June 2018, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code"), as set out in Appendix 14 to the Listing Rules, except for certain deviations which are summarised below:

(a) Code Provision A.4.1

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this provision because the non-executive Directors and independent non-executive Directors do not currently have specific terms of appointment. However, the articles of association of the Company states that one-third of the Directors for the time being or, if the number is not a multiple of three, then, the number nearest to but not less than one-third, shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years at each annual general meeting, and offer themselves for re-election. As such, the Board considers that sufficient measures have been put in place to ensure the Company's corporate governance practice in this aspect provides sufficient protection for the interests of shareholders to a standard commensurate with that of the code.

(b) Code Provision C.2.5

Internal audit is regarded as the third line of defence in the Group's risk management and internal control systems and therefore the importance of such is highly regarded. Currently, there is no dedicated personnel for the internal audit function, internal reviews are carried out in lieu of internal audit jointly by various control functions in line with internal policies and procedures that have been formulated and established. Internal reviews are conducted quite frequently, details of which are disclosed in the section headed "Risk Management and Internal Control" of the corporate governance report included in the 2017 annual report. The Group also relies on any reports from the external audit to management and the Audit Committee in relation to any detected significant deficiencies in the Group's internal control system.

**CODE OF CONDUCT FOR SECURITIES TRANSACTIONS**

The Company has adopted the code of conduct regarding director's securities transactions with terms no less exacting than the required standard set out in the Model Code. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standards as stated in the Model Code throughout the six months ended 30 June 2018.

**AUDIT COMMITTEE**

The audit committee of the Company is chaired by Mr. Chu Chung Yue, Howard, with members of Mr. Lin Lijun and Mr. Qi Daqing. The audit committee of the Company has adopted the terms of reference which are in line with the CG Code.

This unaudited condensed consolidated interim financial results of the Group for the six months ended 30 June 2018 have been reviewed by the audit committee of the Company.

**CHANGES OF DIRECTORS' INFORMATION**

The change of directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. Ko Chun Shun, Johnson was appointed as an executive director of Branding China Group Limited (stock code: 00863), a company listed on the Stock Exchange, on 16 April 2018.

Mr. Qi Daqing resigned as an independent non-executive director of Honghua Group Limited (stock code: 00196), a company listed on the Stock Exchange, on 1 January 2018.

Mr. Chu Chung Yue Howard was appointed as an independent non-executive director of SHIS Limited (stock code: 01647), a company listed on the Stock Exchange, on 30 June 2018.

# Condensed consolidated income statement for the six months ended 30 June 2018

*(Expressed in Hong Kong dollars)*

| | Note | Six months ended 30 June<br>***2018***<br>**(Unaudited)**<br>**$'000** | <br>*2017*<br>(Unaudited)<br>$'000 |
|---|---|---|---|
| **Revenue** | 4 | **15,492** | 9,457 |
| Other operating income and gains | 5 | **77,458** | 32,366 |
| Disposal gains of available-for-sale financial assets | | **-** | 869 |
| Net loss on financial assets and financial liabilities at fair value through profit or loss | 6 | **(26,755)** | (82,588) |
| Staff costs | | **(193,677)** | (122,093) |
| Depreciation and amortisation | | **(10,631)** | (8,134) |
| Other operating expenses | | **(39,945)** | (62,014) |
| | | **(178,058)** | (232,137) |
| Finance costs | 7 | **(6,649)** | (3,574) |
| Net (provision)/reversal for impairment loss | 7 | **(602)** | 1 |
| **Loss before taxation** | 7 | **(185,309)** | (235,710) |
| Income tax | 8 | **(970)** | (989) |
| **Loss for the period** | | **(186,279)** | (236,699) |
| **Loss for the period attributable to:** | | | |
| – Equity shareholders of the Company | | **(186,279)** | (236,554) |
| – Non-controlling interests | | **-** | (145) |
| | | **(186,279)** | (236,699) |
| **Loss per share attributable to equity shareholders of the Company** | | | |
| Basic and diluted (HK cents) | 9 | **(7.8)** | (9.8) |

The accompanying notes form an integral part of these condensed consolidated financial statements.

# Condensed consolidated statement of comprehensive income for the six months ended 30 June 2018

*(Expressed in Hong Kong dollars)*

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2018*** | *2017* |
| | **(Unaudited)** | (Unaudited) |
| | **$'000** | $'000 |
| **Loss for the period** | **(186,279)** | (236,699) |
| **Other comprehensive income for the period** | | |
| Item that will not be reclassified subsequently to profit or loss | | |
| Equity investment at fair value through other comprehensive income-net movement in fair value reserve (non- recycling) | **(2,968)** | - |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation of results of foreign operations | **(959)** | 802 |
| Available-for-sale financial assets: Change in fair value recognised during the period (note) | **-** | 14,333 |
| Available-for-sale financial assets: Reclassification adjustment for amounts transferred to profit of loss | **-** | (869) |
| **Total comprehensive income for the period** | **(190,206)** | (222,433) |
| **Total comprehensive income for the period attributable to:** | | |
| – Equity shareholders of the Company | **(190,206)** | (222,323) |
| – Non-controlling interests | **-** | (110) |
| | **(190,206)** | (222,433) |

Note: This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 3

The accompanying notes form an integral part of these condensed consolidated financial statements.

# Condensed consolidated statement of financial position at 30 June 2018
*(Expressed in Hong Kong dollars)*

| | *Note* | ***At 30 June 2018* (Unaudited) $'000** | *At 31 December 2017* (Audited) $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property and equipment | 12 | **13,255** | 17,035 |
| Goodwill and other intangible assets | 12 | **31,861** | 36,110 |
| Other non-current assets | 14 | **11,119** | 9,160 |
| Available-for-sale financial assets | 15 | **-** | 565,507 |
| Financial asset at fair value through other comprehensive income | 16 | **74,017** | - |
| Financial assets at fair value through profit or loss | 17 | **622,195** | - |
| Interest in an associate | 18 | **59,255** | - |
| Deferred tax asset | | **698** | - |
| **Total non-current assets** | | **812,400** | 627,812 |
| **Current assets** | | | |
| Available-for-sale financial assets | 15 | **-** | 326,691 |
| Financial assets at fair value through profit or loss | 17 | **445,411** | 5,936 |
| Note receivable | | **78,466** | - |
| Amount due from a joint venture | | **2,073** | - |
| Accounts receivable and accrued income | 19 | **33,570** | 74,238 |
| Other receivables, deposits and prepayments | 20 | **62,603** | 65,652 |
| Bank balance - trust and segregated accounts | 21 | **373,376** | 340,029 |
| Fixed bank deposits with original maturity over 3 months | 21 | **520,042** | 1,580,313 |
| Cash and cash equivalents | 21 | **2,662,435** | 2,182,374 |
| **Total current assets** | | **4,177,976** | 4,575,233 |
| **Current liabilities** | | | |
| Accounts payable | 22 | **387,119** | 452,575 |
| Accrued expenses and other payables | 23 | **68,776** | 101,890 |
| Financial liabilities at fair value through profit or loss | 24 | **79,177** | 78,063 |
| Obligation under finance lease | 25 | **7,722** | 7,694 |
| Current taxation | | **43,909** | 44,259 |
| **Total current liabilities** | | **586,703** | 684,481 |
| **Net current assets** | | **3,591,273** | **3,890,752** |

# Condensed consolidated statement of financial position at 30 June 2018 (continued)
*(Expressed in Hong Kong dollars)*

| | *Note* | ***At 30 June 2018*** **(Unaudited) $'000** | *At 31 December 2017* (Audited) $'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 24 | **444,839** | 363,677 |
| Obligation under finance lease | 25 | **11,188** | 15,378 |
| Deferred tax liabilities | | **177** | 177 |
| **Total non-current liabilities** | | **456,204** | 379,232 |
| **NET ASSETS** | | **3,947,469** | 4,139,332 |
| **EQUITY** | | | |
| Share capital | 26 | **4,629,094** | 4,629,094 |
| Other reserves | | **(681,625)** | (489,762) |
| | | **3,947,469** | 4,139,332 |
| Non-controlling interests | | **-** | - |
| **TOTAL EQUITY** | | **3,947,469** | 4,139,332 |

The accompanying notes form an integral part of these condensed consolidated financial statements.

# Condensed consolidated statement of changes in equity for the six months ended 30 June 2018

*(Expressed in Hong Kong dollars)*

| | *Attributable to equity shareholders of the Company* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* $'000 | *Shares held by share award scheme* $'000 | *Share-based payment reserve* $'000 | *Asset revaluation reserve* $'000 | *Fair value Reserve (recycling)* $'000 | *Fair value Reserve (non-recycling)* $'000 | *Exchange reserve* $'000 | *Statutory and capital reserve* $'000 | *accumulated loss* $'000 | *Sub-total* $'000 | *Non-controlling interests* $'000 | *Total* $'000 |
| **Balance at 1 January 2017** | 4,499,548 | (97) | 70 | 2,650 | (2,141) | - | (648) | 219 | (56,585) | 4,443,016 | 1,107 | 4,444,123 |
| **Changes in equity for the six months ended 30 June 2017:** | | | | | | | | | | | | |
| Share issued under share award scheme | 129,546 | (129,546) | - | - | - | - | - | - | - | - | - | - |
| Equity settled share-based transactions | - | - | 43,953 | - | - | - | - | - | - | 43,953 | - | 43,953 |
| Shares vested and cancelled under share award scheme | - | 24,353 | (26,039) | - | - | - | - | - | 1,686 | - | - | - |
| Loss for the period | - | - | - | - | - | - | - | - | (236,554) | (236,554) | (145) | (236,699) |
| Other comprehensive income for the period | - | - | - | - | 13,464 | - | 767 | - | - | 14,231 | 35 | 14,266 |
| Appropriation to statutory and capital reserve | - | - | - | - | - | - | - | 871 | (871) | - | - | - |
| **Balance at 30 June 2017 and 1 July 2017** | 4,629,094 | (105,290) | 17,984 | 2,650 | 11,323 | - | 119 | 1,090 | (292,324) | 4,264,646 | 997 | 4,265,643 |
| **Changes in equity for the six months ended 31 December 2017:** | | | | | | | | | | | | |
| Share repurchased under share award scheme | - | (260) | - | - | - | - | - | - | - | (260) | - | (260) |
| Equity settled share-based transactions | - | - | 12,759 | - | - | - | - | - | - | 12,759 | - | 12,759 |
| Loss for the period | - | - | - | - | - | - | - | - | (142,500) | (142,500) | (107) | (142,607) |
| Other comprehensive income for the period | - | - | - | - | 2,995 | - | 1,497 | - | - | 4,492 | 22 | 4,514 |
| Disposal of a subsidiary | - | - | - | - | - | - | 195 | - | - | 195 | (912) | (717) |
| Appropriation to statutory and capital reserve | - | - | - | - | - | - | - | 356 | (356) | - | - | - |
| **Balance at 31 December 2017** | 4,629,094 | (105,550) | 30,743 | 2,650 | 14,318 | - | 1,811 | 1,446 | (435,180) | 4,139,332 | - | 4,139,332 |
| First adoption of HKFRS 9 (note 3) | **-** | **-** | **-** | **-** | **(14,318)** | **(684)** | **-** | **-** | **11,921** | **(3,081)** | **-** | **(3,081)** |
| **Adjusted balance at 1 January 2018** | **4,629,094** | **(105,550)** | **30,743** | **2,650** | **-** | **(684)** | **1,811** | **1,446** | **(423,259)** | **4,136,251** | **-** | **4,136,251** |
| **Changes in equity for the six months ended 30 June 2018:** | | | | | | | | | | | | |
| Share repurchased under share award scheme | **-** | **(110,209)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(110,209)** | **-** | **(110,209)** |
| Equity settled share-based transactions | **-** | **-** | **111,633** | **-** | **-** | **-** | **-** | **-** | **-** | **111,633** | **-** | **111,633** |
| Shares vested and cancelled under share award scheme | **-** | **132,529** | **(121,031)** | **-** | **-** | **-** | **-** | **-** | **(11,498)** | **-** | **-** | **-** |
| Loss for the period | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(186,279)** | **(186,279)** | **-** | **(186,279)** |
| Other comprehensive income for the period | **-** | **-** | **-** | **-** | **-** | **(2,968)** | **(959)** | **-** | **-** | **(3,927)** | **-** | **(3,927)** |
| Appropriation to statutory and capital reserve | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7** | **(7)** | **-** | **-** | **-** |
| **Balance at 30 June 2018** | **4,629,094** | **(83,230)** | **21,345** | **2,650** | **-** | **(3,652)** | **852** | **1,453** | **(621,043)** | **3,947,469** | **-** | **3,947,469** |

The accompanying notes form an integral part of these condensed consolidated financial statements.

# Condensed consolidated statement of cash flows for the six months ended 30 June 2018

*(Expressed in Hong Kong dollars)*

| | *Note* | ***Six months ended 30 June*** | |
|---|---|---|---|
| | | ***2018*** | *2017* |
| | | **(Unaudited)** | (Unaudited) |
| | | **$'000** | $'000 |
| Net proceeds from acquisition and disposal of financial assets at fair value through profit or loss | | **2,612** | 122,797 |
| Increase in loan receivables | | **-** | (77,805) |
| Increase in third-party interests in consolidated funds | | **53,705** | 23,155 |
| Other cash flows arising from operating activities | | **(213,676)** | (142,034) |
| **Net cash used in operating activities** | | **(157,359)** | (73,887) |
| **Investing activities** | | | |
| Fixed deposits placed with banks | | **1,058,850** | (1,247,738) |
| Proceed from disposal of financial assets at fair value through profit or loss/available-for-sale investments (Note) | | **224,008** | 40,865 |
| Purchase of financial assets at fair value through profit or loss/available-for-sale investments (Note) | | **(484,745)** | (667,306) |
| Proceed from disposal of a subsidiary | | **-** | 800 |
| Purchase of note investment | | **(156,932)** | - |
| Proceed from redemption of note investment | | **78,466** | - |
| Other cash flows arising from investing activities | | **9,032** | 18,396 |
| **Net cash generated from/(used in) investing activities** | | **728,679** | (1,854,983) |

Note: This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of available for sale investments has been reclassified to financial asset at fair value through profit or loss. The related cashflow activities of the related financial assets are considered as investing activities.

# Condensed consolidated statement of cash flows for the six months ended 30 June 2018 (continued)

*(Expressed in Hong Kong dollars)*

| | Note | ***Six months ended 30 June*** ***2018*** **(Unaudited)** **$'000** | *2017* (Unaudited) $'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Repurchase of shares held under share award scheme | | **(110,209)** | - |
| Proceeds from issue of preference shares by a subsidiary | | **25,769** | 120,265 |
| Other cash flows arising from financing activities | | **(4,472)** | (498) |
| **Net cash (used in)/generated from financing activities** | | **(88,912)** | 119,767 |
| **Net increase/(decrease) in cash and cash equivalents** | | **482,408** | (1,809,103) |
| **Cash and cash equivalents at 1 January** | | **2,182,374** | 3,640,494 |
| **Effect of foreign exchange rate changes** | | **(2,347)** | 560 |
| **Cash and cash equivalents at 30 June** | 21 | **2,662,435** | 1,831,951 |

The accompanying notes form an integral part of these condensed consolidated financial statements.

# Notes to the condensed consolidated interim financial results

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 1 General information

Yunfeng Financial Group Limited is a limited liability company incorporated in Hong Kong, the shares of which are listed on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial results for the period ended 30 June 2018 comprises the Company and its subsidiaries (collectively the "Group") and the Group's interest in an associate and a joint venture.

The condensed consolidated interim financial results are unaudited, but have been reviewed by the Company's audit committee and the Company's independent auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

## 2 Basis of preparation

### *(a) Statement of compliance*

The condensed consolidated interim financial results for the six months ended 30 June 2018 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA. The condensed consolidated interim financial results should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

### *(b) Basis of measurement*

The measurement basis used in the preparation of the condensed consolidated interim financial results is the historical cost basis except that financial assets at fair value through profit or loss are stated at their fair values.

The condensed consolidated interim financial results are presented in Hong Kong dollars ("HKD"), and all values are stated to the nearest thousand (HK$'000s), unless otherwise stated.

### *(c) Use of estimates and judgements*

The preparation of condensed consolidated interim financial results in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

## 3 Significant accounting policies

The accounting policies applied in preparing the condensed consolidated interim financial results are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2017, as disclosed in the annual report and financial statements for the year ended 31 December 2017 except for the following which are first time being applied for the period:

Joint venture

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

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

When an investment in a joint venture is held by, or is held indirectly through, a group entity that is a venture capital organisation and similar entities, the Group may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with HKFRS 9 Financial instruments.

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company with the following amendments considered relevant to the Group:

– Amendments to HKAS 9, Financial instruments

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9. The Group has not applied any other new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed below.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and also the Group’s financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

The following table shows the original measurement categories for each class of the Group’s financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

| | | *Impact on initial application of HKFRS9* | | |
|---|---|---|---|---|
| | *At 31 December 2017* | *Reclassification* | *Remeasurement* | *At 1 January 2018* |
| | $'000 | $'000 | $'000 | $'000 |
| **Financial assets carried at amortised cost** | | | | |
| Current | | | | |
| Other receivables | 58,718 | - | (1,143) | 57,575 |
| Bank balance- trust and segregated account | 340,029 | - | (37) | 339,992 |
| Fixed bank deposit with original maturity over 3 months | 1,580,313 | - | (1,813) | 1,578,500 |
| Cash and cash equivalents | 2,182,374 | - | (697) | 2,181,677 |
| **Financial assets measured at FVOCI (non-recycling) ("FVOCI")** | | | | |
| Non-current | | | | |
| – perpetual capital (note) | - | 76,989 | - | 76,989 |
| **Financial assets carried at FVPL ("FVPL")** | | | | |
| Fund investment | | | | |
| – current | - | 326,691 | - | 326,691 |
| – non-current | - | 295,797 | - | 295,797 |
| Non-current credit link obligation notes | - | 192,721 | - | 192,721 |
| Financial assets classified as available-for-sales investment under HKAS 39 | | | | |
| – current | 326,691 | (326,691) | - | - |
| – non-current | 565,507 | (565,507) | - | - |
| **Deferred tax asset** | - | - | 609 | 609 |
| Reserves | (489,762) | - | (3,081) | (492,843) |
| Total equity: | 4,139,332 | - | (3,081) | 4,136,251 |

Note Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the group. At 1 January 2018, the group designated its investment in perpetual capital at FVOCI (non-recycling), as the investment is held for strategic purposes.

The following table summarises the impact of transition to HKFRS 9 on accumulated loss and reserves and the related tax impact at 1 January 2018.

Accumulated loss

| | $'000 |
|---|---|
| Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL | 15,002 |
| Recognition of additional expected credit losses on financial assets measured at amortised cost | (3,690) |
| Deferred tax | 609 |
| Net decrease in accumulated loss at 1 January 2018 | 11,921 |

Fair value reserve (recycling)

| | $'000 |
|---|---|
| Transferred to retained earnings relating to financial assets now measured at FVPL | (15,002) |
| Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI | 684 |
| Net decrease in fair value reserve (recycling) at 1 January 2018 | (14,318) |

Fair value reserve (non-recycling)

| | $'000 |
|---|---|
| Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and decrease in fair value reserve (non-recycling) | (684) |

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

Opening balance adjustment

Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

– contract assets as defined in HKFRS 15;

– debt securities measured at FVOCI (recycling);

– financial guarantee contracts issued; and

– loan commitments issued, which are not measured at FVPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk. In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realizing security (if any is held); or (ii) the financial asset is 90 days past due. The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition: failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the group has recognised additional ECLs amounting to HK$3,690,000, which decreased retained earnings by HK$3,081,000 and increased gross deferred tax assets by HK$609,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with

HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

| | $'000 |
|---|---|
| Loss allowance at 31 December 2017 under HKAS39 | 34,613 |
| Additional credit loss recognised at 1 January 2018 on: | |
| – Other receivable | 1,143 |
| – Bank balance trust and segregate account | 37 |
| – Fixed bank deposit with original maturity over 3 months | 1,813 |
| – Cash and cash equivalent | 697 |
| Loss allowance at 1 January 2018 | 38,303 |

## 4 Revenue

The principal activities of the Group are wealth management, securities broking, employee stock ownership plan administration, corporate finance advisory and investment research, insurance brokerage and principal investment.

Revenue represents the gross amount recognised during the period. An analysis of the Group's revenue for the period is as follows:

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2018*** | *2017* |
| | **$'000** | $'000 |
| Brokerage commission | **2,817** | 618 |
| Subscription, management and rebate fees income | **2,217** | 1,138 |
| Consultancy and advisory fees | **9,865** | 5,382 |
| Interest income from loan receivables | **-** | 2,154 |
| Interest income from clients and other service income | **593** | 165 |
| | **15,492** | 9,457 |

## 5 Other operating income and gains

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2018*** | *2017* |
| | **$'000** | $'000 |
| Bank and other interest income | **55,876** | 27,293 |
| Handling and settlement fees | **656** | 241 |
| Dividend and distribution income | **15,588** | 3,324 |
| Deemed gain from deconsolidation of a consolidated fund (note 13) | **1,538** | - |
| Deemed partial disposal gain of a consolidated fund | **1,168** | - |
| Gain on disposal of a subsidiary | **-** | 800 |
| Other income | **2,632** | 708 |
| | **77,458** | 32,366 |

## 6 Net loss on financial assets and financial liabilities at fair value through profit or loss

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2018*** | *2017* |
| | **$'000** | $'000 |
| Net unrealised gain/(loss) on financial assets at fair value through profit or loss | | |
| – Investment in unlisted funds | **58** | - |
| – Credit link obligation note | **(15,025)** | - |
| – Over the counter derivative contracts/options | **(49)** | (1,046) |
| – Equity investment listed outside Hong Kong | **(3,209)** | (15,190) |
| – Unlisted jointly controlled fund investment | **112** | - |
| | **(18,113)** | (16,236) |
| Realised gain/(loss) on financial assets at fair value through profit or loss | | |
| – Investment in unlisted funds | **(1,527)** | - |
| – Over the counter derivative contracts/options | **822** | - |
| – Unlisted option issued by a Hong Kong listed company | **-** | (5,470) |
| – Exchange traded fund and equity investment listed in Hong Kong | **(772)** | (59,253) |
| | **(1,477)** | (64,723) |
| Fair value change of financial liability at fair value through profit or loss | **(7,165)** | (1,629) |
| | **(26,755)** | (82,588) |

## 7 Loss before taxation

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

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2018*** | *2017* |
| | **\$'000** | \$'000 |
| **Finance cost** | | |
| Finance lease obligation | **221** | 401 |
| Preference share liability | **6,418** | 3,169 |
| Other interest expense | **10** | 4 |
| | **6,649** | 3,574 |
| **Net provision/(reversal) for impairment loss** | | |
| Provision/ (reversal) for: | | |
| – Other receivables | **142** | - |
| – Account receivables | **61** | (1) |
| – Bank balance - trust and segregated accounts | **29** | - |
| – Fixed bank deposits with original maturity over 3 months | **(393)** | - |
| – Cash and cash equivalents | **763** | - |
| | **602** | (1) |
| **Other items** | | |
| Auditor's remuneration | **1,224** | 930 |
| Information, data and communication expenses | **13,786** | 16,092 |
| Legal and professional fees | **8,125** | 28,113 |
| Operating lease charges in respect of properties | **14,924** | 14,151 |
| Net exchange gain | **(7,945)** | (12,605) |

## 8 Income tax

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2018*** | *2017* |
| | **\$'000** | \$'000 |
| Tax (credit)/charge for the period | | |
| Current tax expense - Hong Kong | **-** | - |
| Current tax expense - Overseas | **1,037** | 464 |
| Under-provision in respect of prior year | **22** | - |
| Deferred taxation | **(89)** | 525 |
| | **970** | 989 |

The provision for Hong Kong profits tax is calculated by applying the estimated annual effective tax rate at 16.5% (2017: 16.5%) to the six months ended 30 June 2018. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

## 9 Loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$186,279,000 (2017: HK$236,554,000) and the weighted average number of shares in issue during the six months ended 30 June 2018 of 2,391,603,714 (2017: 2,420,145,399).

There were no potential dilutive ordinary shares for the six months ended 30 June 2018 and six months ended 30 June 2017, therefore basic loss per share equals to diluted loss per share.

## 10 Dividend

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2018 (2017: nil).

## 11 Segment reporting

The operating segments have been determined based on the reports reviewed by the executive directors of the Company that are used for performance assessment and to make strategic decisions. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments.

As disclosed in the 2017 annual report, to monitor and measure the return of capital more effectively, management further decides to review the performance of wealth management division and the return of Group's capital including the capital invested in the products and funds managed by the wealth management segment separately going forward. Accordingly, comparative figures in prior interim period have been restated to conform to the current interim period's presentation.

The Group currently has four operating segments:

(i) Securities brokerage - engages in securities brokerage and provision of custodian and other services;

(ii) Wealth and asset management - provision of fund and asset management services as well as financing and investing solution for corporate clients and

(iii) Consultancy and advisory services - provision of corporate advisory, placing and underwriting advisory services to corporate clients.

(iv) Principal investment – utilize capital 1) to provide funding on developing financial products and the funds managed by wealth management team 2) to improve returns on the Group's capital and cash flow management based on treasury management model that may involve (but shall not be limited to) holding fixed income instruments, high grade equity instruments and other financial investments.

The accounting policies of the reportable segments are the same as those followed by the Group in the last annual financial statements.

Segment revenue represents the revenue generated by each operating segment from external customers. Inter-segment revenue represents inter-segment services which were transacted with reference to the normal commercial price made to third parties at the then prevailing market prices.

Segment results represent specific operating performance of the reported segments by allocating all specific and related operating and finance costs, excluding other corporate, general administrative, and financial expenses, taxation and non-operating costs. This is the measure reported to the chief operating decision maker, at the relevant times, for the purposes of resource allocation and performance assessment.

(a) Segment revenue and results

For the six months ended 30 June 2018

| | ***Securities brokerage*** **$'000** | ***Wealth and asset management*** **$'000** | ***Consultancy and advisory services*** **$'000** | ***Principal investment*** **$'000** | ***Total*** **$'000** |
|---|---|---|---|---|---|
| Revenue from external parties | **2,817** | **2,217** | **9,865** | **-** | **14,899** |
| Interest income from clients | **41** | **-** | **-** | **-** | **41** |
| Inter-segment revenue | **-** | **1,924** | **696** | **-** | **2,620** |
| Reportable segment revenue | **2,858** | **4,141** | **10,561** | **-** | **17,560** |
| Net loss on financial assets and financial liabilities at fair value through profit or loss | **-** | **(870)** | **-** | **(25,885)** | **(26,755)** |
| Allocated bank and other interest income | **49** | **362** | **-** | **34,629** | **35,040** |
| Allocated other operating income and gains | **656** | **-** | **-** | **39,105** | **39,761** |
| Allocated operating costs | **(10,386)** | **(19,360)** | **(5,339)** | **(2,677)** | **(37,762)** |
| Allocated finance cost | **(27)** | **(418)** | **-** | **(6,194)** | **(6,639)** |
| Reportable segment (loss)/profit | **(6,850)** | **(16,145)** | **5,222** | **38,978** | **21,205** |
| Elimination of inter-segment (loss)/profit | | | | | **(696)** |
| Reportable segment profit derived from Group's external customers | | | | | **20,509** |
| Unallocated revenue and other operating income and gains from external parties | | | | | **3,206** |
| Depreciation and amortisation | | | | | **(10,631)** |
| Unallocated impairment provision | | | | | **(541)** |
| Unallocated finance costs | | | | | **(10)** |
| Unallocated legal and professional expenses | | | | | **(3,823)** |
| Taxation | | | | | **(970)** |
| Other central administrative and unallocated operating costs *(Note)* | | | | | **(194,019)** |
| Loss for the period | | | | | **(186,279)** |

Note: The other central administrative and unallocated operating cost includes administrative expenses, research and development costs, staff costs and data and technology related expenses related to the Group's financial technology activities.

For the six months ended 30 June 2017 (restated)

| | ***Securities brokerage*** **$'000** | ***Wealth Management*** **$'000** | ***Consultancy and advisory services*** **$'000** | ***Principal Investment*** **$'000** | ***Total*** **$'000** |
|---|---|---|---|---|---|
| Revenue from external parties | 618 | 1,138 | 5,382 | - | 7,138 |
| Interest from client and interest from loan receivable | 19 | 2,154 | - | - | 2,173 |
| Inter-segment revenue | - | 540 | - | - | 540 |
| Reportable segment revenue | 637 | 3,832 | 5,382 | - | 9,851 |
| Net loss on financial assets at fair value through profit or loss | - | (1,047) | - | (81,541) | (82,588) |
| Allocated bank and other interest income | - | 95 | - | 27,190 | 27,285 |
| Allocated other operating income and gains | 384 | 156 | - | 4,194 | 4,734 |
| Allocated operating costs | (14,382) | (35,540) | (13,877) | (540) | (64,339) |
| Allocated finance cost | (113) | (364) | - | (3,093) | (3,570) |
| Reportable segment loss | (13,474) | (32,868) | (8,495) | (53,790) | (108,627) |
| Elimination of inter-segment (loss)/profit | | | | | - |
| Reportable segment loss derived from Group's external customers | | | | | (108,627) |
| Unallocated revenue and other operating income and gains from external parties | | | | | 1,362 |
| Depreciation and amortisation | | | | | (8,134) |
| Unallocated finance costs | | | | | (4) |
| Unallocated legal and professional expenses | | | | | (23,238) |
| Taxation | | | | | (989) |
| Other central administrative and unallocated operating costs | | | | | (97,069) |
| Loss for the period | | | | | (236,699) |

### *(b) Segment assets and liabilities*

As the assets and liabilities are regularly reviewed by the executive directors of the Company as a whole, the measure of total assets by operating segment is therefore not presented.

### *(c) Geographical segment information*

The Group's customers, operation and administration are mainly located in Hong Kong and research and development on financial technologies divisions are located in PRC.

### (d) Information about major customers

No customer account for more than 10% of the total revenue of the Group for the period ended 30 June 2018.

## 12 Property and equipment and intangible assets

***Acquisition and disposal of property and equipment***

During the six months ended 30 June 2018, the Group acquired items of property and equipment with a cost of HK$2,118,000 (2017: HK$4,559,000).

***Intangible assets***

During the six months ended 30 June 2018, the Group acquired computer software with a cost of HK$577,000 (2017: HK$20,838,000).

## 13 Disposal of a subsidiary

During the six months ended 30 June 2018, the Group entered into a strategic fund management agreement with another well-established financial institution. By sharing the operating and financing decision making power through the agreement, the Group is no longer considered as the principal of Majik Access USD Fund 2 LP. On the date of deconsolidation, the Fund had HK$13,265,000 FVPL asset, HK$3,145,000 bank and cash and HK$5,607,000 liabilities including interest of third party investors in the Fund. As a result of the deconsolidation, the Group has recorded the difference between disposed net asset attributable to the Group and the fair value on initial recognition of an investment in a joint venture as a disposal gain of HK$1,538,000. From 1 January 2018 to date of deconsolidation, the Fund contributed loss of HK$151,000 to the Group.

## 14 Other non-current assets

| | ***At 30 June 2018*** **$'000** | *At 31 December 2017* $'000 |
|---|---|---|
| Statutory deposits with exchanges and clearing house | **1,591** | 978 |
| Rental deposits | **9,528** | 8,038 |
| Other deposit for acquisition of leasehold improvement and equipment | **-** | 144 |
| Other receivables, net of provisions (note 1) | **-** | - |
| | **11,119** | 9,160 |

Note 1: For the six months period ended 30 June 2018 and 2017, there is no additional provision made or reversed to other receivable.

## 15 Available-for-sale financial assets

| | ***At 30 June 2018 $'000*** | *At 31 December 2017* $'000 |
|---|---|---|
| Current unlisted and measured at fair value | | |
| – Investment funds (note i) | **-** | 326,691 |
| Non-current unlisted and measured at fair value | | |
| – Investment funds (note i) | **-** | 295,797 |
| – Credit link obligation note (note i) | **-** | 192,721 |
| – Perpetual capital (note ii) | **-** | 76,989 |
| | **-** | 565,507 |

Note i: This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balances have been reclassified to financial assets at fair value through profit or loss as set out in note 17. Also see note 3 for further details.

Note ii: This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balances have been reclassified to financial assets at fair value through other comprehensive income as set out in note 16. Also see note 3 for further details.

## 16 Financial asset at fair value through other comprehensive income

| | **At 30 June 2018 *$'000*** | At 31 December 2017 $'000 |
|---|---|---|
| Non-current unlisted and measured at fair value, equity investment (non-recycling) | | |
| – Perpetual capital | **74,017** | - |

Fair value of the Group's financial assets at fair value through other comprehensive income financial assets is determined in the manner described in note 28. In the opinion of the directors of the Company, the asset is not expected to be realised within one year from the end of the year.

## 17 Financial assets at fair value through profit or loss

| | ***At 30 June 2018*** **$'000** | *At 31 December 2017* $'000 |
|---|---|---|
| **Designated at fair value through profit or loss** | | |
| Non-current unlisted and measured at fair value | | |
| – Investment funds (note 1) | **347,357** | - |
| – Credit link obligation note (note 1) | **255,389** | - |
| – Jointly controlled fund investment (note 2) | **19,449** | - |
| | **622,195** | - |
| Current unlisted and measured at fair value | | |
| – Trust products | **41,004** | - |
| – Investment funds | **323,489** | - |
| – Leveraged note investment | **79,988** | - |
| Equity investment listed outside Hong Kong | **-** | 3,209 |
| **Held for trading** | | |
| – Over-the-counter derivative contract | **930** | 2,727 |
| | **445,411** | 5,936 |

Note 1: the investments are held through the consolidated funds of the Group.

Note 2: On 28 February 2018, the Group has entered a strategic fund management agreement with another well-established financial institution. By sharing the operating and financing decision making power through the agreement, the Group is no longer considered to be the principal of Majik Access USD Fund 2 LP. After the deconsolidation, the Group elects to measure its investment in Majik Access USD Fund 2 LP held through a venture capital organisation, an indirect wholly owned subsidiary, at fair value through profit or loss as management measures the performance of this jointly controlled entity on a fair value basis and considered to be exempted from applying the equity method. The valuation process and fair value information for the joint venture measured at fair value through profit or loss set out in note 28. During the period, the Group has made an injection of approximately HK$20,905,000 to the joint venture.

## 18 Interest in an associate

On 20 June 2018, the Group has completed an acquisition of 16.67% equity interest in 北京慧金科技有限公司, (the "Investee") at a consideration of RMB50 million. The Group has the right to appoint one director to the board of the Investee which is comprised of 5 members. With the presence of the board representative, the Group is considered to have significant influence over the operating and financing decision of the investee.

## 19 Accounts receivable and accrued income

| | *Note* | *At 30 June 2018* $'000 | *At 31 December 2017* $'000 |
|---|---|---|---|
| Accounts receivable arising from securities brokerage | | | |
| – Cash clients | (i) | 9,612 | 61,609 |
| – Margin clients | (ii) | 1,879 | 26,120 |
| – Clearing house, brokers and dealers | (iii) | 10,075 | 10,632 |
| – Clients for subscription of new shares in IPO | (iv) | 6,203 | - |
| | | 27,769 | 98,361 |
| Accounts receivable arising from consultancy and advisory services | (v) | 5,182 | 1,720 |
| Accounts receivable arising from other business | | 966 | 560 |
| | | 33,917 | 100,641 |
| Less: allowance for doubtful debts | | (347) | (26,403) |
| | | 33,570 | 74,238 |

As of 30 June 2018, the balances of accounts receivable from consultancy and advisory services and other business with accrued fees of approximately HK$4,809,000 (2017: HK$1,455,000) for on-going advisory projects which have not been billed.

The fair value of accounts receivable approximates its carrying amount.

Notes:

(i) As of 30 June 2018, there is no past due but not impaired receivable from cash clients represented client trades which are unsettled beyond the settlement date. No impairment loss was provided for these balances as either the Group held securities collateral for those balances with fair values in excess of the past due amounts or the balances have been settled subsequently.

(ii) During the period, the Group has relaunched margin financing service after ceasing the service in 2004. The amount from margin clients in respect of margin service prior to the cession of this business in 2004, amounted to HK$26,120,000, which had been fully impaired in prior year was written off during the period.

(iii) Accounts receivable from clearing house, brokers and dealers are current. These represent pending trades arising from the business of dealing in securities, which are normally due within a few days after the trade dates.

(iv) Accounts receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balance on allotment date determined under relevant market practices or exchange rules.

(v) Accounts receivable from corporate clients represent accounts receivable arising from provision of corporate finance, consultancy and advisory services. Amount to HK$1,256,000 (2017: HK$1,550,000) of the accounts receivable are past due but not impaired. No reversal of provision for impairment loss has been made for the six months ended 30 June 2018 (2017: HK$26,000).

***(a) Ageing analysis of account receivable***

The ageing analysis of accounts receivable, net of provisions for doubtful debts, at the end of the reporting period is as follows:

| | *At 30 June 2018* $'000 | *At 31 December 2017* $'000 |
|---|---|---|
| Current | 32,314 | 72,688 |
| Less than 1 month past due | 50 | 767 |
| 1 to 3 months past due | 756 | 262 |
| More than 3 months but within 1 year past due | 450 | 521 |
| Amounts past due | 1,256 | 1,550 |
| Total accounts receivable | 33,570 | 74,238 |

***(b) Balance with related parties***

(i) At 30 June 2018, there are accounts receivable of HK$250,000 (2017: HK$60,000 where our non-executive Director, Mr. Ko Chun Shun, Johnson ("Mr. Ko") is a substantial shareholder) due from a company where Mr. Ko is a substantial shareholder and an executive director.

## 20 Other receivables, deposits and prepayments

| | ***At 30 June 2018*** | *At 31 December 2017* |
|---|---|---|
| | **$'000** | $'000 |
| Deposits | **1,097** | 251 |
| Prepayments | **7,695** | 6,683 |
| Other receivables | **55,096** | 58,718 |
| | **63,888** | 65,652 |
| Less: allowance for doubtful debts | **(1,285)** | - |
| | **62,603** | 65,652 |

The fair values of other receivables approximate their carrying amounts. On 1 January 2018, the allowance for doubtful debts is provided upon adoption of HKFRS 9 with details disclosed in note 3. During the period, an additional provision of HK$142,000 was made.

## 21 Cash and cash equivalents, fixed bank deposits with original maturity over 3 months and bank balance – trust and segregated accounts

| | Note | ***At 30 June 2018*** **$'000** | *At 31 December 2017* $'000 |
|---|---|---|---|
| Bank balance - trust and segregated accounts | | | |
| Deposit with bank | | **373,441** | 340,029 |
| Less: impairment allowance | (iv) | **(65)** | - |
| | (i) | **373,376** | 340,029 |
| Fixed bank deposits with original maturity over 3 months | | | |
| Deposit with bank | (iii) | **521,463** | 1,580,313 |
| Less: impairment allowance | (iv) | **(1,421)** | - |
| | | **520,042** | 1,580,313 |
| Cash and cash equivalent | | | |
| Deposit with bank | (ii) | **30,000** | 30,000 |
| Fixed bank deposits with original maturity less than 3 months | | **2,474,390** | 1,739,627 |
| Cash at bank and in hand | | **159,504** | 412,747 |
| Less: impairment allowance | (iv) | **(1,459)** | - |
| Cash and cash equivalent in the statement of financial position | | **2,662,435** | 2,182,374 |

Notes:

(i) The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

(ii) The Group has deposited HK$30,000,000 with a bank as security deposit for bank overdraft facilities.

(iii) As at 30 June 2018, fixed bank deposits, with original maturity over 3 months, amounted to HK$78.5 million (2017: HK$78.1 million) were deposited as collateral for fund-linked note, a financial product issued by the Group.

(iv) The expected credit loss provision is made based on assessment as disclosed in note 3. During the period, an additional provision of HK$399,000 was made.

## 22 Accounts payable

| | ***At 30 June 2018*** | *At 31 December 2017* |
|---|---|---|
| | **$'000** | $'000 |
| Accounts payable | | |
| – Cash clients | **384,585** | 400,247 |
| – Brokers and dealers | **2,534** | 52,328 |
| | **387,119** | 452,575 |

Included in accounts payable are amounts payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities, which amount to HK$371,521,000 (2017: HK$ 391,043,000).

All of the accounts payable are aged and due within one month or on demand.

***Balance with related parties***

(i) At 30 June 2018, accounts payable of HK$230,000 (2017: HK$ 230,000) are payable to Mr. Ko and HK$1,746,000 (2017: HK$ 1,746,000) are accounts payable to the related companies where Mr. Ko is a substantial shareholder on normal terms of brokerage business of the Group.

(ii) At 30 June 2018, accounts payable of HK$34,258,000 (2017: HK$18,667,000) are payable to certain key management personnel on normal terms of brokerage and wealth management business of the Group.

(iii) At 30 June 2018, accounts payable of HK$41,000 (2017: nil) is payable to a company where our executive director, Mr. Huang Xin is the director and our chairman, Mr. Yu Feng ("Mr. Yu") is the substantial shareholder on normal terms of brokerage business of the Group.

## 23 Accrued expenses and other payables

| | ***At 30 June 2018*** | *At 31 December 2017* |
|---|---|---|
| | **$'000** | $'000 |
| Accrued staff costs | **3,997** | 33,245 |
| Other payables and accruals | **64,779** | 68,645 |
| | **68,776** | 101,890 |

All accrued expenses and other payables are to be settled within one year.

## 24 Financial liabilities at fair value through profit or loss

| | ***At 30 June 2018*** **$'000** | *At 31 December 2017* $'000 |
|---|---|---|
| **Liabilities designated at fair value through profit of loss** | | |
| **Current** | | |
| Fund-linked note (note 1) | **79,177** | 78,063 |
| **Non - current** | | |
| Preference share liability (note 2) | **233,708** | 207,071 |
| Third-party interests in consolidated funds (note 3) | **211,131** | 156,606 |
| | **444,839** | 363,677 |

Note:

1 The amount represents a financial product secured by bank deposit with principal amount of US$10 million issued by the Group and the return of the product is linked to an underlying unlisted mutual fund. As the fund-linked note is due for settlement in July 2018, it is classified as current liability.

2 The total number of preference shares that can be issued under agreement is 500,000 shares for a total proceed of US$50,000,000. The subsidiary is obliged to redeem all issued preference shares in 5 years starting from the initial issuance date of the preference shares. At liquidation, after all creditors' claim is satisfied, the asset of the subsidiary should be first distributed to preference shareholders by redeeming all issued shares together with any unpaid preferred share dividends. As the preference shares are due for settlement after more than a year from 30 June 2018, it is classified as a non-current liability. During the period, US$3.3 million proceed obtained from the issue of preference shares at US$100 per share by a subsidiary of the Group with the proceed being used to fulfil capital contribution to a consolidated fund managed by the Group.

3 The third party interests in consolidated fund consist of third-party unit holders' interest in the consolidated fund which is reflected as a liability as the fund is to be dissolved and return all capital to investor in seventh or eighth anniversary of the respective final closing date of the respective funds. As the end of term of the consolidated fund is more than a year from 30 June 2018, it is considered as a non-current liability.

## 25 Obligation under finance lease

The Group had obligations under finance leases repayable as follows:

| | ***At 30 June 2018*** | | *At 31 December 2017* | |
|---|---|---|---|---|
| | ***Present value of the minimum lease payment*** | ***Total minimum lease payment*** | *Present value of the minimum lease payment* | *Total minimum lease payment* |
| | **$'000** | **$'000** | $'000 | $'000 |
| Within one year | **7,722** | **7,791** | 7,694 | 7,789 |
| After one but within 2 years | **3,837** | **4,018** | 4,438 | 4,528 |
| After 2 years but within 5 years | **7,351** | **8,076** | 10,940 | 11,951 |
| | **18,910** | **19,885** | 23,072 | 24,268 |
| Less: finance cost | | **(975)** | | (1,196) |
| **Present value lease obligation** | | **18,910** | | 23,072 |

## 26 Share capital

Movements of the Company's ordinary shares are set out below:

| | ***At 30 June 2018*** | | *At 31 December 2017* | |
|---|---|---|---|---|
| | ***Number of shares*** | ***Amount*** | *Number of shares* | *Amount* |
| | | **$'000** | | $'000 |
| **Issued and fully paid:** | | | | |
| Balance brought forward | **2,423,326,394** | **4,629,094** | 2,399,336,394 | 4,499,548 |
| Shares issued under share award scheme | **-** | **-** | 23,990,000 | 129,546 |
| Balance carried forward | **2,423,326,394** | **4,629,094** | 2,423,326,394 | 4,629,094 |

Repurchase of Company's shares under share award scheme

During the period, the Group repurchased 19,952,000 number of Company ordinary share for a total consideration approximately of HK$110,209,000 through Bank of Communications Trustee Limited for share award scheme purpose to be granted to the Group B Participant (Group B Grantees). The share repurchased is accounted for as shares held under share award scheme of the Company's reserve. The highest price paid per share repurchased is HK$6 and the lowest price paid per share repurchased is HK$5.5.

## 27 Employee share-based arrangements

(i) Share award scheme

On 17 October 2014, the board of directors approved the adoption of the share award scheme (the “2014 Share Award Scheme”). The purpose of the 2014 Share Award Scheme is to (i) encourage or facilitate the holding of shares by the selected participants; (ii) encourage and retain such individuals to work with the Company and the Group and (iii) provide additional incentive for them to achieve performance goals, and the share award scheme took effect on 30 October 2014. The awarded shares are awarded by issuing new ordinary shares. Before vesting, the awarded shares are held in a trust set up by the scheme. During the period, there is neither new issue nor outstanding share award under the 2014 Share Award Scheme.

With similar purpose of 2014 Share Award Scheme, on 12 December 2016, the board of directors approved the adoption of 2016 Share Award Scheme (the “2016 Share Award Scheme”) and the Company issue of 23,990,000 new ordinary shares of the Company to TMF Trust (HK) Limited to be granted to the Group A Participant (Group A Grantees) as disclosed in the announcement of the Company dated 24 January 2017. The share was issued at value of HK$5.4 per share.

During the Period, the Group repurchased 19,952,000 number of Company ordinary share through Bank of Communications Trustee Limited together with 48,000 shares already repurchased in 2017 for share award at a total consideration of approximately HK$110,469,000. All 20,000,000 repurchased shares were granted to the Group B Participant (Group B Grantees).

The fair value of 2016 Share Award Scheme at the date of the grant are charged to staff costs and related expenses over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to employee share-based payment reserve.

Upon vesting and transfer to the awardees, the related cost of the shares are credited to share held for share award scheme, and the related fair value of the shares are debited to share-based payment reserve.

(ii) Details of the 2016 Share Award Scheme (to Group A Grantee)

| *Date of approval by board* | *Date of award* | *Awarded sum* $'000 | *Number of shares issued* | *Number of awarded shares awarded* | *Average fair value per share* HK$ | *Vesting period* |
|---|---|---|---|---|---|---|
| 24 January 2017 | 24 January 2017 | 26,499 | 5,997,500 | 5,047,500 | 5.25 | 24 January 2017 - 4 May 2017 |
| 24 January 2017 | 24 January 2017 | 26,499 | 5,997,500 | 5,047,500 | 5.25 | 24 January 2017 - 4 May 2018 |
| 24 January 2017 | 24 January 2017 | 26,499 | 5,997,500 | 5,047,500 | 5.25 | 24 January 2017 - 4 May 2019 |
| 24 January 2017 | 24 January 2017 | 26,499 | 5,997,500 | 5,047,500 | 5.25 | 24 January 2017 - 4 May 2020 |
| 25 April 2018 | 25 April 2018 | 3,242 | - | 712,500 | 4.55 | 25 April 2018 - 4 May 2018 |
| 25 April 2018 | 25 April 2018 | 3,242 | - | 712,500 | 4.55 | 25 April 2018 - 4 May 2019 |
| 25 April 2018 | 25 April 2018 | 3,242 | - | 712,500 | 4.55 | 25 April 2018 - 4 May 2020 |
| 25 April 2018 | 25 April 2018 | 3,242 | - | 712,500 | 4.55 | 25 April 2018 - 4 May 2021 |

Details of the 2016 Share Award Scheme (to Group B Grantee)

| *Date of approval by board* | *Date of award* | *Awarded sum* $'000 | *Number of shares repurchased* | *Number of awarded shares awarded* | *Average fair value per share* HK$ | *Vesting period* |
|---|---|---|---|---|---|---|
| 26 January 2018 | 26 January 2018 | 5,786 | 950,000 | 950,000 | 6.09 | 26 January 2018 - 2 February 2018 |
| 21 May 2018 | 21 May 2018 | 94,298 | 19,050,000 | 19,050,000 | 4.95 | 21 May 2018 - 28 May 2018 |

(iii) Details of the 2016 Share Award Scheme vested, cancelled and modification of service condition to Group A Grantee.

Grant date on 24 January 2017

| ***Vesting date*** | ***Number of awarded shares awarded*** | ***Number of awarded shares vested*** | ***Number of awarded shares cancelled*** | ***Number of awarded shares forfeited*** | ***Number of awarded share remains outstanding*** |
|---|---|---|---|---|---|
| | A | B | C | D | **F=A-B-C-D** |
| 4 May 2017 | **5,047,500** | **4,510,000** | **450,000** | **-** | **87,500** |
| 4 May 2018 | **5,047,500** | **-** | **-** | **1,012,500** | **4,035,000** |
| 4 May 2019 | **5,047,500** | **-** | **-** | **1,012,500** | **4,035,000** |
| 4 May 2020 | **5,047,500** | **-** | **-** | **1,012,500** | **4,035,000** |
| As of 31 December 2017 | **20,190,000** | **4,510,000** | **450,000** | **3,037,500** | **12,192,500** |
| Movement for the period | | | | | |
| 4 May 2017 | **-** | **-** | **-** | **-** | |
| 4 May 2018 | **-** | **3,372,500** | **-** | **575,000** | |
| 4 May 2019 | **-** | **-** | **-** | **575,000** | |
| 4 May 2020 | **-** | **-** | **-** | **575,000** | |
| | **-** | **3,372,500** | **-** | **1,725,000** | |
| 4 May 2017 | **5,047,500** | **4,510,000** | **450,000** | **-** | **87,500** |
| 4 May 2018 | **5,047,500** | **3,372,500** | **-** | **1,587,500** | **87,500** |
| 4 May 2019 | **5,047,500** | **-** | **-** | **1,587,500** | **3,460,000** |
| 4 May 2020 | **5,047,500** | **-** | **-** | **1,587,500** | **3,460,000** |
| As of 30 June 2018 | **20,190,000** | **7,882,500** | **450,000** | **4,762,500** | **7,095,000** |

The awarded share remains outstanding due to service condition modification

Grant date on 25 April 2018

| ***Vesting date*** | ***Number of awarded shares awarded*** | ***Number of awarded shares vested*** | ***Number of awarded shares cancelled*** | ***Number of awarded shares forfeited*** | ***Number of awarded share remains outstanding*** |
|---|---|---|---|---|---|
| | A | B | C | D | **F=A-B-C-D** |
| 4 May 2018 | **712,500** | **712,500** | **-** | **-** | **-** |
| 4 May 2019 | **712,500** | **-** | **-** | **-** | **712,500** |
| 4 May 2020 | **712,500** | **-** | **-** | **-** | **712,500** |
| 4 May 2021 | **712,500** | **-** | **-** | **-** | **712,500** |
| As of 30 June 2018 | **2,850,000** | **712,500** | **-** | **-** | **2,137,500** |

(iv) Details of the 2016 Share Award Scheme vested, cancelled and modification of service condition to Group B Grantee

| ***Vesting date*** | ***Number of awarded shares awarded*** | ***Number of awarded shares vested*** | ***Number of awarded shares cancelled*** | ***Number of awarded shares forfeited*** | ***Number of awarded share remains outstanding*** |
|---|---|---|---|---|---|
| | A | B | C | D | **F=A-B-C-D** |
| 2 Feb 2018 | **950,000** | **950,000** | **-** | **-** | **-** |
| 28 May 2018 | **19,050,000** | **19,050,000** | **-** | **-** | **-** |
| As of 30 June 2018 | **20,000,000** | **20,000,000** | **-** | **-** | **-** |

## 28 Fair value measurement of financial instruments

### *(a) Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

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

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

– Level 3 valuations: Fair value measured using significant unobservable inputs.

The table below analyses financial instrument carried at fair value, by valuation method

| | ***Fair value measurements as at 30 June 2018 categorised into*** | | | *Fair value measurements as at 31 December 2017 categorised into* | | |
|---|---|---|---|---|---|---|
| | ***Level 1*** | ***Level 2*** | ***Level 3*** | *Level 1* | *Level 2* | *Level 3* |
| | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| **Recurring fair value measurement** | | | | | | |
| Assets/(liabilities) | | | | | | |
| Financial assets designated at fair value through profit or loss: | | | | | | |
| – Mutual fund investments | **323,489** | **-** | **-** | - | - | - |
| – Private credit funds | **-** | **-** | **347,357** | - | - | - |
| – Credit linked obligation note | **-** | **-** | **255,389** | - | - | - |
| – Listed equity | **-** | **-** | **-** | 3,209 | - | - |
| – Leveraged note investment | **-** | **-** | **79,988** | - | - | - |
| – Trust products | **-** | **-** | **41,004** | - | - | - |
| – Interest in a joint venture | **-** | **-** | **19,449** | - | - | - |
| Held for trading: | | | | | | |
| – Unlisted fund/share option | **-** | **930** | **-** | - | 2,727 | - |
| Financial asset at fair value through other comprehensive income | | | | | | |
| - Perpetual capital measured at fair value | **-** | **74,017** | **-** | - | - | - |
| Available-for-sale financial assets | | | | | | |
| Overseas investment funds | | | | | | |
| – Mutual fund investments | **-** | **-** | **-** | 326,691 | - | - |
| – Private credit funds | **-** | **-** | **-** | - | - | 293,554 |
| Credit linked obligation note | **-** | **-** | **-** | - | - | 192,721 |
| Perpetual capital measured at fair value | **-** | **-** | **-** | - | 76,989 | - |
| Financial liabilities at fair value through profit or loss | | | | | | |
| – Fund linked note | **-** | **(79,177)** | **-** | - | (78,063) | - |
| – Preference share liability | **-** | **-** | **(233,708)** | - | - | (207,071) |
| – Third-party interests in consolidated | **-** | **-** | **(211,131)** | - | - | (156,606) |
| | **323,489** | **(4,230)** | **298,348** | 329,900 | 1,653 | 122,598 |

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 except for a listed equity outside of Hong Kong with nil carrying value is transferred from level 1 to level 3 upon being delisted. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

**(b) Valuation techniques and inputs used in Level 1 and Level 2 fair value measurements**

For mutual funds, the Group determines the fair values based on the redeemable price quoted by fund manager. The Group determines the fair value of unlisted fund option based on broker's quote and the risk management team carries out independent assessment using option valuation model technique such as the Black-Scholes Option-Pricing model and appropriate assumptions including the underlying fund price for the option pricing reasonableness assessment. With reference to the quoted fair value of the unlisted fund option fund-linked note, the Group further determines the fair value of the fund-linked note. The Group determines the fair value of perpetual capital by making reference to the brokers' quote as there is over-the-counter markets for such financial instrument.

***(c) Valuation techniques and inputs used in Level 3 fair value measurements***

The Group has determined that the fair value of private debt securities investment fund and interest in a joint venture holding based on the net asset value attributable to the Group determined by the respective fund managers. If such net asset value attributable to the Group is not yet readily available, adjustments to the fair value of the funds are made based on the latest net asset value with adjustments based on subsequent contribution made and distribution received by the Group. Regarding to credit link obligation note investment, the Group has determined the fair value based on valuation model and price quote provided by the arranger of the note with ongoing monitoring of our investment committee and risk management team in conjunction with additional information compiled by portfolio manager including performance and covenant compliance information as provided by the independent trustee. For the fund-linked note, the Group determined the fair value of the note based on the principal repayment terms, underlying reference fund price and option pricing model with appropriate assumptions. Regarding to the leveraged note investment and trust products, the Group determined their fair value based on recent transaction prices of those products.

The reconciliation of financial assets and liabilities under Level 3 fair value measurements is as follows:

***Available-for-sale financial assets***

| | ***2018*** **$'000** | *2017* $'000 |
|---|---|---|
| At 1 January | **488,518** | 24,430 |
| Transferred to financial assets at fair value through profit or loss upon adoption of HKFRS 9 | **(488,518)** | - |
| Purchase | **-** | 329,147 |
| Disposal | **-** | - |
| Exchange alignment | **-** | 1,147 |
| Credited to other comprehensive income | **-** | 11,791 |
| At 30 June | **-** | 366,515 |

**Financial assets at fair value through profit or loss (excluding interest in a joint venture)**

| | ***2018*** | *2017* |
|---|---|---|
| | **$'000** | $'000 |
| At 1 January | **-** | - |
| Transferred from available-for-sale financial assets upon adoption of HKFRS 9 | **488,518** | - |
| Deconsolidation of a consolidated fund | **(13,265)** | - |
| Capital injection/purchase | **137,462** | - |
| Exchange alignment | **1,790** | - |
| Debited to income statement | **(11,759)** | - |
| At 30 June | **602,746** | - |

***Interest in a joint venture***

| | ***2018*** | *2017* |
|---|---|---|
| | **$'000** | $'000 |
| At 1 January | **-** | - |
| Recognition of a joint venture | **12,315** | - |
| Capital injection | **6,996** | - |
| Deemed gain on partial disposal | **26** | - |
| Credited to income statement | **112** | - |
| At 30 June | **19,449** | - |

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

| | ***2018*** | *2017* |
|---|---|---|
| | **$'000** | $'000 |
| At 1 January | **363,677** | - |
| Share issued/contribution received | **84,749** | 143,421 |
| Deconsolidation of a consolidated fund | **(3,489)** | - |
| Partial disposal of interest of a consolidated fund | **(1,168)** | - |
| Distribution to third party investor | **(8,262)** | - |
| Exchange alignment | **2,987** | - |
| Charged to income statement | **6,345** | 1,628 |
| At 30 June | **444,839** | 145,049 |

Information about level 3 investment

| **Unlisted available-for-sale investment** | **Valuation technique** | **Significant unobservable inputs** |
|---|---|---|
| Credit linked obligation note | Price quote | Price quote |
| Leveraged note investment/trust products | Recent transaction price | Recent transaction price |
| Private credit funds and interest in a joint venture | Net asset value | Net asset value |
| Preference share liability | Discounted cashflow | Expected distribution from underlying fund investment per annum and net asset value of underlying fund investment |
| Third-party interests in consolidated funds | Net asset value | Net asset value |

At 30 June 2018, for the fair value sensitivity analysis of level 3 investment, it is estimated that an increase/decrease of 10% in credit-linked note quoted price and in recent transaction price of leverage note investment, 5% in recent transaction price for trust products and 10% in net asset value of private fund investment by the Group, with all other variables held constant, would have increased/decreased the Group's loss after tax (and accumulated loss) as follows:

| | ***2018*** | | 2017 | |
|---|---|---|---|---|
| **Change in the relevant equity price risk variable:** | **%** | ***Effect on loss after tax and accumulated loss*** **$'000** | % | Effect on loss after tax and accumulated loss $'000 |
| Preference share liability | | | | |
| Increase | **10** | **-** | 10 | - |
| Decrease | **(10)** | **-** | (10) | - |
| Third party interest in consolidated fund | | | | |
| Increase | **Note** | **20,919** | Note | 11,138 |
| Decrease | **Note** | **(20,919)** | Note | (11,138) |
| Private funds | | | | |
| Increase | **10** | **(34,791)** | 10 | (29,580) |
| Decrease | **(10)** | **34,791** | (10) | 29,580 |
| Leverage note investment | | | | |
| Increase | **10** | **(7,999)** | - | N/A |
| Decrease | **(10)** | **7,999** | - | N/A |
| Trust products | | | | |
| Increase | **5** | **(2,050)** | - | N/A |
| Decrease | **(5)** | **2,050** | - | N/A |
| Credit linked note | | | | |
| Increase | **10** | **(25,538)** | 3 | (5,782) |
| Decrease | **(10)** | **25,538** | (3) | 5,782 |

Note: weighted average of price change impact of the underlying asset

## 29 Commitments

### *(a) Operating lease commitments*

The total future minimum lease payments under non-cancellable operating lease on office premises properties are payable as follows:

| | ***At 30 June 2018*** **$'000** | *At 31 December 2017* $'000 |
|---|---|---|
| Within one year | **21,999** | 18,801 |
| After one year but within five years | **32,431** | 5,711 |
| | **54,430** | 24,512 |

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years. None of the leases includes contingent rentals.

### *(b) Other commitments*

As at 30 June 2018, the Group has a total of HK$1.1 million (31 December 2017: HK$0.6 million) intangible asset and leasehold improvement capital commitment contracted but not provided for and US$113.8 million other capital commitment (31 December 2017: US$127 million) related to third party managed funds with US$44.5 million (31 December 2017: US$37 million) having been contributed.

As at 30 June 2018, the Group has capital commitment to a joint venture for an amount of US$20 million with US$2.7 million has been contributed.

As disclosed in the announcement of the Company dated 4 February 2016, Yunfeng Financial Markets Limited ("YFM") (formerly known as Reorient Financial Markets Limited), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Giant Investment Co., Ltd., and Jiangsu YuWell Technology Development Co., Ltd. ("Jiangsu Limited") on that day. As disclosed in the circular of the Company dated 29 April 2016, the joint venture agreement was superseded and replaced by the amended and restated joint venture agreement entered among YFM, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu Limited on 13 April 2016. Upon establishment of the joint venture after obtaining all necessary approval as defined and disclosed in the circular, YFM is committed to contribute RMB1,290,000,000 of the registered capital of the joint venture.

As disclosed in the announcement of the Company dated 17 August 2017, the Company and the other Asian investors and MassMutual International LLC, entered into the Share Purchase Agreement pursuant to which the Company has conditionally agreed to acquire 60% of the issued share capital of MassMutual Asia Limited which is located in Hong Kong. The portion of the consideration payable by the Company is HK$7,860 million of which HK$5,200 million will be satisfied by the issue of an aggregate of 800,000,000 shares of the Company at the issue price of HK$6.50 per share representing approximately 24.82% of the issued share capital of the Company as enlarged by the issue of the shares.

## 30 Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2018 and 31 December 2017.

## 31 Interests in structured entities

Interest in consolidated structure entities

The Group had consolidated certain structured entities, mainly funds related to wealth management operation. For those structured entities where the Group is involved as manager or as investor, the Group assesses the extent of controlling power according to relevant group accounting policies.

As at 30 June 2018, the net assets of consolidated fund entities amounted to HK$642 million (2017: HK$574 million) with net carrying interest held by the Group being HK$431 million (2017:HK$417 million).

Interests held by other investors in these consolidated structured entities, mainly fund entities were classified as financial liabilities at fair value through profit or loss of the consolidated statements of financial position with fair value change of financial liability at fair value through profit or loss presented in the consolidated income statements.

At period end, the Group reassessed the control of structured entities and decided whether the Group is still a principal.

Interest in unconsolidated structure entities

Among those structured entities held by the Group where the Group directly or indirectly involves as investment manager or in equivalent capacity, the Group regularly assesses and determines whether:

• the Group is acting as an agent or a principal in these investment funds;

• substantive removal rights held by other parties may remove the Group as an investment fund manager; and

• the investment interests held together with its remuneration from servicing and managing these structured entities create significant exposure to variability of returns in these investment funds

In the opinion of the directors, the variable returns that the Group to these structured entities is not significant and the Group is primarily acting as an agent. Therefore, the Group did not consolidate these structured entities.

The Group classified its investment in those unconsolidated entities as fair value through other comprehensive income investments with minimal loss exposure due to small investment amount involved.

## 32 Material related party transactions

In addition to the related party information disclosed elsewhere in the condensed consolidated interim financial results, the Group entered into the following material related party transactions.

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2018*** | *2017* |
| | **$'000** | $'000 |
| Brokerage commission (note (i)) | **152** | 70 |
| Fund management fee from a joint venture | **634** | - |
| Advisory fee income (note (ii)) | **596** | 360 |
| Interest expense (note (iii)) | **(135)** | (60) |

Note:

(i) During the period ended 30 June 2018, the Group provided brokerage services to a company where our executive Director, Mr. Huang Xin is the director and Mr. Yu is the substantial shareholder;

During the period ended 30 June 2017, the Group provided brokerage services to (i) a company where our executive Director, Mr. Huang Xin is the director and Mr. Yu is the substantial shareholder; and (ii) companies where Mr. Ko is either a substantial shareholder or a substantial shareholder and an executive director.

(ii) During the period ended 30 June 2018, the Group provided advisory services to companies where Mr. Ko is either a substantial shareholder or a substantial shareholder and an executive director.

During the period ended 30 June 2017, the Group provided advisory services to a company where Mr. Ko is a substantial shareholder.

(iii) During the period ended 30 June 2018 and 30 June 2017, the Group provided securities custodian service to and incurred interest expense for cash custodian transactions with key management personnel.

## 33 COMPARATIVE FIGURES

Certain disclosure in relation to disposal gain of available for sales investment and impairment losses in the notes to the consolidated income statements are adjusted to conform to current year presentation.

## 34 Non- adjustment events after the reporting period

During July 2018, the Group has made a US3.33 million capital contribution to the joint venture.

By Order of the Board
**Yunfeng Financial Group Limited**
**Li Ting**
*Executive Director and Chief Executive Officer*

Hong Kong, 17 August 2018

As at the date of this announcement, the Board comprises Mr. Yu Feng (who is Chairman and non-executive director), Ms. Li Ting and Mr. Huang Xin (who are executive directors), Mr. Ko Chun Shun, Johnson and Ms. Hai, Olivia Ou (who are non-executive directors), and Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard (who are independent non-executive directors).