SUNWAH KINGSWAY
新華滙富

**Sunwah Kingsway Capital Holdings Limited**
新 華 滙 富 金 融 控 股 有 限 公 司

Incorporated in Bermuda with limited liability
Stock Code: 00188

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

# Strategic Vision Sustained Growth


# Interim Report 2018/19

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

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

Use of words including "Sunwah Kingsway", "the Group", or "We" in this Annual Report refer to Sunwah Kingsway Capital Holdings Limited and its subsidiaries.

# Corporate Information

## GENERAL INFORMATION

### CHAIRMAN
Jonathan Koon Shum Choi

### EXECUTIVE DIRECTOR
Michael Koon Ming Choi *(Chief Executive Officer)*

### NON-EXECUTIVE DIRECTORS
Janice Wing Kum Kwan
Lee G. Lam

### INDEPENDENT NON-EXECUTIVE DIRECTORS
Robert Tsai To Sze
Elizabeth Law
Huanfei Guan

## LEGAL ADVISORS TO THE COMPANY

*As to Hong Kong Law:*

MinterEllison
Level 32
Wu Chung House
213 Queen's Road East

*As to Bermuda Law:*

Conyers Dill & Pearman
2901 One Exchange Square,
8 Connaught Place, Central, Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place,
88 Queensway, Hong Kong

## REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, Tower One, Lippo Centre
89 Queensway, Hong Kong

## COMPANY SECRETARY

Vincent Wai Shun Lai

## AUTHORISED REPRESENTATIVES

Michael Koon Ming Choi
Vincent Wai Shun Lai

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08, Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited

## COMPOSITION OF BOARD COMMITTEES

### AUDIT COMMITTEE
Robert Tsai To Sze *(Chairman)*
Elizabeth Law
Huanfei Guan

### NOMINATION COMMITTEE
Elizabeth Law *(Chairman)*
Jonathan Koon Shum Choi
Robert Tsai To Sze
Huanfei Guan

### COMPENSATION COMMITTEE
Elizabeth Law *(Chairman)*
Jonathan Koon Shum Choi
Robert Tsai To Sze
Huanfei Guan

### CORPORATE GOVERNANCE COMMITTEE
Lee G. Lam *(Chairman)*
Janice Wing Kum Kwan
Huanfei Guan

# Condensed Consolidated Income Statement

| | | Six months ended 31 December | |
|---|---|---|---|
| | *Notes* | **2018** | 2017 |
| | | **Unaudited** | Unaudited |
| | | **HK$'000** | HK$'000 |
| **Revenue** | | | |
| Commission and fee income | | **51,897** | 61,483 |
| Interest income | | **16,051** | 10,886 |
| Dividend income | | **958** | 1,189 |
| Rental income | | **1,956** | 2,302 |
| | *3* | **70,862** | 75,860 |
| **Net (loss)/gain on financial assets and liabilities at fair value through profit or loss** | *3* | **(37,971)** | 7,287 |
| **Other income and gains or losses** | *3* | **(2,586)** | 1,871 |
| | *3* | **30,305** | 85,018 |
| **Operating expenses** | | | |
| Commission expenses | | **(3,889)** | (5,492) |
| General and administrative expenses | | **(64,266)** | (68,704) |
| Finance costs | | **(530)** | (399) |
| Net impairment losses on financial instruments | | **(1,055)** | (339) |
| | | **(39,435)** | 10,084 |
| Fair value changes on investment properties | | **(1,605)** | 2,858 |
| Changes on non-controlling interests in consolidated investment fund | *3* | **1,499** | (736) |
| Share of (loss)/profit of associates | *3* | **(384)** | 2,810 |
| **(Loss)/profit before tax** | *4* | **(39,925)** | 15,016 |
| Income tax expenses | *5* | **(1,824)** | (2,208) |
| **(Loss)/profit for the period** | | **(41,749)** | 12,808 |
| **Attributable to:** | | | |
| Owners of the Company | | **(41,761)** | 12,602 |
| Non-controlling interests | | **12** | 206 |
| **(Loss)/profit for the period** | | **(41,749)** | 12,808 |
| **Basic (loss)/earnings per share** | *7* | **(0.61 HK cent)** | 0.23 HK cent |
| **Diluted (loss)/earnings per share** | *7* | **(0.61 HK cent)** | 0.23 HK cent |

# Condensed Consolidated Statement of Comprehensive Income

| | Six months ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **Unaudited** | Unaudited |
| | **HK$'000** | HK$'000 |
| **(Loss)/profit for the period** | **(41,749)** | 12,808 |
| **Other comprehensive income/(expense):** | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | |
| Surplus on revaluation of land and buildings held for own use (net of tax) (note 8) | **10,796** | 30,982 |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | **(440)** | 91 |
| Reclassification adjustment for foreign operation deregistered during the period | **634** | – |
| Fair value changes on available-for-sale investments | **–** | 615 |
| | **194** | 706 |
| **Other comprehensive income for the period** | **10,990** | 31,688 |
| **Total comprehensive (expense)/income for the period** | **(30,759)** | 44,496 |
| **Total comprehensive (expense)/income attributable to:** | | |
| Owners of the Company | **(30,771)** | 44,290 |
| Non-controlling interests | **12** | 206 |
| **Total comprehensive (expense)/income for the period** | **(30,759)** | 44,496 |

# Condensed Consolidated Statement of Financial Position

| | Notes | 31 December 2018 Unaudited HK$'000 | 30 June 2018 Audited HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **94,153** | 95,758 |
| Properties and equipment | *8* | **407,532** | 401,051 |
| Intangible assets | | **2,051** | 2,051 |
| Interests in associates | | **15,870** | 16,254 |
| Loans to associates | | **6,089** | 6,089 |
| Loans receivable | *11* | **22,578** | – |
| Available-for-sale investments | *9* | **–** | 55,098 |
| Other assets | | **14,081** | 14,225 |
| Financial assets at fair value through profit or loss | *10* | **36,498** | 21,743 |
| Deferred tax assets | | **8,242** | – |
| | | **607,094** | 612,269 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | *10* | **164,880** | 173,893 |
| Accounts, loans and other receivables | *11* | **383,665** | 761,024 |
| Bank balances and cash – trust accounts | *12* | **533,294** | 673,038 |
| Cash and cash equivalents | | **194,078** | 230,663 |
| | | **1,275,917** | 1,838,618 |
| **Current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | *13* | **8,589** | 3,290 |
| Net assets attributable to holders of non-controlling interests in consolidated investment fund | *14* | **17,842** | 17,183 |
| Accruals, accounts and other payables | *15* | **688,763** | 1,207,864 |
| Contracts liabilities | | **39,905** | – |
| Bank loan | *16* | **20,000** | 20,000 |
| Current taxation | | **2,474** | 2,002 |
| | | **777,573** | 1,250,339 |
| **Net current assets** | | **498,344** | 588,279 |
| **Total assets less current liabilities** | | **1,105,438** | 1,200,548 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **37,266** | 36,240 |
| **NET ASSETS** | | **1,068,172** | 1,164,308 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *17* | **69,016** | 690,163 |
| Reserves | | **998,958** | 473,959 |
| **Equity attributable to owners of the Company** | | **1,067,974** | 1,164,122 |
| **Non-controlling interests** | | **198** | 186 |
| **TOTAL EQUITY** | | **1,068,172** | 1,164,308 |

# Condensed Consolidated Statement of Changes in Equity

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 | Capital reserve on consolidation HK$'000 | Exchange reserve HK$'000 | Properties revaluation reserve HK$'000 | Investments revaluation reserve HK$'000 | (Accumulated losses)/Retained profit HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| **At 1 July 2018** | **690,163** | **353,524** | **39,800** | **63,392** | **(1,605)** | **208,386** | **1,428** | **(190,966)** | **1,164,122** | **186** | **1,164,308** |
| **Impact on adopting new accounting standards** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,428)** | **(43,244)** | **(44,672)** | **–** | **(44,672)** |
| **At 1 July 2018 (restated)** | **690,163** | **353,524** | **39,800** | **63,392** | **(1,605)** | **208,386** | **–** | **(234,210)** | **1,119,450** | **186** | **1,119,636** |
| **Loss for the period** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(41,761)** | **(41,761)** | **12** | **(41,749)** |
| **Exchange differences arising on translation of financial statements of overseas subsidiaries** | **–** | **–** | **–** | **–** | **(440)** | **–** | **–** | **–** | **(440)** | **–** | **(440)** |
| **Reclassification adjustment for foreign operation deregistered during the period** | **–** | **–** | **–** | **–** | **634** | **–** | **–** | **–** | **634** | **–** | **634** |
| **Surplus on revaluation of land and buildings held for own use** | **–** | **–** | **–** | **–** | **–** | **10,796** | **–** | **–** | **10,796** | **–** | **10,796** |
| **Total comprehensive (expense)/income for the period** | **–** | **–** | **–** | **–** | **194** | **10,796** | **–** | **(41,761)** | **(30,771)** | **12** | **(30,759)** |
| **Capital reduction (note 17)** | **(621,147)** | **–** | **–** | **–** | **–** | **–** | **–** | **621,147** | **–** | **–** | **–** |
| **2018 final dividend payable (note 6)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(20,705)** | **(20,705)** | **–** | **(20,705)** |
| **At 31 December 2018** | **69,016** | **353,524** | **39,800** | **63,392** | **(1,411)** | **219,182** | **–** | **324,471** | **1,067,974** | **198** | **1,068,172** |
| At 1 July 2017 | 552,130 | 352,909 | 39,800 | 63,392 | (1,300) | 154,569 | – | (186,521) | 974,979 | 126 | 975,105 |
| Profit for the period | – | – | – | – | – | – | – | 12,602 | 12,602 | 206 | 12,808 |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | – | – | – | – | 91 | – | – | – | 91 | – | 91 |
| Surplus on revaluation of land and buildings held for own use | – | – | – | – | – | 30,982 | – | – | 30,982 | – | 30,982 |
| Fair value changes on available-for-sale investments | – | – | – | – | – | – | 615 | – | 615 | – | 615 |
| Total comprehensive income for the period | – | – | – | – | 91 | 30,982 | 615 | 12,602 | 44,290 | 206 | 44,496 |
| 2017 final dividend paid (note 6) | – | – | – | – | – | – | – | (13,803) | (13,803) | – | (13,803) |
| At 31 December 2017 | 552,130 | 352,909 | 39,800 | 63,392 | (1,209) | 185,551 | 615 | (187,722) | 1,005,466 | 332 | 1,005,798 |

# Condensed Consolidated Statement of Cash Flows

| | Six months ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **Unaudited** | Unaudited |
| | **HK$'000** | HK$'000 |
| **Operating activities** | | |
| Operating cash flows before changes in working capital | **(48,916)** | 4,120 |
| Decrease/(increase) in financial assets at fair value through profit or loss | **37,696** | (22,843) |
| Decrease/(increase) in accounts, loans and other receivables | **344,767** | (30,884) |
| Decrease in bank balances and cash – trust accounts | **139,764** | 360,890 |
| Decrease in accruals, accounts and other payables | **(539,803)** | (316,803) |
| Decrease in contracts liabilities | **(4,945)** | – |
| Increase/(decrease) in financial liabilities at fair value through profit or loss | **5,299** | (1,441) |
| Other operating cash flows | **5,604** | (1,788) |
| Cash used in operations | **(60,534)** | (8,749) |
| Interest received | **16,841** | 12,227 |
| Dividend received | **270** | 1,657 |
| Interest paid | **(532)** | (400) |
| Profit tax paid | **(877)** | (188) |
| Net cash (used in)/generated from operating activities | **(44,832)** | 4,547 |
| **Investing activities** | | |
| Payment for purchase of properties and equipment | **(112)** | (695) |
| Purchase of financial asset at fair value through profit or loss | **(5,460)** | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | **11,661** | – |
| Net cash generated from/(used in) investing activities | **6,089** | (695) |
| **Financing activities** | | |
| Dividends paid to owners of the Company | **–** | (13,803) |
| Proceeds from bank loans | **–** | 330,000 |
| Repayment of bank loans | **–** | (330,000) |
| Net investments by the holders of non-controlling interests in consolidated fund | **2,158** | – |
| Net cash generated from/(used in) from financing activities | **2,158** | (13,803) |
| **Net decrease in cash and cash equivalents** | **(36,585)** | (9,951) |
| **Cash and cash equivalents at 1 July 2018/2017** | **230,663** | 179,840 |
| **Cash and cash equivalents at 31 December 2018/2017** | **194,078** | 169,889 |
| Represented by: | | |
| Bank balances and cash | **194,078** | 169,889 |

# Notes to Condensed Consolidated Financial Statements

## 1 Basis of preparation

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

## 2 Significant accounting policies

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 31 December 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2018.

### Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amended HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparing of the Group's unaudited condensed consolidated financial statements.

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Except for below, the application of the amendments to HKFRSs in current period has had no material effect on the Group's financial performance and positions for the current period and prior years and/or disclosures set out in these unaudited condensed consolidated financial statements.

# Notes to Condensed Consolidated Financial Statements

## 2 Significant accounting policies (Continued)

### 2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 9 FINANCIAL INSTRUMENTS

In the current period, the Group has applied HKFRS 9 Financial Instruments ("HKFRS 9") and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets, loan commitments, lease receivables, financial guarantee contracts and contract assets (if any) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 July 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. The difference between carrying amounts as at 30 June 2018 and the carrying amounts as at 1 July 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39").

#### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9

*Classification and measurement of financial assets*

Accounts receivable arising from contracts with customers are initially measured in accordance with HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15").

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39. Such measurement basis depends on the Group's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

– it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI").

# 2 Significant accounting policies (Continued)

## 2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

*Classification and measurement of financial assets (Continued)*

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in the fair value of an equity investment (that is not held for trading and is not contingent consideration of an acquirer in a business combination) in other comprehensive income ("OCI"), with only dividend income generally recognised in profit or loss.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

**Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net (loss)/gain on financial assets and liabilities at fair value through profit or loss" line items in the income statement.

The management of the Company reviewed and assessed the Group's financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.1.2.

*Impairment under expected credit loss ("ECL") model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts, loans and other receivables, cash and cash equivalents, bank balances and cash – trust accounts, lease receivables, loan commitments, financial guarantee contracts and contract assets (if any)). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

# 2 Significant accounting policies (Continued)

## 2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

*Impairment under expected credit loss ("ECL") model (Continued)*

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are made based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable, lease receivables and contract assets (if any) that result from transactions within the scope of HKFRS 15 and the ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix for debtors having similar credit ratings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition where the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

**Significant increase in credit risk**

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread;

# 2 Significant accounting policies (Continued)

## 2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

*Impairment under expected credit loss ("ECL") model (Continued)*

**Significant increase in credit risk (Continued)**

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

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

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise. The Group considers that default has occurred when the instrument is more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

**Write-off policy**

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

# 2 Significant accounting policies (Continued)

## 2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

*Impairment under expected credit loss ("ECL") model (Continued)*

**Measurement and recognition of ECL**

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default are based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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 amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts, loans and other receivables where the corresponding adjustment is recognised through a loss allowance account and presented under "net impairment losses on financial instruments".

As at 1 July 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and lease receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.1.2.

*Classification and measurement of financial liabilities*

For financial liabilities at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the own credit risk of that liability is recognised in OCI, and such amount is not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

# 2 Significant accounting policies (Continued)

## 2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

### 2.1.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 July 2018.

| | *Notes* | Cash and cash equivalents HK$'000 | Bank balances and cash – trust accounts HK$'000 | Financial assets at FVTPL HK$'000 | Accounts, loans and other receivables HK$'000 | Other assets HK$'000 | Available-for-sale investments HK$'000 | Investment revaluation reserve HK$'000 | Accumulated losses HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Closing balance at 30 June 2018 – HKAS 39** | | 230,663 | 673,038 | 195,636 | 761,024 | 14,225 | 55,098 | 1,428 | (190,966) |
| **Effect arising from initial application of HKFRS 9:** | | | | | | | | | |
| **Reclassification** | | | | | | | | | |
| From available-for-sale | *(a)* | – | – | 55,098 | – | – | (55,098) | (1,428) | 1,428 |
| **Remeasurement** | | | | | | | | | |
| Impairment under ECL model | *(b)* | (40) | (69) | – | (1,587) | (15) | – | – | (1,711) |
| **Opening balance at 1 July 2018** | | 230,623 | 672,969 | 250,734 | 759,437 | 14,210 | – | – | (191,249) |

# 2 Significant accounting policies (Continued)

## 2.1 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

### 2.1.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

*Notes:*

(a) From available-for-sale investments to FVTPL

At the date of initial application of HKFRS 9, the Group's unlisted fund investments of HK$20,928,000 were mandatorily reclassified from available-for-sale investments to financial assets at FVTPL since the cash flows do not represent solely payments of principal and interest on the principal amount outstanding; the Group's unlisted partnership investments and unlisted equity investments of HK$34,170,000 were reclassified from available-for-sale investments to financial assets at FVTPL since the management did not opt to designate the financial assets to FVTOCI. The net fair value gains of HK$1 million relating to those investments previously carried at fair value were transferred from investment revaluation reserve to accumulated losses.

(b) Impairment under ECL model

Such amount represents the impairment under ECL model upon application of HKFRS 9 as detailed in 2.1.1.

Loss allowances for financial assets that do not result from transactions within the scope of HKFRS 15, are measured on 12m ECL basis if there has been no significant increase in credit risk since initial recognition, except for accounts receivable and loans receivable which are measured on lifetime ECL basis as for those credit risk had increased significantly since initial recognition.

As at 1 July 2018, additional credit allowances of HK$1,711,000 have been recognised against the accumulated losses. The additional loss allowance is charged against the respective asset.

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) as at 30 June 2018 to the new impairment allowance measured with HKFRS 9 (under ECL model) at 1 July 2018:

| | Impairment allowance under HKAS 39 HK$'000 | Impairment allowance under re-measurement HK$'000 | Impairment allowance under HKFRS 9 HK$'000 |
|---|---|---|---|
| Accounts, loans and other receivable | 534 | 1,587 | 2,121 |
| Cash and cash equivalents | – | 40 | 40 |
| Bank balances and cash-trust accounts | – | 69 | 69 |
| Other assets | – | 15 | 15 |
| Total | 534 | 1,711 | 2,245 |

## 2 Significant accounting policies (Continued)

### 2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations.

The Group recognises revenue from the following major sources:

– Commission income on securities dealing and broking, futures and options dealing and broking;

– Commission income on underwriting and placing;

– Corporate finance advisory, asset management, loan arrangement, secretarial and other service fees;

– Interest income from financial assets (under HKFRS 9 as detailed previously);

– Dividend income (under HKFRS 9 as detailed previously); and

– Rental income arising on investment properties.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 July 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 July 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

#### 2.2.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS15 introduces a 5-step approach when recognising revenue:

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

# 2 Significant accounting policies (Continued)

## 2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

### 2.2.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due. A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Under HKFRS 15, the Group assessed that the performance obligation for corporate finance advisory fee is fulfilled when all the relevant duties of a sponsor as stated in the contract are completed. As at 1 July 2018, any incomplete corporate finance advisory contracts with revenue recognised to profit or loss in prior years by the Group under HKAS 18 were reclassified to other accounts payable with a corresponding adjustment to its opening accumulated losses.

# 2 Significant accounting policies (Continued)

## 2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

### 2.2.2 Summary of effects arising from initial application of HKFRS 15

The following table summarises the impact of transition to HKFRS 15 on accumulated losses at 1 July 2018.

| | **Impact of adopting HKFRS 15 at 1 July 2018** HK$'000 |
|---|---|
| **Accumulated losses** | |
| Adjustment on accounts receivable | 7,125 |
| Adjustment on contracts liabilities | 44,850 |
| Tax effects | (9,013) |
| Impact at 1 July 2018 | 42,962 |

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 July 2018. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 30 June 2018 HK$'000 | Reclassification HK$'000 | Remeasurement HK$'000 | Carrying amounts under HKFRS 15 at 1 July 2018* HK$'000 |
|---|---|---|---|---|
| **Non-current Assets** | | | | |
| Deferred tax assets | – | – | 9,013 | 9,013 |
| **Current Assets** | | | | |
| Accounts, loans and other receivables | 761,024 | (7,125) | – | 753,899 |
| **Capital and Reserves** | | | | |
| Reserves | (473,959) | 51,975 | (9,013) | (430,997) |
| **Current Liabilities** | | | | |
| Accounts payable | – | (44,850) | – | (44,850) |

* The amounts in this column are before the adjustments from the application of HKFRS 9.

## 2 Significant accounting policies (Continued)

### 2.2 IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION ON HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

#### 2.2.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 31 December 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

**Impact on the condensed consolidated statement of financial position**

| | As reported HK$'000 | Adjustments HK$'000 | Amounts without application of HKFRS 15 HK$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Deferred tax assets | 8,242 | (8,242) | – |
| **Current Assets** | | | |
| Accounts, loans and other receivables | 383,665 | 7,395 | 391,060 |
| **Capital and Reserves** | | | |
| Reserves | (998,958) | (39,058) | (1,038,016) |
| **Current Liabilities** | | | |
| Contracts liabilities | (39,905) | 39,905 | – |

**Impact on the condensed consolidated statement of profit and loss and other comprehensive income**

| | As reported HK$'000 | Adjustments HK$'000 | Amounts without application of HKFRS 15 HK$'000 |
|---|---|---|---|
| Commission and fee income | 51,897 | (4,675) | 47,222 |
| Loss before tax | (39,925) | (4,675) | (44,600) |
| Income tax expense | (1,824) | 771 | (1,053) |
| Loss for the period | (41,749) | (3,904) | (45,653) |
| Total comprehensive expense for the period | (30,759) | (3,904) | (34,663) |

Note: Under HKAS 18, the Group recognised corporate finance advisory fee when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when such services being rendered. Upon application of HKFRS 15, the Group assessed that the performance obligation for corporate finance advisory fee is fulfilled when all the relevant duties of a sponsor as stated in the contract are completed. As at 1 July 2018, any incomplete corporate finance advisory contracts with payment received and revenue recognised to profit or loss in prior years by the Group under HKAS 18 (not recognised under HKFRS 15) were reclassified to other accounts payable with a corresponding adjustment to its opening accumulated losses, any incomplete corporate finance advisory contracts with payment not yet received and revenue recognised to profit or loss in prior years by the Group under HKAS 18 (not recognised under HKFRS 15) were adjusted in its opening accumulated losses. Deferred tax arises as a result of the opening adjustments of the accumulated losses.

## 3 Segment information

The Group has changed the name of its business segment "Brokerage" to "Brokerage and financing" to reflect the contribution from the loan business. Certain comparative figures of the segment information were reclassified to conform with the current period's presentation.

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

| | Six months ended 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Proprietary investment HK$'000 | Property investment HK$'000 | Brokerage and financing HK$'000 | Corporate finance and capital markets HK$'000 | Asset management HK$'000 | Others HK$'000 | Consolidated HK$'000 |
| Commission and fee income | – | – | 13,366 | 37,785 | 138 | 608 | 51,897 |
| Interest income | 4,553 | 157 | 11,251 | 3 | – | 87 | 16,051 |
| Other income | 958 | 1,956 | – | – | – | – | 2,914 |
| Inter-segment revenue | 11 | – | 453 | – | 1,386 | 18,613 | 20,463 |
| Segment revenue | 5,522 | 2,113 | 25,070 | 37,788 | 1,524 | 19,308 | 91,325 |
| Net loss on financial assets and liabilities at fair value through profit or loss | (37,946) | – | (25) | – | – | – | (37,971) |
| Other income and gains or losses | 2 | – | (270) | (43) | (4) | (2,271) | (2,586) |
| Eliminations | (11) | – | (453) | – | (1,386) | (18,613) | (20,463) |
| | (32,433) | 2,113 | 24,322 | 37,745 | 134 | (1,576) | 30,305 |
| Segment results | (42,799) | (1,432) | (471) | 5,418 | (832) | (924) | (41,040) |
| Share of profit/(loss) of associates | – | 72 | (456) | – | – | – | (384) |
| Changes on non-controlling interests in consolidated investment fund | 1,499 | – | – | – | – | – | 1,499 |
| Loss before tax | | | | | | | (39,925) |

| | Six months ended 31 December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Proprietary investment HK$'000 | Property investment HK$'000 | Brokerage and financing HK$'000 | Corporate finance and capital markets HK$'000 | Asset management HK$'000 | Others HK$'000 | Consolidated HK$'000 |
| Commission and fee income | – | – | 18,143 | 42,569 | 252 | 519 | 61,483 |
| Interest income | 2,627 | – | 8,249 | – | – | 10 | 10,886 |
| Other income | 1,189 | 2,302 | – | – | – | – | 3,491 |
| Inter-segment revenue | 2 | – | 857 | – | 1,095 | 15,660 | 17,614 |
| Segment revenue | 3,818 | 2,302 | 27,249 | 42,569 | 1,347 | 16,189 | 93,474 |
| Net gain on financial assets and liabilities at fair value through profit or loss | 6,344 | – | 943 | – | – | – | 7,287 |
| Other income and gains or losses | 204 | 2 | 220 | – | 2 | 1,443 | 1,871 |
| Eliminations | (2) | – | (857) | – | (1,095) | (15,660) | (17,614) |
| | 10,364 | 2,304 | 27,555 | 42,569 | 254 | 1,972 | 85,018 |
| Segment results | 1,069 | 2,989 | 14 | 8,045 | 576 | 249 | 12,942 |
| Share of profit of associates | – | – | 2,810 | – | – | – | 2,810 |
| Changes on non-controlling interests in consolidated investment fund | (736) | – | – | – | – | – | (736) |
| Profit before tax | | | | | | | 15,016 |

## 3 Segment information (Continued)

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

| | **31 December 2018 HK$'000** | 30 June 2018 HK$'000 |
|---|---|---|
| Proprietary investment | **291,928** | 298,679 |
| Property investment | **103,457** | 105,684 |
| Brokerage and financing | **982,251** | 1,525,510 |
| Corporate finance and capital markets | **20,049** | 22,153 |
| Asset management | **5,329** | 5,326 |
| Others | **479,997** | 493,535 |
| Total assets | **1,883,011** | 2,450,887 |

## 4 (Loss)/profit before tax

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

| | **Six months ended 31 December** | |
|---|---|---|
| | **2018 HK$'000** | 2017 HK$'000 |
| Net (loss)/gain on financial assets and liabilities at fair value through profit or loss | | |
| – listed equity securities | **(19,486)** | 8,196 |
| – listed debt securities | **(744)** | 2,014 |
| – listed derivatives | **4,048** | (3,128) |
| – unlisted investment loan | **1,671** | 205 |
| – unlisted investment funds | **(3,989)** | – |
| – unlisted overseas equity securities | **(19,471)** | – |
| Interest income from | | |
| – bank deposits | **2,503** | 867 |
| – margin and cash clients | **3,583** | 3,027 |
| – debt securities | **2,423** | 2,144 |
| – loans | **7,523** | 4,814 |
| – others | **19** | 34 |
| Staff costs | **(43,352)** | (46,955) |
| Operating lease charges – land and buildings | **(1,567)** | (1,569) |
| Depreciation | **(5,747)** | (4,951) |
| Interest expenses on | | |
| – unsecured bank loans wholly repayable within one month and overdrafts | **(1)** | (88) |
| – secured bank loans wholly repayable within one year | **(269)** | (278) |
| – others | **(260)** | (33) |
| Exchange (loss)/gain (net) | **(1,967)** | 1,797 |

## 5 Income tax in the condensed consolidated income statement

| | Six months ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Current tax | | |
| – Hong Kong | | |
| under provision for prior years | **–** | 988 |
| current period | **1,120** | 252 |
| – PRC | **228** | 175 |
| | **1,348** | 1,415 |
| Deferred tax | **476** | 793 |
| | **1,824** | 2,208 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the current and prior periods. No tax is payable on the profits of certain subsidiaries arising in Hong Kong for the period since the estimated assessable profits of these subsidiaries of the Group of HK$5.9 million (31 December 2017: HK$14.9 million) are wholly absorbed by tax losses brought forward. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25%.

## 6 Dividends

Dividends recognised as distributions during the period

| | Six months ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Final dividend in respect of the previous financial year, declared and payable of 0.3 HK cent per share (2017: paid of 0.25 HK cent per share) | **20,705** | 13,803 |

Subsequent to the end of the interim reporting period, at a meeting held on 13 February 2019, the directors declared an interim dividend of 0.2 HK cent per share (31 December 2017: 0.2 HK cent per share) with an aggregate amount of HK$14,029,000 (31 December 2017: HK$11,043,000) based on the number of shares in issue at 13 February 2019.

## 7 (Loss)/earnings per share

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

| | Six months ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| **(Loss)/profit** | | |
| (Loss)/profit for the purposes of basic and diluted (loss)/earnings per share (loss)/profit attributable to owners of the Company for the period) | **(41,761)** | 12,602 |
| **Number of shares** | | **restated** |
| Number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share | **6,901,631,102** | 5,531,943,234 |

The number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the period ended 31 December 2017 have been adjusted to reflect the bonus element of the open offer completed during the year ended 30 June 2018.

## 8 Properties and equipment

As at 31 December 2018, the revaluation surplus, net of the related deferred tax, of approximately HK$10,796,000 (31 December 2017: HK$30,982,000) was credited to the properties revaluation reserve. The fair value of the Group's land and buildings as at 31 December 2018 and 30 June 2018 has been arrived at on the basis of a valuation carried out on the respective date by RHL Appraisal Limited, an independent qualified professional valuer not connected with the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

## 9 Available-for-sale investments

| | Notes | 31 December 2018 HK$'000 | 30 June 2018 HK$'000 |
|---|---|---|---|
| Unlisted investments: | | | |
| – Partnership shares at cost | (a) | – | 6,170 |
| – Shares at cost | (b) | – | 28,000 |
| – Investment fund at fair value | (c) | – | 20,928 |
| | | – | 55,098 |

The summary of effects arising from initial application of HKFRS 9 in relation to available-for-sale investments as at 30 June 2018 is disclosed in Note 2.

*Notes:*

(a) The limited partnership shares are stated at cost less impairment because their fair value cannot be measured reliably as the variability in the range of reasonable fair value measurements is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

(b) The shares are stated at cost because their fair value cannot be measured reliably as the variability in the range of reasonable fair value measurements is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value. The investee engages in the development and sales of automobiles.

(c) The fair value of the investment fund is based on the net asset value of the investment fund reported to the trustee by the administrator of the investment fund.

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

| | Notes | 31 December 2018 HK$'000 | 30 June 2018 HK$'000 |
|---|---|---|---|
| Listed equity securities, at quoted price | | | |
| – in Hong Kong | | **57,630** | 81,335 |
| – outside Hong Kong | | **2,356** | 5,143 |
| Listed debt securities, at quoted price | | | |
| – in Hong Kong | *(a)* | **27,167** | 19,332 |
| – outside Hong Kong | *(a)* | **49,359** | 46,371 |
| Unlisted debt security | | **627** | 866 |
| Unlisted overseas equity securities | | **14,700** | – |
| Financial assets mandatorily classified/designated at fair value through profit or loss | | | |
| Unlisted investment loan | *(b)* | **11,754** | 21,743 |
| Unlisted investment funds | *(c)* | **37,785** | 20,846 |
| | | **201,378** | 195,636 |
| Represented by: | | | |
| Non-Current | | **36,498** | 21,743 |
| Current | | **164,880** | 173,893 |
| | | **201,378** | 195,636 |

The summary of effects arising from initial application of HKFRS 9 in relation to financial assets at fair value through profit or loss as at 30 June 2018 is disclosed in Note 2.

*Notes:*

(a) The Group held listed debt securities with fair value of HK$75,251,000 as at 31 December 2018 (30 June 2018: HK$42,067,000) which will be due in 2019 to 2027 (30 June 2018: 2018 to 2027). The Group also held listed perpetual debts with fair value of HK$1,275,000 as at 31 December 2018 (30 June 2018: HK$23,636,000).

(b) The fair value is derived from unobservable inputs, including unaudited performance of underlying investments, management fee and performance fee charged. Such fair value is determined with reference to the loan balance calculation statement provided by the borrower and the net asset value statements provided by the underlying invested fund.

(c) The fair value is based on the net asset value of underlying investments reported to the trustee by the administrator as of the end of the reporting period.

## 11 Accounts, loans and other receivables

| | Notes | 31 December 2018 HK$'000 | 30 June 2018 HK$'000 |
|---|---|---|---|
| **Accounts and loans receivables** | | | |
| Amounts due from brokers and clearing houses | *(a)* | **161,653** | 284,195 |
| Amounts due from margin clients | *(b)* | **86,705** | 68,638 |
| Amounts due from cash clients | *(c)* | **33,835** | 267,637 |
| Loans receivable | *(d)* | **118,751** | 120,108 |
| Other accounts receivable | *(e)* | **1,356** | 14,993 |
| | | **402,300** | 755,571 |
| Less: Impairment losses | | **(3,016)** | (534) |
| | | **399,284** | 755,037 |
| Less: Non-current portion | | **(22,578)** | – |
| | | **376,706** | 755,037 |
| **Prepayments, deposits and other receivables** | | **6,959** | 5,987 |
| | | **383,665** | 761,024 |

The summary of effects arising from initial application of HKFRS 9 in relation to accounts, loans and other receivables as at 30 June 2018 is disclosed in Note 2.

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

*Notes:*

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

The amount due from a broker of HK$1,718,000 (30 June 2018: HK$3,950,000) was pledged as collateral for the stock borrowing transactions.

(b) Margin clients of the brokerage division are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount to the value of securities accepted by the Group. At 31 December 2018, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK$404 million (30 June 2018: HK$270 million). The amounts due from margin clients are repayable on demand and bear interest at commercial rates.

(c) There are no credit terms granted to cash clients of the brokerage division except for financing of IPO subscriptions. They are required to settle their securities trading balances on the settlement day determined under the relevant market practices or exchange rules. A receivable of HK$18 million (30 June 2018: HK$18 million) is due from a cash client related to the net balance of a 130% short selling deposit on a suspended security listed on the Main Board of the Stock Exchange. The management of the Group considers that the amount of HK$18 million as at 31 December 2018 is expected to be settled within one year. Additional information in relation to this matter is provided in Note 23.

(d) Loans receivable comprise of fixed-rate loans receivable of HK$77 million as at 31 December 2018 (30 June 2018: HK$82 million) and factoring receivables of HK$42 million (30 June 2018: HK$38 million). The credit terms for loans granted by the Group's brokerage and financing division are set by management with reference to the financial background and the value and nature of collateral pledged by the borrowers. The loans receivable are secured by personal/corporate guarantee, properties located in Hong Kong, unlisted securities and trade receivables. The contractual maturity date of the loans receivables is normally within one year.

(e) The Group normally allows credit periods of up to 30 days to customers, except for certain creditworthy customers with long term relationships and stable repayment patterns, where the terms are extended to a longer period.

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

| | **31 December 2018 HK$'000** | 30 June 2018 HK$'000 |
|---|---|---|
| Current and within one month | **365,474** | 733,179 |
| More than one month and within three months | **12,006** | 4,178 |
| More than three months | **21,804** | 17,680 |
| | **399,284** | 755,037 |

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

The movements in the allowance for impairment losses for the Group were as follows:

| | HK$'000 |
|---|---|
| At 1 July 2017 | 8,058 |
| Impairment loss recognised | 648 |
| Amounts written off as uncollectible | (8,172) |
| At 30 June 2018 | 534 |
| Impact of adopting HKFRS 9 | 1,587 |
| At 1 July 2018 | 2,121 |
| Impairment loss recognised | 895 |
| At 31 December 2018 | 3,016 |

## 12 Bank balances and cash – trust accounts

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

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

| | **31 December 2018 HK$'000** | 30 June 2018 HK$'000 |
|---|---|---|
| Financial liabilities at fair value through profit or loss arising from short selling activities | **8,589** | 3,290 |

Balance represented the fair value of listed equity securities from short selling activities as at 31 December 2018 and 30 June 2018.

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

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

## 15 Accruals, accounts and other payables

| | 31 December 2018 HK$'000 | 30 June 2018 HK$'000 |
|---|---|---|
| **Accounts payable (on demand or within one month)** | | |
| Amounts due to brokers and clearing houses | **8,689** | 130,339 |
| Clients' accounts payable | **631,430** | 1,012,921 |
| Others | **20,892** | 4,290 |
| | **661,011** | 1,147,550 |
| Other creditors, accruals and other provisions | **27,752** | 60,314 |
| | **688,763** | 1,207,864 |

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

## 16 Bank loan

| | 31 December 2018 HK$'000 | 30 June 2018 HK$'000 |
|---|---|---|
| Secured bank loan *(Note)* | **20,000** | 20,000 |

*Note:*

The bank loan is repayable within one year (30 June 2018: two years). The term loan has a repayment on demand clause, hence, it is classified as a current liability. The loan is secured by the Group's investment property with fair value of approximately HK$62 million (30 June 2018: HK$62 million) and bear interest at 1.3% above Hong Kong Interbank Offered Rate ("HIBOR") (30 June 2018: 1.3% above HIBOR).

Some of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2018 and 30 June 2018, none of the covenants relating to the facilities drawn had been breached.

# 17 Share capital

| | | Six months ended 31 December 2018 | | Year ended 30 June 2018 | |
|---|---|---|---|---|---|
| | | **No. of shares** | **Amount** | No. of shares | Amount |
| | *Notes* | | **HK$'000** | | HK$'000 |
| **Authorised** | | **100,000,000,000** | **1,000,000** | 10,000,000,000 | 1,000,000 |
| **Issued and fully paid:** | | | | | |
| Balance brought forward | | **6,901,631,102** | **690,163** | 5,521,304,882 | 552,130 |
| Issue of shares on open offer | *(a)* | **–** | **–** | 1,380,326,220 | 138,033 |
| Share capital reduction | *(b)* | **–** | **(621,147)** | – | – |
| Balance carried forward | | **6,901,631,102** | **69,016** | 6,901,631,102 | 690,163 |

*Notes:*

(a) On 15 March 2018, the Company issued 1,380,326,220 new ordinary shares as a result of the open offer at the price of HK$0.103 per share on the basis of one offer share for every four existing shares. The net proceeds arising from the open offer was approximately HK$138.6 million. Approximately HK$75 million and HK$16 million was used for the Group's lending business in Hong Kong and the PRC respectively. Approximately HK$24 million was used for investment in fixed income products, including listed debt securities. The Group remitted HK$22 million to its Guangzhou subsidiary for the factoring business in the PRC in January 2019.

(b) On 23 November 2018, the Company completed a capital reduction. The par value of each issued share was reduced from HK$0.10 to HK$0.01 by cancelling the paid-up capital to the extent of HK$0.09 on each issued share ("Capital Reduction"). The credit arising from the Capital Reduction amounted to HK$621,147,000 and was transferred to the contributed surplus of the Company and presented under accumulated losses under condensed consolidated statement of changes in equity.

# 18 Commitments

### (A) COMMITMENTS UNDER OPERATING LEASES AS LESSEE

As at 31 December 2018 and 30 June 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and office equipment which fall due as follows:

| | **31 December 2018** | | 30 June 2018 | |
|---|---|---|---|---|
| | **Rental premises HK$'000** | **Hired equipment HK$'000** | Rental premises HK$'000 | Hired equipment HK$'000 |
| Within one year | **989** | **167** | 2,322 | 167 |
| Later than 1 year and not later than 5 years | **–** | **417** | 3 | 500 |
| | **989** | **584** | 2,325 | 667 |

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

### (B) COMMITMENTS UNDER OPERATING LEASES AS LESSOR

As at 31 December 2018 and 30 June 2018, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases in respect of office premises which fall due as follows:

| | **31 December 2018 HK$'000** | 30 June 2018 HK$'000 |
|---|---|---|
| Within one year | **4,302** | 2,160 |
| Later than 1 year and not later than 5 years | **3,251** | 720 |
| | **7,553** | 2,880 |

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

## 18 Commitments (Continued)

### (C) OTHER COMMITMENTS

| | 31 December 2018 HK$'000 | 30 June 2018 HK$'000 |
|---|---|---|
| Underwriting commitments for Initial Public Offering | **2,700** | 30,006 |
| Commitments for acquisition of unlisted equity investment | **8,000** | 11,200 |
| | **10,700** | 41,206 |

## 19 Joint venture agreement

On 1 December 2016, the Group entered into a joint venture agreement with several joint venture partners to establish a joint venture company in Chongqing, the PRC. Subject to final approvals of the China Securities Regulatory Commission ("CSRC"), it is contemplated that the joint venture company will become a full-licensed securities company principally engaged in the provision of regulated securities brokerage services, securities underwriting and sponsor services, proprietary trading, securities and asset management and any other business approved by the CSRC in the PRC. Pursuant to the joint venture agreement, the Group will make a capital contribution of RMB330 million into the joint venture company, representing a 22% equity interest in the joint venture company. The Group expects the transaction will be fully financed by the Group's internal resources and/or borrowings from financial institutions. The joint venture agreement and the transactions were approved by the Company's shareholders at special general meeting held in February 2017. The Group received an acknowledged receipt for the application from the CSRC on 28 December 2018. Although the Group has still not obtained the approval for the establishment of the joint venture company from the CSRC, the Group expects that the approval process will be completed within six months.

## 20 Related party and connected party transactions

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

| | Six months ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Brokerage commission earned on | | |
| securities, options, futures and commodities dealing | | |
| – Group's directors and their close family members | **64** | 152 |
| Consultancy and management fees earned | | |
| – a fellow subsidiary | **–** | 420 |
| – a company controlled by a Group's director | **620** | – |
| Rental income from investment property | | |
| – a company controlled by Group's directors' | | |
| close family member | **–** | 887 |
| Rental expense paid | | |
| – a company controlled by a Group's director | **–** | 216 |

## 21 Financial instruments

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, price risk, foreign exchange risk and interest rate risk.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 30 June 2018.

There has been no change in the risk management policies during the current six-month period.

## 22 Fair value measurements of financial instruments

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

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

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

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

| | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| | 31 December 2018 | 30 June 2018 | | |
| | HK$'000 | HK$'000 | | |
| Financial assets | | | | |
| Listed equity securities | **59,986** | 86,478 | Level 1 | Quoted price in an active market |
| Listed debt securities | **76,526** | 65,703 | Level 1 | Quoted price in an active market |
| Unlisted investment fund | **37,785** | 41,774 | Level 2 | Dealing price of the fund derived from the net asset value of the investment with reference to observable quoted price of underlying investment portfolio in active markets |
| Financial liabilities | | | | |
| Listed equity securities | **8,589** | 3,290 | Level 1 | Quoted price in an active market |
| Net assets attributable to holders of non-controlling interests in consolidated investment fund | **17,842** | 17,183 | Level 2 | Net asset value of underlying investments |

| | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) |
|---|---|---|---|---|---|
| | 31 December 2018 | 30 June 2018 | | | |
| | HK$'000 | HK$'000 | | | |
| Financial assets | | | | | |
| Unlisted debt security | **627** | 866 | Level 3 | Broker quotation | N/A |
| Investment loan | **11,754** | 21,743 | Level 3 | Adjusted net asset value of underlying investments | N/A |
| Unlisted equity investment | **8,000** | – | Level 3 | Income approach – discounted cash flow method | Weighted average cost of capital (WACC), 19.6%<br><br>Discount for lack of marketability, determined by reference to the study of "Median P/E Offered: Public vs. Private" published in Mergerstat Review 2017, stated at 25% |
| Unlisted equity investment | **6,700** | – | Level 3 | Net value asset | N/A |

*Note:*

A slight increase in the WACC/discount for lack of marketability used in isolation would result in a decrease in the fair value measurement of the unlisted equity investments, and vice versa.

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

There were no transfers between Levels 1, 2 and 3 in the current period. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The unlisted equity securities were classified as available-for-sale investments and stated at cost less impairment at 30 June 2018. Following the adoption of HKFRS 9, the investments reclassified as financial assets at fair value through profit or loss and measured at fair value. The fair value of the investments was measured using a valuation technique with significant unobservable inputs and hence was classified as Level 3 of the fair value hierarchy.

*Reconciliation of Level 3 fair value measurements*

| | Financial assets mandatorily classified/designated at fair value through profit or loss | |
|---|---|---|
| | **31 December 2018 HK$'000** | 30 June 2018 HK$'000 |
| Opening balance | **22,609** | – |
| Reclassified as financial assets at fair value through profit or loss at 1 July 2018 after the adoption of HKFRS 9 | **34,170** | – |
| Total (loss)/gain in profit or loss | **(18,037)** | 663 |
| Transfer into level 3 | **–** | 21,946 |
| Disposal | **(11,661)** | – |
| | **27,081** | 22,609 |

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

*Fair value measurement and valuation process*

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

## 23 Key sources of estimation uncertainty

In preparing these condensed consolidated financial statements, management is required to exercise significant judgments in the selection and application of accounting principles, including making estimates and assumptions. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In preparing the unaudited condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended 30 June 2018, except for expected credit loss allowance as detailed in note 11.

## 23 Key sources of estimation uncertainty (Continued)

The measurement of ECL under HKFRS 9 across all categories of financial assets to which ECL measurements apply requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, where the change of the factors which result in different levels of allowances, a less/further impairment loss may arise. The Group uses external credit rating reports, research reports and statistics to estimate the probability of default, the loss given default and the impact on the foward-looking information. At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

As at 31 December 2018, the management of the Group considered on whether the amount due from a cash client of HK$18 million (30 June 2018: HK$18 million) disclosed in note 11, is recoverable entirely within one year. The net amount of HK$18 million is derived from a HK$30 million receivable deposited with Central Clearing and Settlement System (the "CCASS"), which relates to 130% short selling deposit on a suspended security listed on the Main Board of the Stock Exchange (the "Security") paid on behalf of the cash client, minus a HK$12 million payable in respect to the client money deposited in the trust account. To the best of the management's knowledge, the cash client initiated legal proceedings to perfect legal title to the Security and obtained a judgment in its favour. Subsequently, a third party also initiated legal proceedings to perfect legal title to the same Security and the court found in favour of the cash client but the initial judgment was amended to grant equitable title to the cash client. The third party initiated an appeal but subsequently withdrew the case on 6 August 2018. Separately, on 9 July 2018, the Group initiated legal proceedings against the cash client for the default on the payment of HK$18 million and obtained a final judgement against the cash client for the HK$18 million plus accrued interest. In view of the current status, management believes a final judgment will be given in favour of the cash client for legal title of the Security within one year after consultation with external legal counsel. Management also believes that with the equitable title of the Security held by the cash client, the short selling position of the Security will no longer exist and CCASS will release the HK$30 million deposit. Therefore, it is expected that the net amount of HK$18 million will be fully recovered within one year.

# Management Discussion and Analysis

## THE MARKET

The Hong Kong stock market was affected by the trade war between China and the United States, the weakening of the renminbi and the capital outflows from the emerging markets. The Hang Seng Index showed an accelerating decline since the recent high at 31,513 in June 2018 and dropped to a 17-month low of 24,541 in October 2018. The index fell 13.6% in December 2018 when compared to the end of 2017. The US stock market surged to a record high of 26,828 in October 2018, supported by an influx of liquidity and strong economic fundamentals. However, the gain was erased in December 2018 due to the political and liquidity concerns. A US government shutdown had also dented market sentiment. The Dow and S&P 500 fell 5.6% and 6.2% respectively in 2018. The IPO fever has abated in the past few months because of rising interest rates and the poor performance of certain newly listed stocks. The subscription rate of the large caps listed during the period was low, in contrast to the oversubscription recorded by China Literature and ZhongAn Online which were listed in the last financial year. All these factors caused the drop in trading turnover in the second half year of calendar 2018.

The Hang Seng Index closed at 25,846 at the end of December 2018, compared with 28,955 at the end of June 2018 and 29,919 at the end of December 2017. The average monthly turnover on the Main Board and GEM Board during the six months ended 31 December 2018 ("the first half year of FY2019") was approximately HK$1,850 billion, a decrease of 11% as compared with HK$2,085 billion for the first half year of FY2018. Funds raised from IPOs on the Main Board in the first half year of FY2019 amounted to HK234 billion, as compared with HK$70 billion for the first half year of FY2018, mainly boosted by the listing of Xiaomi Corporation, China Tower Corporation Limited and Meituan Dianping, that accounted for approximately 57% of the funds raised from IPOs during that period.

## FINANCIAL HIGHLIGHTS

The Group recorded a loss after tax of HK$42 million for the first half year of FY2019, as compared to a profit after tax of HK$13 million for the first half year of FY2018. After taking into account the other comprehensive income for the period, the Group recorded a total comprehensive expense of HK$31 million for the first half year of FY2019, as compared to an income of HK$44 million for the first half year of FY2018. The Group recognised a revaluation surplus, net of tax, of HK$11 million for the first half year of FY2019, as compared with HK$31 million for the first half year of FY2018. The surplus was mainly due to the increase in value of the Hong Kong office owned by the Group.

Commission and fee income from our financial intermediary business was HK$52 million for the first half year of FY2019, as compared with HK$61 million for the first half year of FY2018. Interest income was HK$16 million for the first half year of FY2019, as compared with HK$11 million for the first half year of FY2018. Dividend and rental income from investment properties was HK$3 million for both first half year of FY2019 and FY2018. The Group recorded a net loss on financial assets and liabilities at fair value through profit or loss of HK$38 million for the first half year of FY2019, as compared with a net gain of HK$7 million for the first half year of FY2018. General and administrative expenses amounted to HK$64 million for the first half year of FY2019, decreased by HK$5 million from HK$69 million for the first half year of FY2018. Staff costs decreased by HK$4 million, which was mainly caused by the variable compensation related to the decrease in commission and fee income.

## BUSINESS DEVELOPMENT

On 1 December 2016, the Group entered into a joint venture agreement with several joint venture partners to establish a joint venture company in Chongqing, the PRC. Subject to final approvals of the China Securities Regulatory Commission ("CSRC"), it is contemplated that the joint venture company will become a full-licensed securities company principally engaged in the provision of regulated securities brokerage services, securities underwriting and sponsor services, proprietary trading, securities and asset management and any other business approved by the CSRC in the PRC. Pursuant to the joint venture agreement, the Group will make a capital contribution of RMB330 million into the joint venture company, representing a 22% equity interest in the joint venture company. The joint venture agreement and the transactions were approved by the Company's shareholders at special general meeting held in February 2017. The Group received an acknowledged receipt for the application from the CSRS on 28

December 2018. Although the Group has still not obtained the approval for the establishment of the joint venture company from the CSRC, the Group expects that the approval process will be completed within six months. If approved, the Group anticipates that the transaction will be fully financed by the Group's internal resources and/or borrowings from financial institutions. The Group may dispose of certain listed equity and debt securities and call back part of the loans receivable to fulfill the investment cost of the joint venture. The performance of the brokerage and financing and proprietary investment segments will most likely be affected. The gearing ratio of the Group will also be increased.

## BROKERAGE AND FINANCING

After the further injection of capital of HK$22 million in January 2019, the Group invested a total of US$10 million in its Guangzhou factoring subsidiary. Together with the loan portfolio in Hong Kong, the revenue contribution and the asset allocation from the financing business is significant. Management therefore changed the segment name from "Brokerage" to "Brokerage and Financing" to reflect the contribution from the loan business.

Total revenue of the division was HK$25 million for the first half year of FY2019, decreased by HK$2 million when compared with HK$27 million for the first half year of FY2018. The average daily market turnover dropped to HK$89 billion for the first half year of FY2019, as compared with HK$100 billion for the first half year of FY2018. Under the current volatile stock market, the division tightened the credit limit of its brokerage clients. This prudent approach affected the trading turnover and the brokerage commission. As a result, our brokerage commission income decreased from HK$17 million for the first half year of 2018 to HK$11 million for the first half year of FY2019.

The loan book was about HK$203 million as at 31 December 2018 as compared with HK$114 million as at 31 December 2017. Interest income from brokerage and loan financing increased significantly by 42% to HK$11 million for the first half year of FY2019, as compared with HK$8 million for the first half year of FY2018. The increase in loan book and related interest income is a result of the use of the net proceeds arising from the open offer of HK$91 million for the lending business. The management will place more efforts in the development of the factoring business, with prudent risk management strategy.

Following the adoption of the new accounting standard on financial instruments, the division provided an expected credit loss of HK$2 million by adjusting the opening accumulated losses and provided an additional HK$1 million after assessing the financial instruments at the end of December 2018.

## CORPORATE FINANCE AND CAPITAL MARKETS

Total revenue of the division was HK$38 million for the first half year of FY2019, as compared with HK$43 million for the first half year of FY2018. The division, acting as the sponsor, completed the listing of BOSA Technology Holdings Limited, Boltek Holdings Limited and Perennial Energy Holdings Limited during the period. The division also acted as compliance advisor of several listed companies during the period. Capital market remained lackluster in our target client segment and the underwriting and placement fee decreased to HK$3 million for the first half year of FY2019 from HK$7 million for the first half year of FY2018.

In accordance with the new accounting standard for "Revenue from contracts with customers", the corporate finance fee income will be recognised when the project is completed under the existing contract terms. As a result, the ongoing sponsorship projects with revenue of HK$43 million, net of deferred tax, recognised to profit or loss in prior years was reclassified to contract liabilities with a corresponding adjustment to the opening accumulated losses. The revenue adjusted from the opening accumulated losses will be recognised in profit or loss when the project is completed. There is a positive impact on the division's revenue of HK$5 million for the current period after the implementation of the new accounting standard.

## ASSET MANAGEMENT

Total revenue of the division was HK$2 million for the first half year of FY2019, as compared with HK$1 million for FY2018. The division is now approaching several private equity funds and high net worth clients to provide assets management services to generate more revenue.

## PROPRIETARY INVESTMENT

Total revenue of the division was HK$6 million for the first half year of FY2019, as compared with HK$4 million for the first half year of FY2018. After including net gain or loss on disposal of financial assets and liabilities at fair value through profit or loss, total loss was HK$32 million for the first half year of FY2019, as compared to total income of HK$10 million for the first half year of FY2018. The Hang Seng Index dropped to 25,846 as at the end of December 2018 as compared to 28,955 as at the end of June 2018, hence, the division recognised trading loss of HK$16 million on equity, debt securities and derivatives for the first half year of FY2019. Besides, a loss of HK$19 million was recognised for the unlisted investments due mainly from a decrease in enterprise fair value of the investment and the issuance of dilutive instrument. Upon the adoption of new accounting standard on financial instruments, the Group's investments in unlisted equity investments and unlisted investment fund were reclassified as financial assets at fair value through profit or loss. These investments are subsequently measured at fair value. The accumulated investment revaluation reserve of HK$1 million for the unlisted investment fund was transferred to accumulated losses. As at 31 December 2018, the carrying value of the unlisted investments, listed securities and listed debt securities was HK$64 million, HK$60 million and HK$77 million respectively (30 June 2018: HK$99 million, HK$86 million and HK$66 million). The investment portfolio received interest and dividend income of HK$3 million for the first half year of FY2019, same as the first half year of FY2018.

## PROPERTY INVESTMENTS

Total revenue of the division was HK$2 million for the first half year of FY2019, same as the first half year of FY2018. The rental income received from these properties provided stable cash inflow for the division. The investment property located in Beijing recognised a revaluation deficit of HK$2 million mainly because of the RMB depreciation during the period. Last year, the division invested in a property located in Tokyo, Japan and is currently planning to invest in a property located in Osaka, Japan with total investment cost of approximately HK$8 million.

## CAPITAL STRUCTURE

The Company completed its Open Offer with net proceeds of HK$139 million in March 2018. Approximately HK$75 million and HK$16 million was used for the Group's lending business in Hong Kong and the PRC respectively. Approximately HK$24 million was used for investment in fixed income products, including listed debt securities. The Group remitted HK$22 million to its Guangzhou subsidiary for the factoring business in the PRC in January 2019.

The Company completed a capital reduction in November 2018. The par value of each issued share was reduced from HK$0.10 to HK$0.01 by cancelling the paid-up capital to the extent of HK$0.09 on each issued share ("Capital Reduction") and the credit arising from the Capital Reduction amounted to HK$621 million was transferred to the contributed surplus of the Company and presented under accumulated losses under condensed consolidated statement of changes in equity. The capital reorganisation gives the Company greater flexibility in pricing future capital raising exercise.

## OUTLOOK

Following a very volatile and generally downward drifting calendar quarter at end of 2018, the markets sentiments turned positive at the beginning of calendar 2019. The two rounds of trade talks between the United States and China provided hope that the trade disputes may be resolved and tariffs might stay put or back to the original level. The dovish comments from the Chairman of the US Federal Reserve and a few of its members led the market to believe the interest rate hike cycles might be close to its end. The results released by some major US companies were better than the downward adjusted market expectations. Though it is not clear whether there will be a soft or hard Brexit, the market seems to be more comfortable with the possible outcomes and the pound sterling recovered significantly from the low level in Q4 2018. The capital markets improved amid these developments. Hong Kong market rose by 8% in January 2019 and if the positive outcomes expected by the market are materialised, the markets are expected to perform well in the coming months. However, since the development hinges on a number of political events, the outcome of which are difficult to predict, we have maintained our high liquidity position in order to react quickly to any unforeseen situations.

## LIQUIDITY AND FINANCIAL RESOURCES

Total assets as at the end of December 2018 were HK$1,883 million, of which approximately 68% were current in nature. Net current assets were HK$498 million, accounting for approximately 47% of the net assets of the Group as at end of December 2018. The Group had cash and cash equivalents of HK$194 million as at end of December 2018, which was mainly denominated in Hong Kong dollars.

The Group generally finances its daily operations from internal resources. Total secured borrowings of HK$20 million as at the end of December 2018 was used to finance the investment portfolio of the Group. The bank loans were denominated in Hong Kong dollars and charged at floating interest rate. The Group's gearing ratio, calculated as a percentage of total borrowings over shareholder's equity, was approximately 2% as at the end of December 2018. As at 31 December 2018, the office property and investment property with carrying value of HK$390 million and HK$62 million respectively were pledged to the banks as securities for banking facilities.

The Group had no material contingent liabilities as at the end of December 2018. The Company provided corporate guarantees of HK$309 million for banking facilities granted to its subsidiaries.

### Foreign Exchange Exposure

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

### Risk Management

The Group's business, financial conditions and results of operations may be affected by risks and uncertainties pertaining to the Group's business. The factors explained below could cause the Group's financial conditions or results of operations to differ materially from expected or historical results. Please refer to the note "Financial instruments" on page 32 for a more detailed discussion of specific risks. There may be other risks in addition to those mentioned in the Interim Report that are unknown to the Group, or which may not be material now but could be material in the future.

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

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

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

## Risk Management Policies and Procedures

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

## Employees

As at 31 December 2018, the number of full time employees of the Group was 106 (30 June 2018: 104). Remuneration and bonus are based on performance and are reviewed annually in conjunction with the annual employee performance appraisal. It also takes into consideration the results of the division to which the employee belongs and the Group as a whole. The Group provides a full induction program and in-house training courses to all staff – particularly professionals registered with relevant regulatory bodies who must meet their mandatory continued professional training requirements. A share option scheme is available to directors, employees and consultants of the Group.

## Interim Dividend

The Board of Directors has declared an interim dividend of 0.2 HK cent per ordinary share for the six months ended 31 December 2018 (six months ended 31 December 2017: 0.2 HK cent). The dividend will be payable on Wednesday, 20 March 2019 to shareholders whose names appear on the Register of Members at the close of business on Wednesday, 6 March 2019 .

## Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 4 March 2019 to Wednesday, 6 March 2019, both days inclusive, during which period no transfers of shares will be registered. To determine entitlement to the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited (at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), for registration not later than 4:30p.m. on Friday, 1 March 2019.

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

As at 31 December 2018, the interests and/or short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV the Hong Kong Securities and Futures Ordinance ("SFO")), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company were as follows:

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

| Name of director | Type of interest | Number of ordinary shares in the Company | % of total issued shares |
|---|---|---|---|
| Dr Jonathan Koon Shum Choi* | Corporate | 2,225,147,545 | 32.24% |
| Dr Jonathan Koon Shum Choi | Personal | 1,381,365,097 | 20.02% |
| Mr Michael Koon Ming Choi | Personal | 257,896,359 | 3.73% |
| Mr Michael Koon Ming Choi | Corporate | 89,376,706 | 1.30% |

* Dr Jonathan Koon Shum Choi is deemed to be interested in 2,225,147,545 ordinary shares by virtue of the SFO. Such interest in shares is also set out under the section "Substantial shareholders' interests and short positions in the shares and underlying shares of the Company" shown on page 42.

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

Save as disclosed above, as at 31 December 2018, none of the directors and chief executive had any interests or short positions in the shares of the Company and its associated corporations as defined in the SFO, and none of the directors and chief executive or any of their spouses or children under 18 years of age had been granted any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

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

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

As at 31 December 2018, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests represent long positions in the shares of the Company.

| | Name of shareholder | Country of incorporation | Number of ordinary shares in the Company: Direct interest | Number of ordinary shares in the Company: Deemed interest | % of total issued shares | Note |
|---|---|---|---|---|---|---|
| (1) | Dr Jonathan Koon Shum Choi | N/A | 1,381,365,097 | 2,225,147,545 | 52.26% | (a) |
| (2) | World Developments Limited | British Virgin Islands | 1,957,017,425 | – | 28.36% | (a) |
| (3) | Innovation Assets Limited | British Virgin Islands | – | 1,957,017,425 | 28.36% | (a) |
| (4) | Sunwah International Limited ("SIL") | Bermuda | – | 1,957,017,425 | 28.36% | (a) |
| (5) | Sun Wah Capital Limited | British Virgin Islands | 268,130,120 | 1,957,017,425 | 32.24% | (a) |
| (6) | 廣州匯垠發展投資合夥企業 | PRC | 356,400,000 | – | 5.16% | |
| (7) | Mr Michael Koon Ming Choi | N/A | 257,896,359 | 89,376,706 | 5.03% | |

*Note:*

(a) 1,957,017,425 shares represent the same interest and are therefore duplicated amongst World Developments Limited, Innovation Assets Limited, SIL, Sun Wah Capital Limited and Dr Jonathan Koon Shum Choi. World Developments Limited is a wholly owned subsidiary of Innovation Assets Limited whose entire issued share capital is beneficially owned by SIL. Sun Wah Capital Limited beneficially owns approximately 40% of the issued share capital of SIL and therefore is deemed (by virtue of the SFO) to be interested in these 1,957,017,425 shares. Dr Jonathan Koon Shum Choi, beneficially owns or has control of more than one-third of the issued share capital of SIL and Sun Wah Capital Limited and therefore is deemed (by virtue of the SFO) to be interested in these 1,957,017,425 shares. As Dr Jonathan Koon Shum Choi beneficially owns or has control of more than one-third of the issued share capital of Sun Wah Capital Limited, he is therefore deemed (by virtue of the SFO) to be interested in 268,130,120 shares directly owned by Sun Wah Capital Limited. Ms Janice Wing Kum Kwan, the spouse of Dr Choi, is deemed (by virtue of the SFO) to be interested in all beneficial and deemed interest of Dr Jonathan Koon Shum Choi.

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

## Corporate Governance Code

The Company has applied the principles and has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the six months ended 31 December 2018 except for a deviation which is summarised below:

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

## Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") on 10 November 2010. The principal terms of the Share Option Scheme are summarised in the latest annual report for the year ended 30 June 2018. The main purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are valuable to the Group.

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

## Purchase, sale or redemption of shares

During the six months ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## Securities Transactions by Directors

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

## Changes in Directors' Information

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

Mr Robert Tsai To Sze

During this period, Mr Sze resigned as independent non-executive director of China Travel International Investment Hong Kong Limited.

Dr Lee G Lam

Dr Lam was appointed as independent non-executive director of Aurum Pacific (China) Group Limited with effect from 1 January 2019.

## Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the interim report and the unaudited condensed consolidated financial statements for the six months ended 31 December 2018. Terms of reference of the Audit Committee are available on request to shareholders of the Company. The Audit Committee is also responsible for reviewing the Group's financial controls, risk management and internal control systems. The Audit Committee has begun to implement the above responsibilities, including without limitation, reviewing the Company's risk relating to strategy, operation and finance and enhancing the Group's capacity to cope with the risk associated with the business of the Group.

On behalf of the Board

**Michael Koon Ming Choi**
*Chief Executive Officer*

Hong Kong, 13 February 2019

# Independent Review Report

Deloitte. 德勤

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

### Introduction

We have reviewed the condensed consolidated financial statements of Sunwah Kingsway Capital Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 2 to 35, which comprises the condensed consolidated statement of financial position as of 31 December 2018 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

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

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

13 February 2019

# Directory of Licensed Subsidiaries and Affiliates

## LICENSED SUBSIDIARIES OF SUNWAH KINGSWAY CAPITAL HOLDINGS LIMITED

**Kingsway Financial Services Group Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

Exchange Participant of The Stock Exchange of Hong Kong

Broker Participant of Hong Kong Securities Clearing Company Limited

Exchange Participant of Hong Kong Futures Exchange

Participant of HKFE Clearing Corporation Limited

Options Trading Exchange Participant of SEHK

SEOCH Direct Clearing Participant

Lead Underwriter and Securities Broker licence for B-Shares of Shenzhen and Shanghai Stock Exchanges granted by the China Securities Regulatory Commission

B-Shares Special Seat Holder of Shenzhen Stock Exchange

B-Shares Tangible Trading Seat Holder of Shanghai Stock Exchange

B-Shares Special Clearing Participant of China Securities Depository and Clearing Corporation Limited – Shenzhen Branch

B-Shares Clearing Participant of China Securities Depository and Clearing Corporation Limited – Shanghai Branch

**Kingsway Capital Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

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

**Kingsway SW Asset Management Limited**

Licensed Corporation of the Hong Kong Securities and Futures Commission

**Kingsway SW Finance Limited**

Money Lender registered with the HKSAR Government

## AFFILIATED & OVERSEAS OFFICES

**China**

– Beijing Kingsway Advisory Limited
18/F, Block 1, Henderson Centre,
18 Jiangguomenneida,
Beijing, 100005, PRC

– Shanghai Kingsway Financial Consultancy Limited
B22, 18/F, Taiping Finance Tower,
488 Middle Yincheng Road, Pudong,
Shanghai 200120, PRC

– Shenzhen Kingsway Financial Consultancy Limited
701, Tower A, Aerospace Skyscraper,
4019 Shennan Road, Futian District, Shenzhen,
518048, PRC

SUNWAH KINGSWAY
新華滙富

Sunwah Kingsway Capital Holdings Limited
新 華 滙 富 金 融 控 股 有 限 公 司

7th Floor, Tower One, Lippo Centre,
89 Queensway, Hong Kong
Tel : (852) 2283 7000 Fax : (852) 2877 2665
Email: pr@sunwahkingsway.com

www.sunwahkingsway.com