申萬宏源香港
SHENWAN HONGYUAN

SHENWAN HONGYUAN (H.K.) LIMITED
申萬宏源(香港)有限公司

(Incorporated in Hong Kong with limited liability)(於香港註冊成立之有限公司)
(Stock Code 股份代號:218)

2018 年報
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhu Minjie *(Chairman)*
Chen Xiaosheng
Zhang Jian
Guo Chun *(Deputy Chairman)*
Qiu Yizhou *(Chief Executive Officer)*

Non-executive Director

Zhang Lei

Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

AUDIT COMMITTEE

Ng Wing Hang Patrick *(Chairman)*
Kwok Lam Kwong Larry
Chen Liqiang

REMUNERATION COMMITTEE

Kwok Lam Kwong Larry *(Chairman)*
Ng Wing Hang Patrick
Chen Liqiang

NOMINATION COMMITTEE

Zhu Minjie *(Chairman)*
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

RISK COMMITTEE

Ng Wing Hang Patrick *(Chairman)*
Guo Chun
Qiu Yizhou
Kwok Lam Kwong Larry
Chen Liqiang

COMPANY SECRETARY

Wong Che Keung Leslie

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation, Hong Kong Branch
CMB Wing Lung Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
OCBC Wing Hang Bank Limited
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

KPMG

REGISTERED OFFICE

Level 19
28 Hennessy Road
Hong Kong

SHARE REGISTRARS & TRANSFER OFFICE

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

WEBSITE

http://www.swhyhk.com

I hereby present to the shareholders the annual report of Shenwan Hongyuan (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2018.

RESULTS

For the year ended 31 December 2018, the Group recorded a profit before tax of approximately HK$102 million, representing a decrease of 13% as compared with approximately HK$116 million in 2017. Profit attributable to shareholders of approximately HK$96 million, representing a decrease of 8% as compared with approximately HK$104 million in 2017. The turnover decreased by 5% to approximately HK$520 million (2017: HK$546 million). The basic earnings per share in 2018 decreased by 8% to HK12.09 cents as compared with HK13.08 cents in 2017.

DIVIDEND

The board of directors (the "Board") of the Company has resolved to recommend the payment of a final dividend of HK2 cents (2017: HK6 cents) per ordinary share in respect of 2018, to shareholders whose names appear on the register of members of the Company on 20 May 2019. The proposed dividend will be paid on or about 3 June 2019 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

2018 MARKET REVIEW

In 2018, U.S.A. outperformed the global economy, while other economies were in a weak situation. In U.S.A., the Trump administration's tax cut plan helped to continue the economy recovery, but some data shows that the economy slightly declined as at the end of the year. Coupled with rate rises of the U.S. Federal Reserve Board, the U.S. stock market demonstrated a relatively substantial reversal and technically fell into a bear market in the fourth quarter. In Europe, Italy's budget deficit, Brexit, Angela Merkel announced her decision not to seek re-election and France's protest movement casted a shadow over the Europe economy. The global trade friction was the biggest event that has plagued the global economy in 2018 and, however, its actual impact on global economy was still not fully revealed during the year. Although some emerging market countries with both fiscal and trade deficits experienced slumps in stock, debt and exchange markets in the first half of the year, this trend has not yet spread to other emerging market countries and some of them, such as Southeast Asia, still recorded a stable growth.

In 2018, the macro-economy of Chinese Mainland showed an uptrend followed by a decline. Net export and real estate investments boosted economic growth in the first half of the year, and then subsided in the second half of the year. Under the supply-side reform for more than three years, focus has shifted from addressing overcapacity to bolstering areas of weakness and therefore the price of some industrial products showed a relatively significant recovery. Consumption was weak throughout the year while the consumer goods industry, in terms of total retail sales of consumer goods, also showed an uptrend followed by a decline. At the same time, the performance of service industry was relatively stable and became a key pillar to stable economy.

2018 MARKET REVIEW *(Cont'd)*

The performance of Hong Kong market was weak in 2018 with Hang Seng Index closed at 25,845.7 points, down by 13.6% for the whole year. The Hang Seng China Enterprises Index closed at 10,124.75 points, decreased by 13.5% annually. From the segment perspective, apart from utilities segment, all segments recorded a drop, of which, information technology, which had an excellent performance in 2017, experienced the largest decline. In view of Hong Kong market's performance in 2018, we believe that an obvious capital exodus of Chinese Mainland investors and net outflow of international capital were driven by China-U.S. trade friction, Chinese Mainland's economic slowdown and fluctuations in RMB exchange rates. Daily turnover of Hong Kong stock market dropped from over HK$100 billion at the beginning of the year to around HK$60 billion at the end of the year, in which the proportion of investment from Chinese Mainland investors to daily turnover of Hong Kong stock market decreased to approximately 4%.

In 2018, the performance of Chinese Mainland market was also weak and the SSE Composite Index decreased by more than 20% for the whole year. At the same time, foreign investments in China's stock market hit a record high with a total inflow of RMB294.2 billion from overseas to China's A-Share markets via Stock Connect throughout the year.

FUTURE PLAN & PROSPECTS

Looking from an international perspective, we expect opportunities to emerge from the global economy crisis in 2019. With gradually declining influence of tax reform bonus on the U.S. economy, if the Trump's key infrastructure plan has not been approved by Congress, the U.S. economic growth is likely to slow down. The number and magnitude of interest rate rises of the Federal Reserve is also probably less than those in 2018. European Central Bank's rate hike cycle is possible to begin in the mid of 2019, however, numerous unresolved political issues in Europe will still drag down its economic development. Some emerging markets, which suffered from U.S. Federal Reserve Board's rate hike cycle, may have positive changes in 2019, for those accepting industrial transfer, such as Southeast Asia, will maintain strong economic growth.

Looking from the Chinese Mainland's perspective, we consider that the six aspects of stability, namely employment, finance, foreign trade, foreign capital, investment and expectations, established at the meeting of the Political Bureau held in July 2018 are still the keynote of economic work throughout the year. In respect of monetary policy, it should be focused on unblocking monetary transmission routes. Proactive fiscal policies, especially the proactive central fiscal policies, will become the main driving force for the economy in 2019. Under the influence of the above, we believe that the infrastructure investments, including new infrastructure such as 5G and Internet of Things and traditional infrastructure such as railway and urban railroad, will show significant rebound in 2019. It is expected that the regulations on real estate industry will have specific adjustments in response to different regions. Throughout the year, Chinese Mainland's economy will show a growth from low to high. The expected annual GDP economic growth rate is approximately 6.4%.

FUTURE PLAN & PROSPECTS *(Cont'd)*

We remain cautiously optimistic about the Hong Kong market in 2019. The current valuation of Hong Kong market as a whole is still at a relatively low level and stock positions of global institutional investors of Chinese assets, such as Hong Kong stocks and China stocks (A-shares), are also at low levels. Proactive fiscal policies will benefit the infrastructure-related segments. Implementing policies including tax and fee reduction will also create favorable conditions for consumer sector, in particular to service industry which offers a wide range of job opportunities.

During the year, Mr. Zhuo Fumin retired as Independent Non-executive Director of the Company on 4 September 2018 due to other business engagements which require more of his dedication. On behalf of the Board and all staff of the Group, I would like to express our heartfelt and tribute to Mr. Zhuo Fumin for his contributions to the Group.

Zhu Minjie
Chairman

Hong Kong
15 February 2019

REVIEW OF OPERATIONS

For 2018, the overall business development of the Group was steady with a turnover of HK$520 million (2017: HK$546 million), representing a year-on-year decrease of 5%. Profit before tax reached HK$102 million, representing a year-on-year decrease of 13% from HK$116 million in 2017. Profit attributable to shareholders decreased by 8% from HK$104 million in 2017 to HK$96 million.

For brokerage business, due to stagnant market condition, revenue from brokerage business decreased by 9% year-on-year to HK$226 million in 2018 from HK$248 million in 2017. For corporate finance business, we successfully completed the sponsoring/lead placing agent of 1 IPO project, which was the Main Board listing of Hingtex Holdings Limited (1968). In 2018, revenue from corporate finance business decreased by 23% year-on-year to HK$76 million in 2018 from HK$99 million in 2017. The number of sponsoring/lead placing agent, underwriting participation/placement and financial advisory projects are 1, 12 and 12 respectively. Revenue from asset management business increased by 329% year-on-year to HK$40.85 million in 2018 from HK$9.53 million in 2017. Revenue from financing and loans business increased by 7% year-on-year to HK$187 million in 2018 from HK$174 million in 2017. The average margin loan balance in 2018 reached approximately HK$1.95 billion.

Brokerage business

The brokerage business of the Group focuses on the stock and futures markets in Hong Kong as well as overseas non-Hong Kong stock markets. Throughout the year, the average daily turnover of Hong Kong Stock Exchange increased from HK$88.3 billion in 2017 to HK$107.4 billion in 2018. The Group proactively introduces clients to participate in overseas stock markets and global futures markets, thus reducing our reliance on a single market. In addition to expanding overseas stock markets and global futures markets, the Group continued to actively expand the Chinese Mainland market to increase the number of new accounts opened for Hong Kong stocks. In 2018, the Group had closely cooperated with Shenwan Hongyuan Securities Co., Ltd. to vigorously explore cross-border products, invested in overseas markets through QDII, satisfying domestic clients' demands to invest overseas. In 2018, the total size of fund was approximately US$400 million, including domestic institutions and individual customers invested in overseas markets such as Hong Kong and U.S.A. using QDII channel. The absolute amount of commission income from Hong Kong securities under the brokerage business decreased from HK$168 million in 2017 to HK$151 million in 2018, representing a year-on-year decrease of 10%, with its percentage to total income from brokerage business maintained at 68% in 2017. The percentage of brokerage income other than commission income from Hong Kong securities to total income from brokerage business maintained at 32% in 2017.

REVIEW OF OPERATIONS *(Cont'd)*

Brokerage business *(Cont'd)*

For institutional brokerage business, the Group further integrated its overseas offices and sales teams for centralising its management and joint marketing, and actively expanded the comprehensive institutional business, which included share placement and RQFII products marketing. The Group has introduced the equity capital market team to actively develop block trades from institutional clients and placement business since 2015. While in 2016, the Group further introduced the debt capital market team to actively develop the bond placement business. The percentage of trading volume in Hong Kong securities of our institutional sales team to the Group was 35% in 2018.

Financing and loans business

Hang Seng Index and Hang Seng China Enterprises Index and average daily turnover fell back in 2018. In order to maintain our clients' borrowing appetite, the Group had taken timely measures to meet clients' demand for borrowings, and actively developed project loans that are linked with corporate finance business and institutional customers for the purpose of assuring the growth in interest income. In addition, the Group succeeded in negotiating with a number of banks on reducing the interest rate of funds borrowed to reduce interest expense. The average margin balance was approximately HK$1.95 billion in 2018, while overall interest income increased from HK$174 million in 2017 to HK$187 million in 2018, representing a year-on-year increase of 7%.

Corporate finance business

In 2018, the numbers of sponsoring and lead placing agent, underwriting participation placement and financial advisory projects which the Group completed in total were 1, 12 and 12 respectively. The Group successively participated in 12 underwriting placement projects, including placement of Hingtex Holdings Limited (1968), Mansion International Holdings Limited (8456), Pacific Millennium Packaging Group Corporation (1820), China Oriental Group Company Limited (581), Madison Holdings Group Limited (8057), SPT Energy Group Inc. (1251), Value Convergence Holdings Limited (821) and CNFinance Holdings Limited (CNF) as well as bonds placement of ABC International Holdings Limited, Sichuan Development Holding Co., Ltd., Chongqing Huayu Group and China Evergrande Group.

REVIEW OF OPERATIONS *(Cont'd)*

Securities research business

Our securities trading and brokerage businesses are professionally supported by a securities research team of the Group. With the support of our parent company, which is one of the leading securities companies in Chinese Mainland, the Group has become a research specialist in the Chinese Mainland securities and prepares detailed company analytical reports for client circulation. In 2018, the securities research team of the Group issued a total of over 6,000 research reports, covering macroeconomics, market strategy and different industries, providing thorough and incisive analysis for clients regarding Hong Kong stock and A Shares in China. After Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect started, the needs of research service required by our clients are further escalated.

In 2018, a total of 36 analysts either in person or invited Hong Kong listed companies to meet with our clients from Hong Kong, Asia and Europe and America and had completed 39 road shows for the whole year. We believe such visits were beneficial to the collaboration between our parent company and us and posed positive impact on the research and corporate finance businesses.

Asset management business

Shenwan Hongyuan Asset Management (Asia) Limited ("Shenwan Hongyuan Asset Management"), a subsidiary of the Group, is engaged in asset management business. Shenwan Hongyuan Asset Management fully utilised on RQFII innovative policy to vigorously conduct cross-border asset management business. The size of the total asset under management increased from approximately HK$4.364 billion at the end of 2017 to approximately HK$6.909 billion at the end of 2018. Revenue from asset management business increased by 329% year-on-year from HK$9.53 million in 2017 to HK$40.85 million in 2018.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2018, the total number of the issued ordinary shares was 796,138,689 shares (2017: 796,138,689) and total equity attributable to the ordinary equity holders was approximately HK$2.21 billion (2017: HK$2.16 billion).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2018, the Group had a cash holding of HK$621 million (2017: HK$407 million) and investments at fair value through profit or loss of HK$602 million (2017: HK$149 million). As at 31 December 2018, the Group's total unutilised banking facilities amounted to HK$3,186 million (2017: HK$2,971 million), of which HK$1,814 million (2017: HK$2,322 million) could be drawn down without the need of notice period or completion of condition precedent.

As at 31 December 2018, the Group had outstanding short-term bank borrowings amounting to HK$470 million (2017: HK$845 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2018 were 138% (2017: 138%) and 21% (2017: 39%) respectively.

The Group has sufficient financial resources for its day to day operations as well as spare capacity to take advantage of any investment opportunities when they arise.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group did not hold any significant investment and did not have any material acquisition or disposal.

CHARGES ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 31 December 2018.

RISK MANAGEMENT

The Group has properly put in place credit management policies which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are reviewed and updated regularly.

The management closely monitors the market condition so that precautionary measures will be taken to eliminate any risk that the Group may encounter. As at 31 December 2018, the advances to customers were overdue account receivables from cash clients and margin financing. The balance of overdue account receivables from cash client amounted to HK$35 million (2017: HK$54 million). The balance of margin financing amounted to HK$1,208 million as at 31 December 2018 (2017: HK$2,291 million), of which 38% (2017: 27%) was attributable to corporate customers with the rest attributable to individual customers.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and take necessary measures when the situations so justify.

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Future Plan & Prospects" in the Chairman's Statement, the Group had no other future plans for material investments or capital assets as at 31 December 2018.

EMPLOYEES

As at 31 December 2018, the total number of full-time employees was 258 (2017: 267). The total staff costs for the year amounted to approximately HK$194 million (2017: HK$191 million).

In 2018, the Group adopted a series of environmental-friendly measures in the workplace and served the community through organising and participating in various charitable activities to demonstrate our commitment to corporate social responsibility.

The following disclosures are made pursuant to Appendix 27, Environmental, Social and Governance Reporting Guide, of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") covering the general disclosures and key performance indicators in respect of two environmental, social and governance subject areas: Environmental (Subject Area A) and Social (Subject Area B) of the Company in 2018.

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and green house gas emissions, discharges into water and land, generation of hazardous and non-hazardous waste.	• The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period.	16-17
KPI A1.1	Types of emissions and respective emissions data.	• Environmental — Environmental Impacts • Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	16, 18
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	16, 18
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	• The Group does not produce any hazardous waste from its operations.	Not applicable
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	• Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Environmental Performance Summary	17-19
KPI A1.5	Description of measures to mitigate emissions and results achieved.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving	16
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	• Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Operating Practices — Supply Chain Management	17, 21

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	• Environmental — Environmental Performance • Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Plans for 2019 • Operating Practices — Supply Chain Management	16, 17, 21
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	16, 19
KPI A2.2	Water consumption in total and intensity.	• The Group operates in leased office premises of which both the water supply and discharge are solely controlled by the respective building management which considers the provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible.	Not applicable
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	16, 19
KPI A2.4	Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable to the Group's business.	Not applicable
KPI A2.5	Total packaging material used for finished products (in tonnes).	Not applicable to the Group's business.	Not applicable

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	• Environmental — Environmental Performance • Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Plans for 2019 • Operating Practices — Supply Chain Management	16, 17, 21
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	• Environmental — Environmental Impacts • Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Plans for 2019 • Operating Practices — Supply Chain Management	16, 17, 21
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	• Employment and Labour Practices — Employment	20

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	• Employment and Labour Practices — Health and Safety	20
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	• Employment and Labour Practices — Development and Training	20
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	• Employment and Labour Practices — Labour Standards	20
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	• Operating Practices — Supply Chain Management	21
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	• Operating Practices — Product Responsibility	21

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	• Operating Practices — Anti-corruption	22
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	• Community Investment	22

ENVIRONMENTAL

Environmental Performance

In 2018, the Group committed to manage its operations in an efficient and sustainable manner, and we continually look for opportunities to improve our environmental performance by reducing our use of energy and other resources.

Environmental Impacts

As a financial services institution, our direct environmental impacts mainly resulted from the energy use and associated green house gas (GHG) of our offices and branches in Hong Kong region. Other key environmental impacts resulted from the use of company car, paper consumption and disposal of information technology (IT) equipment.

Greenhouse Gas Emissions Reduction and Energy Saving

Our Group generates GHG indirectly through electricity consumption to operate our facilities. We have committed to reduce our GHG emissions by improving our operational efficiency. In 2018, the direct GHG emissions generated by the Group's company car amounted to 14.7 tonnes of carbon dioxide[1] and indirect GHG emissions generated by the Group's electricity consumption and paper consumption (Hong Kong business) amounted to 657.62 tonnes of carbon dioxide[1]. We have reduced the total amount of GHG emissions by about 1.88% compared with the GHG emissions in 2017.

Energy consumption accounts for a major part of the Group's GHG emissions. Various energy saving measures were implemented in 2018 to improve operational efficiency and to reduce energy consumption of the Group. Further to the energy saving measures of 2017, the Group continued to adopt high energy efficient office equipment for its departments.

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[1] *Calculated on the basis of the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for buildings in Hong Kong", as drawn up by the Electrical and Mechanical Services Department and the Environmental Protection Department.*

ENVIRONMENTAL *(Cont'd)*

Sustainable Paper Use

The Group continued to use paper that is independently certified as sourced from sustainably managed forests. In 2018, approximately 98% of the sustainably certified paper purchased by our Group was maintained. In addition, the Company continued to use the FSC (Forest Stewardship Council) certified printing paper for the production of its corporate communications, such as annual reports, interim reports, circulars, etc.

The Group continued to strive to reduce the use of paper by offering paperless billing options for customers and has continued to implement smart printing and photo-copying methods in our workplaces as well as arrangements with vendors to recycle used papers in Hong Kong.

In 2018, the Group was once again awarded the "Wastewise Certificate" designation by the Hong Kong Green Organisation Certification in recognition of our continuous effort to reduce the generation of office waste.

Managing IT Equipment

The use and disposal of IT equipment such as computers and servers is another focus of our operational sustainability efforts. IT hardware has a range of potential environmental impacts across its life cycle from production and use to eventual disposal. The Group has again committed to extend the lifespan of IT equipment by donating the unused equipment to non-profit making organisations. All IT equipment we recycled or donated has passed our strict data security tests.

Hazardous waste

No hazardous waste was generated in connection with the Group's business.

Plans for 2019

- To further reduce electricity consumption by implementing additional energy saving measures.
- To further recycle the used paper by encouraging the staff to collect the used paper.
- To continue to join charitable events, including donating books or clothes to charities for helping people in need as well as environmental purpose.

ENVIRONMENTAL *(Cont'd)*

Environmental Performance Summary[1]

Emissions[2]

Indicators	2018	2017
Total GHG emissions[3] (Scope 1 and 2) (tonnes)	636	647
Total GHG emissions (Scope 1 and 2) per unit floor area (tonnes/m^2)	0.157	0.159
Total GHG emissions (Scope 1 and 2) per employee (tonnes/employee)	2.46	2.42
Total GHG emissions (Scope 1, 2 and 3) (tonnes)	672.33	685.22
Total GHG emissions (Scope 1, 2 and 3) per unit floor area (tonnes/m^2)	0.166	0.169
Total GHG emissions (Scope 1, 2 and 3) per employee (tonnes/employee)	2.61	2.57
Direct GHG emissions (Scope 1) (tonnes)		
Company car	14.7	15.3
Indirect GHG emissions (Scope 2) (tonnes)		
Electricity	621	632
Indirect GHG emissions[4] (Scope 3) (tonnes)		
Paper consumption	36.62	37.92
GHG emissions avoided by recycling of paper (tonnes)	8.14	14.17

1. Unless otherwise specified, the environmental data covers the Group's operation in Hong Kong region only.

2. Due to the Group's business nature, the most significant airborne emissions are GHG emissions, arising mainly from the use of electricity and fuels derived from fossil fuels.

3. GHG emissions data is presented in carbon dioxide equivalent and was based on the reporting requirements of the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)" issued by the EMSD and the EPD in Hong Kong.

4. The Group currently does not report on emission data relating to air travel. We plan to disclose this information in future reports.

ENVIRONMENTAL *(Cont'd)*

Environmental Performance Summary[1] *(Cont'd)*

Energy Consumption[2]

Indicators	2018	2017
Total energy consumption[3] (MWh)	**954.93**	972.30
Total energy consumption per floor area (MWh/m²)	**0.236**	0.240
Total energy consumption per employee (MWh/employee)	**3.7**	3.64
Direct energy consumption (MWh)		
Unleaded petrol	**67.1**	69.7
Indirect energy consumption (MWh)		
Electricity	**887.8**	902.6

Paper Consumption

Indicators	2018	2017
Total paper consumption[4] (tonnes)	**8.54**	7.97
Office paper	**7.63**	7.06
Paper for financial statement printing	**0.91**	0.91
FSC certified paper used (%)	**98**	98

Water Consumption

In Hong Kong, the Group operates in leased office premises in which both the water supply and discharge are solely controlled by the building management offices which considers the provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible.

1. Unless otherwise specified, the environmental data covers the Group's operations in Hong Kong region only.
2. Energy consumption data is based on the amount of electricity and fuels consumed.
3. Energy consumption is calculated in megawatt-hours, or MWh.
4. Includes paper used for printing customer financial statements, proposals and office documents.

SOCIAL

Employment and Labour Practices

(a) Employment

The Group maintains policies for the recruitment, compensation, promotion and training of staff. Pay surveys are conducted periodically by independent consultants appointed by the Group to maintain the Group's competitiveness in the market. With reference to market conditions, the Group will formulate relevant and proper remuneration and incentive plans to attract and retain talent. The Group supports equal opportunities and recruits competent candidates globally.

The Group was awarded the "Family-Friendly Employers" designation by the Family Council in recognition of our value and continues to provide a pro-family culture and environment to our employees.

(b) Health and Safety

The Group is committed to providing a healthy and appropriate workplace for employees. We conducted an assessment on our offices with regard to the "Code of Practice for Working with Display Screen Equipment" in order to ensure compliance with the "Occupational Safety and Health (Display Screen Equipment) Regulations".

(c) Development and Training

Development and training is an ongoing process to ensure the continued enhancement of the skills and knowledge of employees. The Group has training policies and organises various training programmes to improve the skills of its employees and to increase the professionalism and efficiency of the Group. Employees are provided with on-the-job training throughout their employment with the Group. The Group also has policies for employee development. In compliance with Securities and Futures Commission requirements, the Group organised a total of 15 Continuous Professional Training seminars for all licensed staff members for the year ended 31 December 2018.

(d) Labour Standards

To maintain good employee relations, the Group is committed to providing a workplace free from discrimination and harassment in any form and to providing equal opportunities for all employees. All employees are made aware of the Group's employment policies and guidelines, which are in compliance with relevant laws and regulations. Staff regulations, employment terms and staff benefits can be accessed by all staff members in the Human Resources Manual put on the Group's intranet.

SOCIAL *(Cont'd)*

Operating Practices

(a) *Supply Chain Management*

The Group selects reliable vendors, agencies and third party financial institutions, collectively "suppliers", to support its business operations, and is committed as much as possible to conduct business only with suppliers that act in a socially responsible manner and within ethical expectations. The Group will take into account, among other things, reputation, track record of high corporate standards, expertise and capacity in the process of selecting the qualified supplier. In addition, appropriate management approvals is required to obtain before entering into any contract with a supplier. Such procedures aim at promoting operational efficiency, improving segregation of duties and making the best decision.

Moreover, in order to reduce the negative impacts on the environment and society, the Group will purchase and use more sustainable and efficient products and services. For example, we will procure the electrical appliances with higher energy efficiency and eco-friendly toner cartridges. Those suppliers with environmental certifications or caring company qualifications will win priority consideration.

(b) *Product Responsibility*

During the year, the Group was not aware of any incidents of non-compliance with relevant regulations and codes concerning advertising and privacy matter for the provision and use of the Group's products and services.

The Group has in place procedures relating to the services and products provided. To suit the client's needs, the financial services or products provided to clients are based on their financial background, trading experience and risk tolerance level after the "Know Your Clients" procedures and assessment processes were performed. We are committed to provide clear and balanced information to clients. Product features, terms and conditions, and any associated risks are clearly communicated to ensure clients can make an informed decision. Moreover, the Group has set standards for advertising and sales literature which require information contained in all advertising and sales literature must be factual and which prohibit the use of false, misleading or inaccurate statements in any form of communication.

In addition, the Group emphasises the importance of protecting the privacy of its clients and complies with the provisions of the Personal Data (Privacy) Ordinance in the collection, processing and use of client's personal data. Specific processes for the handling and protection of client data are set out in the relevant internal procedure manual. The Group will, where appropriate, include terms about the confidentiality of client data to avoid disclosure of client information and protect client privacy. During the year, the Group did not receive complaints from clients in relation to disclosure of information.

The Group has established policies to provide guidance to customer complaints handling procedures. At present, the Compliance Department is responsible for handling customer complaints.

SOCIAL *(Cont'd)*

Operating Practices *(Cont'd)*

(c) Anti-corruption

The Group maintains and effectively implements a comprehensive system of internal control and stringent policies, which include Compliance Manual and Employee Whistleblowing Procedures, for anti-corruption and anti-fraud, and is committed to promoting integrity and preventing unethical behaviour. We encourage the reporting of suspected business irregularities by providing easily accessible channels specifically for this purpose.

When suspected wrongdoings are identified, such as breach of duty, abuse of power, receiving bribes, staff can report to the Chairman of Audit Committee or Head of Compliance and Internal Audit for investigation and resolution. The Compliance and Internal Audit Department will then carry out an investigation and verification, and report to the regulator or law enforcement authority when considered necessary.

Moreover, the Group has policy sets forth procedures for client's acceptance by conducting "Know Your Clients" procedures to understand the background and financial status of the clients. We will perform name searches to check whether a client is or is related to a politically exposed person who may present a higher bribery and corruption risk. Procedures are put in place to identify and mitigate the aforementioned risks. Clients will be refused of our services when considered to be suspicious.

The Group is committed to adhering to the highest ethical standards. During the year, no significant risks relating to corruption were identified. There were no confirmed incidents of corruption or public legal cases brought against the Group or its employees concerning corruption. The Group will continue to comply with ethical requirements and upholds its reputation to prevent corruption.

Community Investment

In terms of community involvement, the Group is committed to contributing to the community and fulfilling its corporate social responsibility undertakings. We support long-term community investment by establishing community partnerships and encouraging our employees to participate in volunteer services. In 2018, the Group continued its cooperation with the Chinese Young Men's Christian Association (YMCA) of Hong Kong, participated in various charitable and care activities, organised activities to support elderly services, including sponsoring and organising volunteer teams visiting the Hong Kong Heritage Museum with elderly people as well as visiting shelted workshop and dormitory of intellectually disabled people and making cartoon ballons, having lunch and taking photos with them.

We hope not only to help people in need through our social activities, but also to cultivate in our employees the spirit of care and community contribution.

This year, the Group was once again awarded the "5 Years Plus Caring Company" designation by the Hong Kong Council of Social Service in recognition of our approach and continuous contribution to the community.

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. The Company has met all the code provisions stipulated in Appendix 14, Corporate Governance Code and Corporate Governance Report (the "Code"), of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2018.

CORPORATE GOVERNANCE PRINCIPLES AND SHENWAN HONGYUAN'S PRACTICES:

A.1 The Board of Directors

Principle: An issuer should be headed by an effective board which should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the issuer.

The board should regularly review the contribution required from a director to perform his responsibilities to the issuer, and whether he is spending sufficient time performing them.

Seven board meetings and one general meeting, being the annual general meeting held on 11 May 2018, were held by the Company in the financial year ended 31 December 2018. Attendance record of each individual director is as follows:

Name of Directors	Number of board meeting(s) attended/held	Number of general meeting(s) attended/held
Executive Directors		
Zhu Minjie *(Chairman)*	7/7	1/1
Chen Xiaosheng	7/7	1/1
Zhang Jian *(appointed on 28 November 2018)*	2/2	N/A
Guo Chun *(Deputy Chairman)*	7/7	1/1
Qiu Yizhou *(Chief Executive Officer)*	6/7	1/1
Non-executive Director		
Zhang Lei	6/7	1/1
Independent Non-executive Directors		
Ng Wing Hang Patrick	7/7	1/1
Kwok Lam Kwong Larry	7/7	1/1
Zhuo Fumin *(resigned on 4 September 2018)*	3/4	1/1
Chen Liqiang *(appointed on 28 November 2018)*	2/2	N/A

Drafts of the agenda were sent to directors for comments before the meetings were held. They could include matters in the agenda for board meetings.

Notice of at least 14 days were given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice was given.

Minutes of the board meetings, and meetings of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Committee are kept by the Company Secretary. Minutes of other board committees (as listed under D.2 Board Committees) are kept by the appointed Secretary of each committee. Such minutes are open for inspection during office hour by any director by giving at least 2 days' notice to the Company Secretary.

Minutes of the board meetings and meetings of board committees have recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes were sent to all directors for their comment and records respectively, normally within one month after the board meeting was held.

The Company established a policy for any director to seek independent professional advice in appropriate circumstances, at the Company's expenses. The director is required to submit a request in writing to the Chairman stating the grounds for seeking the independent professional advice. The Chairman shall either approve the director's request directly, or if thinks fit, convene a board meeting to resolve the matter.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting.

The Company has arranged appropriate insurance cover in respect of legal actions against its directors. The coverage and the amount insured under such policy are reviewed annually by the Company.

A.2 Chairman and Chief Executive

Principle: There are two key aspects of the management of every issuer — the management of the board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual.

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Zhu Minjie acts as the Chairman, Mr. Guo Chun acted as the Chief Executive Officer until he was appointed as Deputy Chairman on 11 August 2018, and Mr. Qiu Yizhou was appointed as Chief Executive Officer on 11 August 2018 to succeed Mr. Guo Chun.

The respective responsibilities of the Chairman, Deputy Chairman and Chief Executive Officer are clearly established. The Chairman is responsible for providing leadership for and the management of the Board, the Deputy Chairman is responsible to assist the Chairman in leading and managing the Board whilst the Chief Executive Officer is responsible for the day-to-day management of the Group's business including the implementation of significant strategies formulated by the Board.

The Chairman ensured that all directors were properly briefed on issues arising at board meetings.

The Chairman is responsible for ensuring that directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable.

The Chairman ensured that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner. The Chief Executive Officer and Company Secretary assisted the Chairman in preparing agenda for each board meeting and all directors have been consulted about any matters proposed for inclusion in the agenda.

The Chairman ensured that the Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures.

Directors are encouraged to express their viewpoints to the Board's affairs and voice their concerns, if any, and are provided sufficient time for discussion of issues in the meetings and the Chairman directs discussions towards the emergence of a consensus view and then sum up discussions so that all directors understand what has been agreed.

During the financial year ended 31 December 2018, the Chairman held a meeting with the non-executive and independent non-executive directors without the presence of the executive directors.

The Chairman ensured that appropriate steps are taken to provide effective communication with shareholders and that their views were communicated to the Board as a whole. The Board has established a shareholders communication policy which is available on the Company's website.

A.3 Board Composition

Principle: The board should have a balance of skills, experience and diversity of perspectives appropriate for the requirements of the issuer's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

During the financial year, the composition of the Board of the Company with their respective names and titles are set out below:

Executive Directors
Zhu Minjie *(Chairman)*
Chen Xiaosheng
Zhang Jian *(appointed on 28 November 2018)*
Guo Chun *(Deputy Chairman)*
Qiu Yizhou *(Chief Executive Officer)*

Non-executive Director
Zhang Lei

Independent Non-executive Directors
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin *(resigned on 4 September 2018)*
Chen Liqiang *(appointed on 28 November 2018)*

All directors were expressly identified by categories of executive directors, non-executive directors and independent non-executive directors in all corporate communications that disclose the names of directors of the Company.

An updated list of the directors of the Company identifying their role and function and whether they are independent non-executive directors is maintained on the websites of the Hong Kong Exchanges and Clearing Limited ("HKEx") and the Company.

A.4 Appointments, Re-election and Removal of Directors

Principle: There should be a formal, considered and transparent procedure for the appointment of new directors. There should be plans in place for orderly succession for appointments. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

All directors (including non-executive directors and independent non-executive directors) are appointed for a specific term, subject to retirement by rotation at least once every three years.

According to the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then number nearest to but not less than one-third, shall retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years. Further, any director newly appointed shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election.

The Board can appoint new director(s) either to fill a casual vacancy or as an addition to the Board between general meetings. Nomination Committee will make recommendation to the Board on such matter (see A.5 below). The director so appointed, however, shall retire and eligible to be re-elected in the coming general meeting. In addition, shareholder can also propose a candidate for election as director at a general meeting in accordance with the Articles of Association of the Company. The nomination procedures by shareholders are published on the website of the Company. All successful candidates must possess the necessary skills, knowledge and experience which can help the Board to direct the Company's business. In addition, all candidates must be able to meet the criteria stipulated in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. To further enhance accountability, any further appointment of an independent non-executive director who has served the Board for more than 9 years will be subject to a separate resolution to be approved by shareholders.

A.5 Nomination Committee

Principle: In carrying out its responsibilities, the nomination committee should give adequate consideration to the Principles under A.3 and A.4.

The Nomination Committee of the Company was established in March 2012. The functions of the Nomination Committee are mainly to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspective) of the Board, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of independent non-executive directors, to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors as well as to monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy, as appropriate. Details of terms of reference of the Nomination Committee are published on the websites of HKEx and the Company.

The Nomination Committee comprises the Chairman of the Company, Mr. Zhu Minjie, and three independent non-executive directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang. Mr. Zhu Minjie acts as the chairman of the Nomination Committee.

The Nomination Committee held two meetings in the financial year ended 31 December 2018. The following is an attendance record of the meeting held by the Nomination Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Zhu Minjie *(Chairman)*	2/2
Ng Wing Hang Patrick	2/2
Kwok Lam Kwong Larry	1/2
Zhuo Fumin *(resigned on 4 September 2018)*	1/2
Chen Liqiang *(appointed on 28 November 2018)*	N/A

During the financial year, the Nomination Committee reviewed the structure, size, composition and diversity of the Board; assessed the independence of each independent non-executive director; made recommendation to the Board on the re-election of the retiring directors standing for re-election at the annual general meeting; and considered and made recommendation to the Board on the appointment of Mr. Guo Chun as Deputy Chairman of the Board of the Company and Mr. Qiu Yizhou as Chief Executive Officer of the Company. In addition, the Nomination Committee has resolved, by way of written resolution in October 2018, to recommend to the Board on the appointments of Mr. Zhang Jian and Mr. Chen Liqiang as Executive Director and Independent Non-executive Director of the Company respectively.

The Nomination Committee was provided with sufficient resources to perform its duties and it can seek independent professional advice at the Company's expense if necessary.

The Company adopted the Board Diversity Policy which sets out the approach to achieve diversity on the Board. When determining the composition of the Board, it will take into consideration a number of factors, including but not limited to, skills, knowledge, professional experience, gender, age, cultural and educational background, and other qualities of Directors. All Board appointments will be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board. The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

A.6 Responsibilities of Directors

Principle: Every director must always know his responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Every newly appointed director of the Company shall receive guidance materials from the Company Secretary upon his appointment so as to enable the director having a proper understanding of the Company's operations and business and to ensure him to be fully aware of his responsibilities under statue and common law, the Listing Rules, applicable legal and other regulatory requirements and the Company's business and governance policies. A director can also request the Company Secretary to arrange him to attend any relevant course and seminar.

The functions of non-executive directors have included the functions as specified in Code Provision A.6.2(a) to (d).

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company made specific enquiry of all directors. According to their replies, all the directors complied with the requirements set out in the Model Code during the financial year ended 31 December 2018. The Company also complied with the other requirements stipulated in the Model Code.

Directors confirmed that they have complied with the Code Provision A.6.5 on directors' training. During the year, the directors have participated in continuous professional development by the following means to develop and refresh their knowledge and skills and provided a record of training to the Company.

Name of Directors	Training Received (Note)
Executive Directors	
Zhu Minjie *(Chairman)*	A, E
Chen Xiaosheng	A, B, C, E
Zhang Jian *(appointed on 28 November 2018)*	A, E
Guo Chun *(Deputy Chairman)*	A
Qiu Yizhou *(Chief Executive Officer)*	A
Non-Executive Director	
Zhang Lei	A
Independent Non-Executive Directors	
Ng Wing Hang Patrick	A
Kwok Lam Kwong Larry	A
Zhuo Fumin *(resigned on 4 September 2018)*	–
Chen Liqiang *(appointed on 28 November 2018)*	E

Notes:

A Attending classes and/or seminars and/or forums
B Attending in-house briefings
C Giving talks at classes and/or seminars and/or forums
D Attending training relevant to the Company's business conducted by lawyers
E Reading materials and/or participate in activities relevant to the Company's business or to the directors' duties and responsibilities

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Upon reviewing (i) the annual confirmation of time commitment given by each director as well as the directorship and major commitments of each director held in public companies or organisations; and (ii) the attendance rate of each director on board meetings and committee meetings, it is satisfied that all directors have spent sufficient time in performing their responsibilities during the year.

A.7 Supply of and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities.

For regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers were sent in full to all directors in a timely manner and at least 3 days before the intended date of a board meeting and board committee meeting.

As mentioned in D.1 below, there are matters reserved to be approved by the Board. Management is aware of the obligation to supply the Board and its committees with adequate information, in a timely manner, to enable it to make informed decisions. The information supplied must be complete and reliable. The Board and individual directors have separate and independent access to the Company's senior management.

All directors are entitled to have access to board papers, minutes and related materials.

B.1 The Level and Make-up of Remuneration and Disclosure

Principle: An issuer should disclose its directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the issuer successfully without paying more than necessary. No director should be involved in deciding his own remuneration.

The Remuneration Committee of the Company was established in April 2005. The functions of the Remuneration Committee are mainly to review and make recommendations to the Board on the Company's policy and structure for all remunerations of directors and senior management. The terms of reference of the Remuneration Committee include the specific duties set out in Code Provision B.1.2(a) to (h), with appropriate modifications where necessary. The Remuneration Committee is delegated with responsibility to determine the remuneration packages of individual executive directors and senior management. Details of terms of reference of the Remuneration Committee are published on the HKEx's and Company's websites.

The Remuneration Committee presently consists of three independent non-executive directors, namely, Mr. Kwok Lam Kwong Larry, Mr. Ng Wing Hang Patrick and Mr. Chen Liqiang. Mr. Kwok Lam Kwong Larry acts as the chairman of the Remuneration Committee.

The Remuneration Committee held two meetings in the financial year ended 31 December 2018. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Kwok Lam Kwong Larry *(Chairman)*	1/2
Ng Wing Hang Patrick	2/2
Zhuo Fumin *(resigned on 4 September 2018)*	1/2
Chen Liqiang *(appointed on 28 November 2018)*	N/A

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration policies of the Group and compared with companies of similar scale as benchmark. Furthermore, the Committee made recommendations to the Board for the reward system of the Group, the salary increment of employees in 2018 and the reward of the Chief Executive Officer for 2018. None of the directors of the Company participated in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

The Remuneration Committee shall consult the Chairman and/or Chief Executive Officer about their remuneration proposals for the directors. The Remuneration Committee shall have access to independent professional advice if necessary.

The Remuneration Committee was provided with sufficient resources to perform its duties.

For the financial year ended 31 December 2018, the remuneration of the members of the senior management by band is set out below:

Remuneration bands	**Number of senior management***
Nil–HK$3,000,000	3
HK$3,000,001–HK$5,000,000	2

* The evaluation of the performance of the employees has not been completed. Thus, the amount of bonus has not yet been determined and the final amount will be disclosed in due course.

Details of the directors' remuneration and five highest paid employees for the financial year ended 31 December 2018 as required to be disclosed pursuant to Appendix 16 of the Listing Rules are provided in notes 7 and 8 to the financial statements.

C.1 Financial Reporting

Principle: The board should present a balanced, clear and comprehensible assessment of the issuer's performance, position and prospects.

Management provided sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval.

Management provided all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

Directors have acknowledged their responsibility for preparing accounts of the Company.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditor's Report.

For the basis on which the Company generates or preserves value over the longer term and the strategy for delivery its objectives, please refer to Chairman's Statement and Management Discussion & Analysis of Performance respectively.

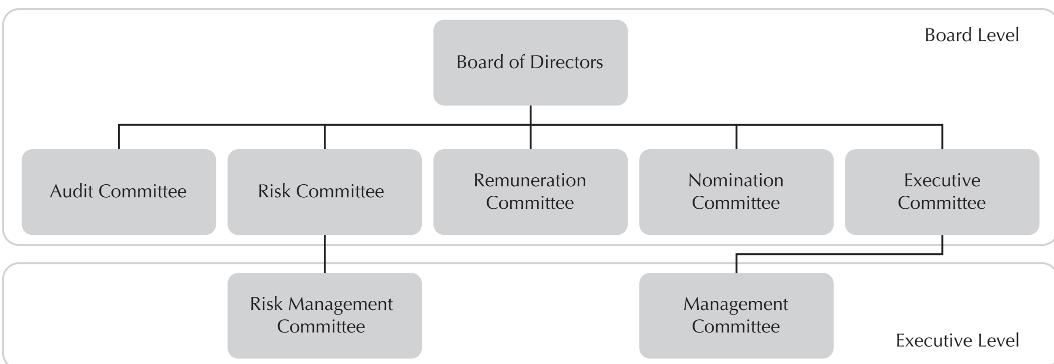
The Board presented a balanced, clear and understandable assessment of the Company in annual and interim reports and other financial disclosures required by the Listing Rules, and also for the reports to regulators and information disclosed under statutory requirements.

C.2 Risk Management and Internal Control

Principle: The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems.

(a) Group's Risk Governance Structure

The Group's risk governance structure is shown as follows:



(b) Three Lines of Defence Model

The Group has adopted a "three lines of defence" model to establish an effective risk management and internal control systems:

First line of defence — Risk management (All business departments)

Each of the Group's departments has the primary responsibility of managing its business risk, and serves as the first line of defence for the risk management and internal control systems. Its major risk management measures include:

- Implements the Group's established policies, procedures and guidelines, as well as laws, regulations and industry practices, ensuring proper controls are in place.

- Implements the "Employee Whistleblowing Policy" to ensure employees are able to report any suspected wrongdoings or improprieties through appropriate and established procedures.

- Carried out internal control effectiveness evaluation in 2018 according to "The Guidelines for Self-Assessment on Internal Controls" established by the Group. "The Guidelines for Self-Assessment on Internal Controls" specifies the requirements or procedures for self-evaluation of internal controls. Each department is required to evaluate and rate its compliance with the established internal control policies and procedures in the "Report for Self-Assessment on Internal Controls". Where control weaknesses are identified, the responsible department should formulate and implement appropriate remediation measures. According to the results of the internal control effectiveness evaluation performed in 2018, the overall performance of department's implementation of the Company's established internal control policies is satisfactory.

Second line of defence — Risk control (Middle and back office departments particularly including Risk Management, Compliance and Legal)

Middle and back office departments particularly including Risk Management, Compliance and Legal form the second line of defence for the risk management and internal control systems. These departments are independent of the business units with the following major risk control duties:

- Assist the management in formulating the Group's policies, procedures, guidelines, risk management principles and risk tolerance levels, and to revise them in response to any changes in laws, regulations, industry practices or other internal and external factors.

- Provide advisory services, guidance and training for all staff on risk management.

- Assist in regulatory authorities' investigations and enquiries.

- Maintain the "Risk and Internal Control Monitoring Register", which covers Group's key risk areas, for identification of the key risks that affect business operations along with the relevant internal control activities and measures. The "Risk and Internal Control Monitoring Register" facilitates departmental ongoing assessment and compilation of risk-based internal audit plan.

- Maintain the comprehensive set of key risk indications with reporting thresholds which clearly defines the reporting mechanism. When a trigger event arises, the incident will be reported to the respective level of management according to the pre-defined threshold, and where appropriate, remedial actions will be taken. This facilitates departments' defining roles and responsibilities, and strengthening their controls and accountability.

Third line of defence — Independent risk assurance (Internal Audit Department)

- Internal Audit Department serves as the third line of defence for the risk management and internal control systems. It conducts systemic review of the Group's risk management and internal control systems independently on a regular basis. The Internal Audit Department's role as the third line of defence is independent of the first and second lines of defence, and is responsible for monitoring their compliance with policies and procedures. The Head of Internal Audit Department reports directly to the Audit Committee at least semi-annually, and reports regularly to the Board through the Audit Committee.

- Internal Audit Department conducts independent review of the Group's structure and implementation of internal controls on a regular basis.

- Internal Audit Department reported twice in 2018 the risk management and internal controls related matters to the Audit Committee, which in turn reported to the Board accordingly.

(c) Audit Committee

The Audit Committee is delegated by the Board with the responsibilities to monitor the Group's overall management and effectiveness, and to advise the Board accordingly.

On behalf of the Board, the Audit Committee carries out regular review on business processes and operations, considers findings on major risk management and internal control related matters and the management's response to these findings. The Audit Committee also reviews financial controls and reporting related risk management and internal control systems of the Group with the management to ensure that the management has performed its duty to put in place an effective system.

In addition, the Audit Committee reviews and monitors the effectiveness of the function of the Internal Audit Department, ensures it is adequately resourced and has appropriate status within the Group. For the external auditor, the Audit Committee reviews and monitors the external auditor's independency and objectivity and the effectiveness of their audit in accordance with applicable standards. The Audit Committee also discusses the nature and scope of the audit and reporting obligations with the external auditor before the commencement of the audit. External auditor also reports their audit findings and the internal control matters identified during the audit to the Audit Committee. After a detailed review of the effectiveness of the Group's internal control systems, the Audit Committee will report their findings to the Board.

The Audit Committee is currently composed of three independent non-executive directors; it has held two meetings in the financial year ended 31 December 2018. List of the Audit Committee members and the attendance record of the meeting held by the Audit Committee are set out in C.3 below.

(d) Internal Audit Department

The Group has an independent Internal Audit Department to support the Board to monitor the Group's corporate governance compliance and to ensure a sound and effective internal control system is established. The Internal Audit Department independently evaluates and reviews departments' compliancy with the policies, procedures and guidelines of the Group, as well as the applicable rules and regulatory requirements.

In addition, the Internal Audit Department also carries out specific audits on particular areas as directed by the Audit Committee. During the audit, the Internal Audit Department will assess the suitability and effectiveness of the Group's current operational processes and internal control systems. If weaknesses are identified, the Internal Audit Department will provide recommendations to the relevant departments, monitor the remediation progress, and report to the Audit Committee on the key findings and the rectification status on a regular basis.

(e) Risk Committee

Risk Committee is delegated by the Board, responsible for reviewing the risk management and internal control systems (except those related to financial controls and reporting, which are within Audit Committee's scope), ensuring that management has discharged its duties, has effective systems in place, and reviewing the risk principles and risk tolerance levels as proposed by Risk Management Committee, etc. The detailed terms of reference of Risk Committee are published on the websites of the HKEx and the Company.

Risk Committee is currently composed of three independent non-executive directors and two executive directors: the independent non-executive directors are Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang; the executive directors are Mr. Guo Chun and Mr. Qiu Yizhou. Mr. Ng Wing Hang Patrick acts as the chairman of the Risk Committee.

The Risk Committee held two meetings in the financial year ended 31 December 2018. The following is an attendance record of the meeting held by the Risk Committee for the financial year:

Name of Committee Members	**Number of meeting(s) attended/held**
Ng Wing Hang Patrick *(Chairman)*	2/2
Guo Chun	2/2
Qiu Yizhou	2/2
Kwok Lam Kwong Larry	2/2
Zhuo Fumin *(resigned on 4 September 2018)*	1/2
Chen Liqiang *(appointed on 28 November 2018)*	N/A

A summary of the work performed by the Risk Committee during the financial year is listed below:

(1) reviewed and recommended the Board's approval of the Risk Appetite Statement;

(2) assessed the effectiveness of the Group' risk management and internal control systems (except those related to financial controls and reporting, which are within Audit Committee's scope);

(3) reviewed and approved the revised Terms of Reference of Risk Management Committee; and

(4) discharged its responsibilities related to risk management and internal control system, as delegated by the Board.

(f) Risk Management Committee

Risk Management Committee is established under Risk Committee to coordinate, facilitate and manage important executive matters and risk management activities.

Risk Management Committee's major responsibilities include formulation of risk strategies, risk management infrastructure and risk policies; planning for a comprehensive risk management system and implementation of risk governance activities; recommendation of risk tolerance levels to Risk Committee and the Board as well as implementation upon their approval, and review and approval of risk policies, risk limits and key risk indicators; and assessment of the impacts of and provision of guidance on risks and risk events reported to the Committee; etc.

(g) Risk Management Department

The Group has established a Risk Management Department, which is independent of business departments, for management of the overall risk governance, credit risk, market risk, liquidity and funding risk, and operational risk.

Risk Management Department formulates risk management basics, including the organisational structure, management framework, risk tolerance levels and related policies; provides business departments with guidance and assistance in identification, assessment, monitoring and reporting of risks arising from the usual course of business; and provides business departments with advisory services, including review of the risk assessments of new products; etc.

(h) Group's Key Risk and Management

The Group's key risk areas and the relevant management measures are as follows:

(1) Compliance Risk and Legal Risk

Compliance Risk refers to the risk of the Group suffering from any financial or non-financial loss as a result of being advised, warned, reprimanded, fined, etc or even prosecuted by the government or any regulatory authority due to violating or breaching the laws, rules or industry practices ranging from business related areas to financial crime and general ordinances.

Legal risk refers to the risk of the Group suffering from any financial or non-financial loss as a result of being involved in a legal dispute or litigation, no matter whether or not it is triggered by a compliance risk event.

The regulated activities of the Group, including brokerage business, corporate finance business, asset management business and securities research business, has developed relevant compliance policies and procedures in accordance with applicable laws, regulations, industry practices (such as codes and guidelines). These include due diligence on clients, anti-money laundering checking, client suitability testing towards products, segregation of duties, as well as prevention of conflict of interest. All these are recorded in the Group's Compliance Manual and Operational Manual for relevant staff's adoption.

The Group has a Compliance Department and a Legal Department, which are independent of the business units. The Compliance Department is responsible for compliance risk management, and conducting compliance monitoring and review. The Legal Department is responsible for providing legal advisory services, drafting and examination of legal documents.

(2) Credit Risk

Credit Risk refers to the risk of the Group suffering from any financial loss as a result of the debtor (including clients, guarantors or related parties), counterparties (including trading counterparties, brokers, banks and custodians) or asset issuers (including guarantors or related parties) failing to fulfil their obligations to repay, pay, settle, etc on time.

Business relating to credit should be run on the principle of risk diversification, deal with creditworthy debtors, counterparties and asset issuers, and secure the Group's position with collateral or guarantee from the transactions as far as possible.

The Group has authorisation policies and procedures in place for stock financing, merger and acquisition financing, margin loan, client's credit and trading limits, as well as the margin ratios of stocks.

The Group's Credit Team is responsible for monitoring the positions of client's accounts (including the stock, futures and stock options) and the level of financing on a daily basis. Credit Team strictly enforces margin call and executes forced sale in accordance with the Group's established policies and procedures. When any breach of the Group's financing or credit policy is identified, the Credit Team will report it to the management immediately.

In addition, the Credit Team conducts regular stress tests on client's repayment capability, so as to identify those client's accounts that may have margin deficits under volatile market conditions. Moreover, to avoid excessive concentration of credit risk, the Group has set maximum levels for client concentration risk, stock concentration risk and margin loan for individual clients.

(3) Liquidity and Funding Risk

Liquidity risk refers to the risk of the Group suffering from any financial loss as a result of failure to or a higher funding cost to fulfil its financial obligations due to cash flow mismatch, despite the Group's healthy financial standing.

Funding risk refers to the risk of the Group suffering from any financial loss as a result of the planned medium to long term funding not being available to sustain the Group's business development.

Certain subsidiaries of the Group are subject to the local country's regulatory liquidity requirements. Currently, a monitoring system is in place to ensure the relevant licensed subsidiaries maintain adequate liquid capital to support their business commitments and comply with the relevant applicable Financial Resource Rules. Finance Department also closely monitors the Group's cash flow and the Group's assets and liabilities position. Moreover, Credit Team carries out regular review of the margin ratios of the pledged securities to ensure they have sufficient liquidity, thereby to manage liquidity risk.

(4) Market Risk

Market risk refers to the risk of the Group suffering from any financial loss as a result of adverse market movements of exchange rate, interest rate, stock price and commodity price, etc. The Group's investment business (including market making, which involves self-funding) should be run on the principle of risk diversification. Each of its portfolios, investments and transactions should be managed within the approved limits.

The Group has procedures and risk indicators in place to monitor the market exposure of the investment business regularly, ensuring the business takes calculated risks.

(5) Operational Risk

Operational risk refers to the risk of the Group suffering from any financial or non-financial loss resulting from inadequacy or failure of internal processes, staff or systems, or from external events.

The Management Committee of the Group supervises the daily operations of the Group, and manages the risks according to the actual situation of the businesses. Operational Manuals once approved are published on the Group's intranet for relevant departments and staff's compliance and implementation. The existing business operating procedures and the risk management measures are reviewed and updated from time to time to ensure that they are consistent with the actual operations of the Group.

(6) Reputational Risk

Reputational Risk refers to the risk of the Group's suffering from any damage to its goodwill as a result of any action, behaviour, decision, etc by the Group failing to meet the public's expectations. Such damage could be in the form of, for example, criticism from the media or drop in the stock price. Reputational risk events may stand alone or result from other risk events.

The Group strives to maintain its reputation and acts in the Group's long-term interest.

(i) Handling and Dissemination of Inside Information

To ensure inside information of the Group is to be disclosed to the public in a timely manner in accordance with the Listing Rules, applicable laws and regulatory requirement, a framework has been established to set out the procedures and internal controls for the handling and dissemination of inside information. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

(j) Evaluation of Effectiveness of the Risk Management and Internal Control Systems

The Board acknowledges their responsibility to review the effectiveness of the risk management and internal control systems adopted. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board reviews the effectiveness of the Group's risk management and internal control systems on an ongoing basis. Through the structure and measures mentioned above, the Board ensures that appropriate and effective risk management and internal control systems are in place. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Group's compliance, risk management, accounting, internal audit and financial reporting functions. For the financial year ended 31 December 2018, the Board found that the existing risk management and internal control systems were sound and effective to safeguard the shareholders' and customers' interests and the assets of the Group.

C.3 Audit Committee

Principle: The board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the issuer's external auditors. The audit committee established under the Listing Rules should have clear terms of reference.

The Audit Committee was set up in 1999. The roles of the Audit Committee are mainly to ensure integrity of financial statements, to oversee financial reporting system, risk management and internal control procedures as well as to provide advice and recommendations to the Board. The details of the terms of reference of the Audit Committee are published on the websites of the HKEx and the Company.

The Audit Committee is currently composed of three independent non-executive directors, namely, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang. Mr. Ng Wing Hang Patrick acts as the chairman of the Audit Committee.

The Audit Committee held two meetings in the financial year ended 31 December 2018. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

Name of Committee Members	**Number of meeting(s) attended/held**
Ng Wing Hang Patrick *(Chairman)*	2/2
Kwok Lam Kwong Larry	2/2
Zhuo Fumin *(resigned on 4 September 2018)*	1/2
Chen Liqiang *(appointed on 28 November 2018)*	N/A

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

(1) reviewed the financial statements and the independent auditor's report before their submission to the Board;

(2) reviewed the results of the audit on the Company's system of internal controls;

(3) reviewed the results of the audit on the connected or continuing connected parties transactions;

(4) nominated external auditors for re-appointments at the annual general meeting held in 2018, and considered the proposed remuneration and terms of engagement of external auditors;

(5) assessed the effectiveness of the Group's risk management and internal control systems; and

(6) performed corporate governance functions delegated by the Board.

The work and findings of the Audit Committee were reported to the Board. During the year, no issues brought to the attention of management and the Board were of sufficient importance to require disclosure in the Annual Report.

The Board agreed with the Audit Committee's proposal for the re-appointment of Messrs. KPMG as the Company's external auditors for 2019. The recommendation will be put forward for the approval of shareholders at the forthcoming annual general meeting.

Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the meetings were sent to all committee members for their comment and records, normally within one month after the meeting.

No member of the Company's Audit Committee was a former partner of the Company's existing external auditors.

During the financial year ended 31 December 2018, the remuneration to the external auditors, Messrs. KPMG, was as below:

Nature of services	HK$'000
Audit services	1,700
Tax advisory services	286

The Audit Committee was provided with sufficient resources, including the advice of external auditors and Internal Audit Department, to perform its duties.

The Audit Committee established an employee whistleblowing procedures on financial reporting improprieties of the Group. Under the employee whistleblowing procedures, the employees can report any concerns relating to the possible financial reporting improprieties to the chairman of Audit Committee.

D.1 Management Functions

Principle: An issuer should have a formal schedule of matters specifically reserved for board approval. The board should give clear directions to management on the matters that must be approved by it before decisions are made on the issuer's behalf.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Company whilst managing the Company's day-to-day business is the responsibility of the management.

When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the management's powers, in particular, where management shall report back and obtain prior Board approval before making decisions or entering into any commitments on the Company's behalf.

Directors are clearly understood delegation arrangements in place. The Company has issued formal letter of appointment to each director (including non-executive director and independent non-executive director) setting out the key terms and conditions of the appointment.

Matters reserved to be approved by the Board include:

(1) Appointment of directors;

(2) Significant strategies and business plans of the Company;

(3) Proposal for selection of external auditors;

(4) Financial statements and budgets;

(5) Substantial investments other than those arising in the ordinary course of Company's businesses; and

(6) Formation of board committees.

D.2 Board Committees

Principle: Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties.

Where board committees are established to deal with matters, the Board shall give them sufficiently clear terms of reference to enable them to perform their functions properly.

Apart from the Audit Committee (particulars are disclosed under C.3), Remuneration Committee (particulars are disclosed under B.1), Nomination Committee (particulars are disclosed under A.5) and Risk Committee (particulars are disclosed under C.2), the Board also established an Executive Committee and a Management Committee with specific terms of reference. The Executive Committee consists of all the executive directors and is responsible for formulating and reviewing the Company's important strategies on business and operations. The Management Committee consists of the Chief Executive Officer, deputy general manager(s), chief operating officer and assistant general manager(s). The Management Committee usually meets bi-weekly for making policy(ies) relating to the Company's day-to-day management and business. In addition, Risk Committee established a Risk Management Committee with specific terms of reference. Risk Management Committee consists of Chief Executive Officer, chief risk officer, chief operating officer, chief financial officer, director of compliance, head of human resources and administration, and heads of the respective business segments. The Risk Management Committee usually meets quarterly and is responsible for co-ordinating, facilitating important business management related matters and risk management activities.

The Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Committee are required to report back to the Board on their decisions and recommendations. Material matters will be reported to the Board by the other board committees according to their respective terms of reference.

D.3 Corporate Governance Functions

The Board has delegated the responsibility for performing corporate governance functions to the Audit Committee, with the functions as specified in Code Provision D.3.1(a) to (e).

E.1 Effective Communication

Principle: The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation.

At the annual general meeting held in 2018, a separate resolution was proposed by the Chairman for each substantially separate issue.

The annual general meeting held on 11 May 2018 was attended by the Chairman of the Board, the chairmen of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee or members of the respective Committees, and the representative of the external auditor, Messrs. KPMG, to answer questions from the shareholders.

The Company arranges for the notice to shareholders to be sent for annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days for all other general meetings.

The Board has established a shareholders communication policy and was published on the Company's website. The policy is subject to review on a regular basis to ensure its effectiveness.

Pursuant to the disclosure requirements under the Listing Rules and the Code, the Company is required to disclose the following information on shareholders' rights:

Set out below are procedures by which shareholders of the Company may (a) convene an extraordinary general meeting; (b) put enquiries to the Board; (c) put forward proposals at shareholders' meetings; and (d) propose a person for election as a director. These procedures are generally governed by the Articles of Association and applicable laws, rules and regulations, which prevail over what is stated below in case of inconsistencies.

(a) How shareholders can convene an extraordinary general meeting

Pursuant to Article 67 of the Articles of Association of the Company, extraordinary general meeting(s) shall be convened as provided by the Companies Ordinance.

Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request in writing to call an extraordinary general meeting.

The written request:

(i) must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting (in case if the resolution is to be proposed as a special resolution, the written request should include the text of the resolution and specify the intention to propose the resolution as a special resolution);

(ii) must be signed by the requisitionist(s); and

(iii) may either be deposited at the registered office of the Company at Level 19, 28 Hennessy Road, Hong Kong in hard copy form or sent in electronic form by email at co.sec@swhyhk.com.

The Board must call an extraordinary general meeting within 21 days after the date on which they become subject to the requirement and the extraordinary general meeting so called must be held on a date not more than 28 days after the date of the notice convening the extraordinary general meeting.

If the Board does not proceed to convene the extraordinary general meeting as aforesaid, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, may themselves call an extraordinary general meeting, provided that any extraordinary general meeting so convened is held within 3 months after the date on which the Board becomes subject to the requirement to call an extraordinary general meeting. Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the Board duly to call an extraordinary general meeting must be reimbursed by the Company.

(b) The procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed

Shareholders and other stakeholders may send their enquiries and concerns to the Board by addressing them to Company Secretary, whose contacts are listed below:

Registered office:	Level 19, 28 Hennessy Road, Hong Kong
Email:	co.sec@swhyhk.com

(c) The procedures and sufficient contact details for putting forward proposals at shareholders' meetings

Any shareholder(s) satisfying the following conditions can request in writing to move a resolution at an annual general meeting:

(i) shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders who have a right to vote on the resolution at the annual general meetings to which the requests relate; or

(ii) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The written request:

(i) must identify the resolution of which the notice is to be given;

(ii) must be signed by the requisitionist(s); and

(iii) may either be deposited at the registered office of the Company at Level 19, 28 Hennessy Road, Hong Kong in hard copy form or sent in electronic form by email at co.sec@swhyhk.com, not later than 6 weeks before the annual general meeting to which the requests relate; or if later, the time at which notice is given of that annual general meeting.

(d) The procedures for shareholders to propose a person for election as a director

Pursuant to Article 108 of the Articles of Association of the Company, if a shareholder wish to propose a person other than a retiring director for election as a director at a general meeting, notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company during a period of not less than seven days commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date appointed for the meeting.

During the year, there were no significant changes in the Company's constitutional documents. The Articles of Association of the Company is available on the HKEx's and Company's websites.

E.2 Voting by Poll

Principle: The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Since the amendment of the Listing Rules with effect from 1 January 2009, all resolutions set out in the notice of general meetings of the Company have been conducted by poll.

To ensure that shareholders are familiar with the poll procedures at the annual general meeting held in 2018, the Chairman (through the Company Secretary) explained the detailed procedures of poll voting.

After the conclusion of the annual general meeting, the poll results were published on the website of HKEx at http://www.hkexnews.hk and the Company's website at http://www.swhyhk.com.

F. Company Secretary

Principle: The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors.

Mr. Wong Che Keung Leslie is the Chief Operating Officer and Company Secretary of the Group and has day-to-day knowledge of the Company's affairs. He reports to the Chairman and/or the Chief Executive Officer.

The appointment and removal of the Company Secretary is subject to the Board approval in accordance with the Articles of Association of the Company. Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed.

Mr. Wong confirmed that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2018 in compliance with Rule 3.29 of the Listing Rules. The biographical details of Mr. Wong are set out on page 55 under the section headed Biographical Details of the Directors of the Company and the Senior Management of the Group.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the Group's financial position at that date are set out in the audited financial statements.

The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of 2018 to shareholders on the register of members on 20 May 2019.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out under the sections headed Chairman's Statement, Management Discussion & Analysis of Performance, Corporate Social Responsibility Report and Corporate Governance Report on pages 3 to 5, pages 6 to 10, pages 11 to 22 and pages 23 to 47 respectively of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**519,619**	545,964	416,455	696,649	473,291
Other gains/(loss), net	**2,173**	10,779	1,267	988	(246)
Commission expenses	**(89,909)**	(113,904)	(68,790)	(156,237)	(103,838)
Employee benefit expenses	**(193,710)**	(191,297)	(139,382)	(193,907)	(150,214)
Depreciation	**(8,677)**	(7,655)	(5,040)	(5,248)	(5,884)
Interest expenses	**(11,433)**	(11,771)	(5,883)	(17,396)	(14,273)
Other expenses, net	**(116,431)**	(115,899)	(107,721)	(122,164)	(97,342)
PROFIT BEFORE TAX	**101,632**	116,217	90,906	202,685	101,494
Income tax	**(5,406)**	(12,146)	(8,632)	(18,372)	(7,567)
PROFIT FOR THE YEAR	**96,226**	104,071	82,274	184,313	93,927
Attributable to:					
Ordinary equity holders of the Company	**96,228**	104,097	82,275	184,314	93,934
Non-controlling interests	**(2)**	(26)	(1)	(1)	(7)
	96,226	104,071	82,274	184,313	93,927

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**7,863,656**	7,686,304	7,450,971	7,425,262	6,089,134
TOTAL LIABILITIES	**(5,655,546)**	(5,522,781)	(5,359,214)	(5,344,090)	(4,772,638)
NON-CONTROLLING INTERESTS	**(2,627)**	(2,629)	(3,114)	(2,630)	(2,631)
	2,205,483	2,160,894	2,088,643	2,078,542	1,313,865

The above summary does not form part of the audited financial statements.

SHARE CAPITAL

There were no movements in the issued share capital of the Company during the year.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company, or existed during the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK$38,361,000 of which HK$31,223,000 has been proposed as a final dividend for 2018.

CHARITABLE CONTRIBUTIONS

No charitable contribution was made by the Group during the year.

MAJOR CUSTOMERS AND SUPPLIERS

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

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Zhu Minjie *(Chairman)*
Chen Xiaosheng
Zhang Jian *(appointed on 28 November 2018)*
Guo Chun *(Deputy Chairman)*
Qiu Yizhou *(Chief Executive Officer)*

Non-executive director:
Zhang Lei

Independent non-executive directors:
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Zhuo Fumin *(resigned on 4 September 2018)*
Chen Liqiang *(appointed on 28 November 2018)*

In accordance with Article 104(A) of the Company's Articles of Association and in compliance with Code Provision A.4.3 of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Messrs. Zhu Minjie, Chen Xiaosheng, Zhang Lei, Ng Wing Hang Patrick and Kwok Lam Kwong Larry will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received annual confirmations of independence from Messrs. Ng Wing Hang Patrick, Kwok Lam Kwong Larry and Chen Liqiang and as at the date of this report, still considers them to be independent.

A list of names of all the directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at www.swhyhk.com.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP

Executive directors

Zhu Minjie — Chairman

Mr. Zhu Minjie, aged 53, was appointed as an Executive Director and the Chairman of the Company on 5 March 2016. Mr. Zhu is also the Deputy General Manager of Shenwan Hongyuan Securities Co., Ltd. and a Director, Deputy Chairman and acting duties of General Manager of Shenwan Hongyuan (International) Holdings Limited. He joined the former Shanghai International Securities Co., Ltd. in 1988 and held various positions. Mr. Zhu has over 30 years of experience in the securities industry. He was accredited as Economist by Economics Intermediate Professional and Technical Title Evaluating Committee* (經濟系列中級專業技術職務任職資格評審委員會) of Shanghai Foreign Economics & Trade Commission in 1992. Mr. Zhu graduated from Shanghai Institute of Mechanical Engineering (now known as University of Shanghai for Science and Technology) and also holds a Master's Degree in Economics from Fudan University in Shanghai.

Chen Xiaosheng

Mr. Chen Xiaosheng, aged 48, was appointed as an Executive Director of the Company on 5 March 2016. Mr. Chen is also the Assistant to President of Shenwan Hongyuan Securities Co., Ltd., a Director of SWS Research Co., Ltd. as well as a Director of Shenwan Hongyuan (International) Holdings Limited. He also serves as a deputy head of Securities Analysts and Investment Advisers Committee of the Securities Association of China. From 1994 to 2015, Mr. Chen held various positions at Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd.. He has over 20 years of experience in the securities industry. Mr. Chen was accredited as Securities Analyst by the Securities Association of China in 2011. He graduated from Shanghai Jiaotung University with a Master's Degree in Structural Engineering and also holds an Executive Master of Business Administration Degree from Arizona State University, United States of America.

Zhang Jian

Mr. Zhang Jian, aged 41, was appointed as an Executive Director of the Company on 28 November 2018. Mr. Zhang is also the Assistant to General Manager of Shenwan Hongyuan Securities Co., Ltd. and General Manager of Shenwan Hongyuan Financing Services Co., Ltd.. Prior to joining Shenwan Hongyuan Financing Services Co., Ltd. in November 2017, he worked for CITIC Securities Company Limited from July 2001 to October 2017 and held various positions in corporate finance division and merger and acquisition business division. He has more than 10 years' experience in corporate finance business. Mr. Zhang graduated from Sun Yat-sen University with a Ph.D. in Economics and is qualified as a sponsor representative in China.

* *For identification purpose only*

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Executive directors *(Cont'd)*

Guo Chun — Deputy Chairman

Mr. Guo Chun, aged 54, was appointed as an Executive Director of the Company in May 2000 and as the Deputy Chairman of the Company on 11 August 2018. He served as Chief Executive Officer of the Company from 9 March 2012 to 10 August 2018. Mr. Guo is also the General Manager of the International Business Division of Shenwan Hongyuan Securities Co., Ltd., and a Director and Deputy General Manager of Shenwan Hongyuan (International) Holdings Limited. He has been working in the securities industry of the People's Republic of China (the "PRC") since 1987 and has 31 years' extensive experience in stockbroking and corporate finance in the PRC. Before joining the former Shanghai Shenyin Securities Co., Ltd. and served as a regional superintendent in Shanghai in 1990, Mr. Guo worked for the Industrial and Commercial Bank of China. Mr. Guo acted as the General Manager of the International Business Division of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., and Shenwan Hongyuan Securities Co., Ltd. from May 2008 to March 2012 and since February 2014 to date. Mr. Guo holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia and an Executive Master of Business Administration Degree from Arizona State University, United States of America.

Qiu Yizhou — Chief Executive Officer

Mr. Qiu Yizhou, aged 45, was appointed as an Executive Director of the Company on 15 May 2017 and as the Chief Executive Officer of the Company on 11 August 2018. Mr. Qiu previously served as the Deputy General Manager of Strategic Planning Division of Shenwan Hongyuan Securities Co., Ltd.. He joined Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., in 2004 and has more than 10 years' experience in corporate finance and management of securities business. Mr. Qiu was graduated from Nanjing University with Bachelor's Degree in Economics and also holds Master's Degree in Science from University of Manchester in the United Kingdom.

Non-executive director

Zhang Lei

Mr. Zhang Lei, aged 50, is a Non-executive Director of the Company. He graduated from Shanghai Jiaotong University as doctor of philosophy of Financial Management Engineering in 1997. Mr. Zhang has many years of experience in the securities industry. He has previously worked for Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., as Deputy Manager of Client Asset Management Division. Mr. Zhang joined Shanghai Industrial Investment (Holdings) Company Limited in July 2006, and currently serves as its General Manager of Finance & Planning Department. He also presently holds directorships in certain wholly-owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited and acts as the responsible officer of SIIC Asset Management Company Limited.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Independent non-executive directors

Ng Wing Hang Patrick

Mr. Ng Wing Hang Patrick, aged 66, is an Independent Non-executive Director of the Company. Mr. Ng is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Pan-China (H.K.) CPA Limited, a certified public accountants firm in Hong Kong. He also serves as an Independent Non-executive Director of Far East Hotels and Entertainment Limited, which is listed on the Hong Kong Stock Exchange. Mr. Ng graduated from The Hong Kong Polytechnic University in 1975.

Kwok Lam Kwong Larry, S.B.S., J.P.

Mr. Kwok Lam Kwong Larry, aged 63, is an Independent Non-executive Director of the Company. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a Chartered Accountant in England and Wales and a CPA in Hong Kong and Australia. Mr. Kwok graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws as well as a Master's Degree in Laws. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

Chen Liqiang

Mr. Chen Liqiang, aged 40, is an Independent Non-executive Director of the Company. He is currently working in a financial institution with more than 10 years of finance experience. Mr. Chen has previously worked for the Department of Public Offering Supervision of the China Securities Regulatory Commission and served as Director of the Shanghai Stock Exchange. He graduated from Peking University Law School with a Master Degree in Laws and also obtained the Chinese legal professional qualification.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Senior management

Yang Ming — Deputy General Manager

Mr. Yang Ming, aged 44, has been appointed as Deputy General Manager of the Group in July 2013. Mr. Yang is also the Assistant to General Manager of the International Business Division of Shenwan Hongyuan Securities Co., Ltd. He previously worked for SWS Research Co., Ltd. as Analyst and Manager of Overseas Development Center, and has more than 10 years' experience in securities research. Mr. Yang graduated from the University of Limburg in Belgium as a Master Graduate Student.

He Tian — Deputy General Manager

Mr. He Tian aged 39, has been appointed as Deputy General Manager of the Group in January 2019. Mr. He once served as a Tutor Counselor of Wuhan University Business School, the Head of several industries of CITIC Securities M&A Department, the Head of Real Estate and Infrastructure of CLSA, a Director of JOINCAP Financial Holdings Limited, Mr. He has more than 12 years' experience in corporate finance and private equity investment. He holds a Master of Finance Degree from Wuhan University.

Wong Che Keung Leslie — Chief Operating Officer and Company Secretary

Mr. Wong Che Keung Leslie, aged 54, is the Chief Operating Officer and Company Secretary of the Group. Besides company secretarial duties, Mr. Wong is also responsible for overseeing accounting, securities settlement, credit, treasury, information technology as well as legal affairs of the Group. Mr. Wong once served as the Head of Compliance of the Group and subsequently, a Director of Shenwan Hongyuan Securities (H.K.) Limited and the Finance Director before succeeding to the position of the Chief Operating Officer of the Group in 2010. Mr. Wong was appointed as the Company Secretary of the Group in December 2004. Prior to joining the Group in 1996, he has worked in the Securities and Futures Commission for 7 years. Mr. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants, and obtained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong.

Chia An Pei Angel — Assistant General Manager

Ms. Chia An Pei Angel, aged 40, has been appointed as Assistant General Manager of the Group in October 2017, with the primary charge over Group's asset management business. Ms. Chia has also been Chief Executive Officer of Shenwan Hongyuan Singapore Private Limited, the Group's wholly-owned subsidiary in Singapore since June 2012. She previously worked with Shenwan Hongyuan Asset Management (Asia) Limited as Director of Regional Distribution, and with Shenwan Hongyuan Securities (H.K.) Limited as Managing Director of Institutional Equity Sales. Ms. Chia has accumulated over 15 years of securities sales & dealing experiences from various global FIs, including Citigroup Global Markets, Citigroup Asset Management (now known as Legg Mason Asset Management) and BNP Paribas. She has worked in financial industries in Taipei, New York, Hong Kong and Singapore. Ms. Chia holds a Bachelor of Commerce Degree from University of Toronto.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND THE SENIOR MANAGEMENT OF THE GROUP *(Cont'd)*

Senior management *(Cont'd)*

Xia Mingrui — Assistant General Manager

Mr. Xia Mingrui, aged 45, has been appointed as Assistant General Manager of the Group in October 2017. Mr. Xia has served as manager of the Market Development Department of International Business Division of Shenwan Hongyuan Securities Co., Ltd. and has more than 25 years of experience in securities business. Mr. Xia graduated from Shanghai Jiaotong University with a major in Finance.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board of the Company with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director or a connected entity of a director had a significant beneficial interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the year.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every Director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

The Company has taken out and maintained appropriate directors' liability insurance in respect of relevant legal actions against its directors.

DIRECTOR'S INTEREST IN SHARES

As at 31 December 2018, none of the directors and the chief executive of the Company was taken to be interested or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, the interests of substantial shareholders, other than directors or chief executive of the Company, who had interests or short positions of 5% or more of the issued shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity and nature of interests	Number of ordinary shares interested *(Note)*	Percentage of the Company's issued shares
Shenwan Hongyuan Holdings (B.V.I.) Limited ("SWHYHBVI")	Directly beneficially owned	402,502,312[1]	50.56
Venture-Some Investments Limited ("VSI")	Through controlled corporation	402,502,312[1]	50.56
Shenwan Hongyuan (International) Holdings Limited	Through controlled corporation	402,502,312[1]	50.56
	Directly beneficially owned	768,306,257[2][3]	96.50
Shenwan Hongyuan Securities Co., Ltd.	Through controlled corporation	1,170,808,569[1][2][3]	147.06
Shenwan Hongyuan Group Co., Ltd.	Through controlled corporation	1,170,808,569[1][2][3]	147.06

Notes:

(1) SWHYHBVI is held directly as to 60.82% by VSI. VSI is wholly-owned by Shenwan Hongyuan (International) Holdings Limited which is in turn a wholly-owned subsidiary of Shenwan Hongyuan Securities Co., Ltd.. Shenwan Hongyuan Securities Co., Ltd. is wholly-owned by Shenwan Hongyuan Group Co., Ltd.. Hence, VSI, Shenwan Hongyuan (International) Holdings Limited, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. are deemed to be interested in the same parcel of 402,502,312 shares held by SWHYHBVI under the SFO.

(2) As Shenwan Hongyuan (International) Holdings Limited has agreed to subscribe for 765,000,000 new unissued shares pursuant to the subscription agreement dated 14 December 2018, it is deemed to be interested in such 765,000,000 unissued shares to be allotted and issued upon completion in addition to the 3,306,257 shares currently directly held by it. By virtue of the relationship among Shenwan Hongyuan (International) Holdings Limited, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. as set out in note 1 above, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. are also deemed to be interested in the same parcel of 768,306,257 shares held by Shenwan Hongyuan (International) Holdings Limited under the SFO (please refer to the Company's related announcements and circular for details).

(3) Number of ordinary shares interested include 765,000,000 new shares allotted and issued subsequent to 31 December 2018. The subscription agreement was approved at the extraordinary general meeting held on 31 January 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES *(Cont'd)*

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any person who had interests or short positions in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The connected transactions and continuing connected transactions of the Company and the Group during the year are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

(a) Connected Transactions

(i) Subscription of New Shares by a Connected Person under Specific Mandate

On 14 December 2018, the Company and Shenwan Hongyuan (International) Holdings Limited (the "Subscriber") entered into the subscription agreement (the "Subscription Agreement"), pursuant to which the Subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 765,000,000 new shares at the subscription price of HK$2.068 per subscription share.

Subject to the conditions precedent having been fulfilled or waived (as applicable), completion of the subscription will take place on the third business day after the date on which all the conditions precedents have been fulfilled or (if applicable) waived, or such other date as the parties may agree in writing.

As at the signing date of the Subscription Agreement, the Subscriber directly and indirectly holds an aggregate of 405,808,569 Shares, representing approximately 50.98% of the issued shares of the Company, and therefore, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the subscription constitutes a connected transaction of the Company under the Listing Rules and is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details of the transaction are set out in the announcements of the Company dated 14 December 2018 and 9 January 2019, and the circular of the Company dated 16 January 2019.

(ii) Proposed Appointment as Underwriter(s) by the Parent Company for its proposed H Share offering

On 15 February 2019, Shenwan Hongyuan Group Co., Ltd. ("SWHY Group") and the Company entered into the appointment memorandum (the "Appointment Memorandum"), pursuant to which SWHY Group and the Company have agreed that Shenwan Hongyuan Securities (H.K.) Limited and/or Shenwan Hongyuan Capital (H.K.) Limited, each a wholly-owned subsidiary of the Company is/are conditionally engaged by SWHY Group as its underwriter(s) to subscribe or procure subscriptions for the H Shares for the proposed H Share offering in accordance with the underwriting agreement.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Cont'd)*

(a) Connected Transactions *(Cont'd)*

(ii) Proposed Appointment as Underwriter(s) by the Parent Company for its proposed H Share offering*(Cont'd)*

Completion of the Appointment Memorandum is conditional upon the approval of the Appointment Memorandum and the transactions contemplated thereunder by the independent shareholders at the extraordinary general meeting in accordance with the Listing Rules.

As at the signing date of the Appointment Memorandum, SWHY Group is the parent company of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Appointment Memorandum constitutes a connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details of the transaction are set out in the announcement of the Company dated 15 February 2019.

(b) Continuing Connected Transactions

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions as set out in note 28(a)(i–vi) to the financial statements and confirmed that these transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

KPMG, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. KPMG have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter will be provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following directors are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. Zhu Minjie (Executive Director and Chairman of the Company) is:

- a deputy general manager of Shenwan Hongyuan Securities Co., Ltd. which is involved in securities business;
- a director of Shenyin & Wanguo Investment Co. Ltd. which is involved in equity investment business;
- a director of SWS Research Co., Ltd. which is involved in securities research and consulting business;
- a director of SWS MU Fund Management Co., Ltd. which is involved in fund management business; and
- a director of Shenyin Wanguo Futures Co., Ltd. which is involved in futures business.

Mr. Chen Xiaosheng (Executive Director of the Company) is:

- an assistant to president of Shenwan Hongyuan Securities Co., Ltd. which is involved in securities business; and
- a director of SWS Research Co., Ltd. which is involved in securities research and consulting business.

Mr. Zhang Jian (Executive Director of the Company) is:

- an assistant to general manager of Shenwan Hongyuan Securities Co., Ltd. which is involved in securities business; and
- a general manager of Shenwan Hongyuan Financing Services Co., Ltd. which is involved in securities underwriting, sponsoring and financial advisory businesses.

Mr. Guo Chun (Executive Director and Deputy Chairman of the Company) is the general manager of the international business division of Shenwan Hongyuan Securities Co., Ltd. which is involved in securities business.

Mr. Zhang Lei (Non-executive Director of the Company) is a director and responsible officer of SIIC Asset Management Company Limited which is involved in the provision of asset management services.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS *(Cont'd)*

Any director(s) who is/are or deemed to be interested in any proposed transaction(s) will have his/their interest fully disclosed and will abstain from voting at the relevant resolution(s) in accordance with the applicable requirements of the Articles of Associations, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies/entities.

AUDITORS

KPMG retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhu Minjie
Chairman

Hong Kong
15 February 2019

KPMG

To the members of Shenwan Hongyuan (H.K.) Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Shenwan Hongyuan (H.K.) Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 68 to 158, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Revenue recognition — brokerage business

Refer to note 5 to the consolidated financial statements and the accounting policies on page 111.

The Key Audit Matter	How the matter was addressed in our audit
Revenue from the Group's brokerage business represented 43% of the total revenue of the Group for the year ended 31 December 2018. Revenue from the brokerage business principally comprised brokerage commission income which is recognised on a trade date basis. We identified the recognition of revenue from the brokerage business as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk that the timing of revenue could be manipulated to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue from the brokerage business included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to revenue recognition; • developing an expectation of brokerage commission income for the current year based on our consideration of trading volumes, commission rates and historical data, comparing our expectation with the actual brokerage commission income recorded by the Group and investigating any significant differences between our expectation and the amounts recorded by the Group; • comparing details of journal entries raised during the current year which affected revenue from the brokerage business with underlying documentation on a sample basis; and • for the key underlying systems used for the processing of transactions in relation to brokerage commission income, we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls. We also assessed the design, implementation and operating effectiveness of the key internal controls over the underlying information technology systems, including controls over access to these systems and controls over data and change management.

Revenue recognition — corporate finance business

Refer to note 5 to the consolidated financial statements and the accounting policies on page 111.

The Key Audit Matter	How the matter was addressed in our audit
Revenue from the corporate finance business represented 15% of the total revenue of the Group for the year ended 31 December 2018. Revenue from the corporate finance business principally comprised underwriting commission, sponsorship fees and financial advisory fees. Underwriting commission is recognised when the obligations under the underwriting agreement have been fulfilled. Sponsorship fees and financial advisory fees are recognised when the corresponding service is provided. When the service arrangement cover a range of services to be provided over time, the determination of the timing and the proportion of recognition of underwriting commission, sponsorship fees and financial advisory fees can involve significant management judgement.	Our audit procedures to assess the recognition of revenue from the corporate finance business included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to revenue recognition, including deal approval, invoicing and journal entry approval; • performing the following procedures to assess the recognition of revenue for a sample of specific revenue transactions recorded during the current year: — inspecting the executed service agreements and evaluating whether revenue was recognised in accordance with the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; — inspecting relevant documentation such as circulars issued by listed companies and correspondence with customers to assess whether the service has been performed and completed in accordance with the terms of the executed service agreements;

The Key Audit Matter	How the matter was addressed in our audit
We identified the recognition of revenue from the corporate finance business as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk that the timing of revenue could be manipulated to meet specific targets or expectations and because the timing of recognition of underwriting commission, sponsoring fees and financial advisory fees requires management judgement.	— where partial fees were recognised before project completion, making enquiries of the relevant business teams to understand the basis of partial fee recognition and assessing whether the related revenue was recognised in the appropriate accounting period in accordance with the Group's revenue recognition policies; • obtaining an analysis of revenue from the corporate finance business recognised after the reporting date and inspecting relevant documentation, including circulars issued by listed companies and correspondence with customers, to assess whether any income should have been recognised in the current year; and • comparing details of journal entries raised during the current year which affected revenue from the corporate finance business with underlying documentation on a sample basis.

Information other than the consolidated financial statements and our auditor's report thereon

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Fong Hoi Wan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December

	Note	2018 HK$'000	2017 (Note) HK$'000
REVENUE	5	**519,619**	545,964
— Interest revenue calculated using the effective interest method		**67,275**	44,268
— Revenue from contracts with customers within the scope of HKFRS15		**342,748**	356,305
— Revenue from other sources		**109,596**	145,391
Other gains, net	5	**2,173**	10,779
Commission expenses		**(89,909)**	(113,904)
Employee benefit expenses	6	**(193,710)**	(191,297)
Depreciation	12	**(8,677)**	(7,655)
Interest expenses	6	**(11,433)**	(11,771)
Other expenses, net		**(116,431)**	(115,899)
PROFIT BEFORE TAXATION	6	**101,632**	116,217
Income tax	9	**(5,406)**	(12,146)
PROFIT FOR THE YEAR		**96,226**	104,071
Attributable to:			
Ordinary equity holders of the Company		**96,228**	104,097
Non-controlling interests		**(2)**	(26)
PROFIT FOR THE YEAR		**96,226**	104,071
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	11	**HK12.09 cents**	HK13.08 cents

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.3.

The notes on pages 75 to 158 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

	2018 HK$'000	2017 *(Note)* HK$'000
PROFIT FOR THE YEAR	**96,226**	104,071
OTHER COMPREHENSIVE INCOME FOR THE YEAR:		
Items that may be reclassified to the consolidated statement of profit or loss in subsequent periods		
Release of exchange differences upon deemed disposal of a subsidiary	**–**	522
OTHER COMPREHENSIVE INCOME, NET OF TAX	**–**	522
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**96,226**	104,593
Attributable to:		
Ordinary equity holders of the Company	**96,228**	104,619
Non-controlling interests	**(2)**	(26)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**96,226**	104,593

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.3.

The notes on pages 75 to 158 form part of these financial statements.

	Note	As at 31 December 2018 HK$'000	As at 31 December 2017 (Note) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**13,150**	17,136
Stock and Futures Exchange trading rights	13	**4,212**	4,212
Other assets	14	**22,922**	31,226
Deferred tax assets	15	**4,624**	4,641
Total non-current assets		**44,908**	57,215
CURRENT ASSETS			
Investments at fair value through profit or loss	16	**602,272**	148,778
Account receivables	17	**457,414**	679,284
Other contract cost		**5,000**	–
Loans and advances	18	**1,208,091**	2,290,889
Prepayments, deposits and other receivables	19	**37,277**	25,753
Tax recoverable		**8,674**	12,041
Bank balances held on behalf of clients	20	**4,879,449**	4,064,887
Cash and bank balances	21	**620,571**	407,457
Total current assets		**7,818,748**	7,629,089
CURRENT LIABILITIES			
Account payables	22	**5,082,122**	4,588,066
Other payables and accruals	23	**82,185**	86,087
Interest-bearing bank borrowings	24	**469,920**	845,000
Contract liabilities	22	**13,144**	–
Tax payable		**7,232**	2,467
Total current liabilities		**5,654,603**	5,521,620
NET CURRENT ASSETS		**2,164,145**	2,107,469
TOTAL ASSETS LESS CURRENT LIABILITIES		***2,209,053***	*2,164,684*
NON-CURRENT LIABILITY			
Deferred tax liability	15	**943**	1,161
NET ASSETS		**2,208,110**	2,163,523

	Note	As at 31 December 2018 HK$'000	As at 31 December 2017 *(Note)* HK$'000
EQUITY			
Equity attributable to ordinary equity shareholders of the Company			
Share capital	*25*	**1,200,457**	1,200,457
Other reserves	*26*	**1,005,026**	960,437
		2,205,483	2,160,894
Non-controlling interests		**2,627**	2,629
TOTAL EQUITY		**2,208,110**	2,163,523

Approved and authorised for issue by the board of directors on 15 February 2019.

Zhu Minjie
Director

Qiu Yizhou
Director

The notes on pages 75 to 158 form part of these financial statements.

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.3.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		Attributable to ordinary equity holders of the Company							
		Share capital *(Note 25)*	Capital reserve	General reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017		1,200,457	15*	138*	(522)*	888,555*	2,088,643	3,114	2,091,757
Profit for the year		–	–	–	–	104,097	104,097	(26)	104,071
Other comprehensive income for the year:									
Release of exchange differences upon deemed disposal of a subsidiary		–	–	–	522	–	522	–	522
Total comprehensive income for the year		–	–	–	522	104,097	104,619	(26)	104,593
Final 2016 dividend declared and paid	*10*	–	–	–	–	(31,846)	(31,846)	–	(31,846)
Capital contribution from non-controlling shareholder of a subsidiary		–	–	–	–	–	–	292	292
Deemed disposal of a subsidiary		–	–	–	–	(522)	(522)	(751)	(1,273)
At 31 December 2017 *(Note)*		1,200,457	15*	138*	–*	960,284*	2,160,894	2,629	2,163,523
Impact on initial application of HKFRS 15		–	–	–	–	(2,656)	(2,656)	–	(2,656)
Impact on initial application of HKFRS 9		–	–	–	–	(1,215)	(1,215)	–	(1,215)
Adjusted balance at 1 January 2018		**1,200,457**	**15**	**138**	**–**	**956,413**	**2,157,023**	**2,629**	**2,159,652**
Profit for the year		**–**	**–**	**–**	**–**	**96,228**	**96,228**	**(2)**	**96,226**
Final 2017 dividend declared and paid	*10*	**–**	**–**	**–**	**–**	**(47,768)**	**(47,768)**	**–**	**(47,768)**
At 31 December 2018		**1,200,457**	**15***	**138***	**–***	**1,004,873***	**2,205,483**	**2,627**	**2,208,110**

* These reserve accounts comprise the other reserves of HK$1,005,026,000 (2017: HK$960,437,000) in the consolidated statement of financial position.

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.3.

The notes on pages 75 to 158 form part of these financial statements.

	Note	2018 HK$'000	2017 *(Note)* HK$'000
Cash flows from operating activities			
Profit before tax		**101,632**	116,217
Adjustments for:			
Depreciation	*12*	**8,677**	7,655
Interest income from banks and others	*5*	**(67,275)**	(44,268)
Dividend income		**(794)**	(536)
Interest expenses	*6*	**11,433**	11,771
Impairment/bad debt written-off		**1,000**	1,958
Loss on disposal of property, plant and equipment	*5*	**44**	–
		54,717	92,797
Decrease in other assets		**8,304**	1,204
Net increase in investments at fair value through profit or loss		**(453,494)**	(38,333)
Decrease/(increase) in account receivables		**219,655**	(192,682)
Decrease/(increase) in loans and advances		**1,082,798**	(498,728)
(Increase)/decrease in prepayments, deposits and other receivables		**(5,327)**	2,935
Increase in contract liabilities		**9,964**	–
Increase in other contract cost		**(5,000)**	–
(Increase)/decrease in bank balances held on behalf of clients		**(814,562)**	512,006
Increase/(decrease) in account payables		**494,056**	(443,310)
(Decrease)/increase in other payables and accruals		**(3,902)**	37,808
Cash generated from/(used in) operations		**587,209**	(526,303)
Hong Kong profits tax refunded/(paid)		**3,336**	(3,403)
Overseas taxes (paid)/refunded		**(287)**	105
Net cash flows generated from/(used in) operating activities		**590,258**	(529,601)

	Note	2018 HK$'000	2017 *(Note)* HK$'000
Cash flow from investing activities			
Purchases of property, plant and equipment	*12*	**(4,735)**	(15,260)
Interest received		**61,078**	41,995
Dividend received		**794**	536
Net cash flow from deemed disposal of a subsidiary		**–**	(1,011)
Net cash flows generated from investing activities		**57,137**	26,260
Cash flows from financing activities			
Net (payment to)/proceeds from bank loans	*21(b)*	**(375,012)**	566,417
Interest paid	*21(b)*	**(11,501)**	(11,778)
Dividend paid	*10*	**(47,768)**	(31,846)
Capital contribution from non-controlling shareholder of a subsidiary		**–**	292
Net cash flows (used in)/generated from financing activities		**(434,281)**	523,085
Net increase in cash and cash equivalents		**213,114**	19,744
Cash and cash equivalents at beginning of year		**407,457**	387,713
Cash and cash equivalents at end of year	*21(a)*	**620,571**	407,457

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.3.

The notes on pages 75 to 158 form part of these financial statements.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE AND GROUP INFORMATION

Shenwan Hongyuan (H.K.) Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is situated at Level 19, 28 Hennessy Road, Hong Kong.

During the year, Shenwan Hongyuan (H.K.) Limited and its subsidiaries were involved in the following principal activities:

- brokerage business
- corporate finance business
- asset management business
- financing and loans business
- investment and other business

The Company is a subsidiary of Shenwan Hongyuan Holdings (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability. In the opinion of the directors, the ultimate holding company of the Company is Shenwan Hongyuan Group Co., Ltd., which was established in the People's Republic of China (the "PRC") and listed in Shenzhen Stock Exchange (stock code: 000166).

Information about subsidiaries

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operate in Hong Kong. Particulars of the Company's principal subsidiaries are as follows:

Name	Issued ordinary share capital	Percentage of equity attributable to the Company				Principal activities
		Direct		Indirect		
		2018	2017	2018	2017	
Shenwan Hongyuan Securities (H.K.) Limited	HK$700,000,000	100	100	–	–	Securities brokerage and margin financing
Shenwan Hongyuan Futures (H.K.) Limited	HK$30,000,000	100	100	–	–	Futures and options brokerage
Shenwan Hongyuan Capital (H.K.) Limited	HK$20,000,000	100	100	–	–	Corporate finance
Shenwan Hongyuan Asset Management (Asia) Limited	HK$10,000,000	–	–	100	100	Provision of asset management services
Shenwan Hongyuan Research (H.K.) Limited	HK$300,000	100	100	–	–	Provision of securities research services
Shenwan Hongyuan Strategic Investments (H.K.) Limited	HK$10,000	100	100	–	–	Securities trading and investment holding

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE AND GROUP INFORMATION *(Cont'd)*

Name	Issued ordinary share capital	Percentage of equity attributable to the Company				Principal activities
		Direct		Indirect		
		2018	2017	2018	2017	
Shenwan Hongyuan Finance (H.K.) Limited	HK$25,000,000	100	100	–	–	Provision of financial services
Shenwan Hongyuan Enterprises (H.K.) Limited	HK$15,000,000	100	100	–	–	Provision of management and treasury services
Shenwan Hongyuan Online Limited	HK$2	100	100	–	–	Leasing of computer equipment
Shenwan Hongyuan Trading (H.K.) Limited	HK$375,000	100	100	–	–	Securities trading
Sparkle Well Limited	HK$2	100	100	–	–	Property holding
Wealthy Limited	HK$2	100	100	–	–	Property holding
Shenwan Hongyuan (Asia) Limited	HK$2	100	100	–	–	Investment holding
First Million Holdings Ltd*	US$1	100	100	–	–	Investment holding
Crux Assets Limited*	US$1	–	–	100	100	Investment holding
Shenwan Hongyuan Nominees (H.K.) Limited	HK$1,000	–	–	100	100	Provision of share custodian and nominee services
Shenyin Wanguo Online Broker (H.K.) Limited	HK$10,000,000	60	60	–	–	Dormant
Shenwan Hongyuan Singapore Private Limited#	SG$2,500,000	–	–	100	100	Securities brokerage

* Incorporated in the British Virgin Islands
\# Incorporated in the Republic of Singapore

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. The financial statements not audited by KPMG reflect total net assets and total profit before tax constituting approximately 1.9% and 10.6% of consolidated totals.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out in note 2.5.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2.3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (collectively referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except the following assets are stated at their fair value as explained in the accounting policies set out below.

– Investments at fair value through profit or loss (see note 2.5(g)(ii))

– Loans and advances (see note 2.5(g)(ii))

– Advances to cash clients (see note 2.5(g)(ii))

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

2.3 CHANGES IN ACCOUNTING POLICY

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(a) HKFRS 9, *Financial instruments*

(b) HKFRS 15, *Revenue from contracts with customers*

(c) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(a) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments*: *recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

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

	HK$'000
Retained profits	
Recognition of additional expected credit losses on:	
– financial assets measured at amortised cost	(1,215)
Related tax	–
Net decrease in retained profits at 1 January 2018	(1,215)

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

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(a) HKFRS 9, *Financial instruments* *(Cont'd)*

a. *Classification of financial assets and financial liabilities*

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

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

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets carried at amortised cost				
Other assets	31,226	–	–	31,226
Account receivables *(note i)*	679,284	(54,171)	(1,215)	623,898
Loans and advances *(note ii)*	2,290,889	(2,290,889)	–	–
Deposits and other receivables	19,150	–	–	19,150
Bank balances held on behalf of clients	4,064,887	–	–	4,064,887
Cash and bank balances	407,457	–	–	407,457
	7,492,893	(2,345,060)	(1,215)	5,146,618
Financial assets carried at FVPL				
Investments at fair value through profit or loss	148,778	–	–	148,778
Loans and advances *(note ii)*	–	2,290,889	–	2,290,889
Advances to cash clients *(note i)*	–	54,171	–	54,171
	148,778	2,345,060	–	2,493,838

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(a) HKFRS 9, *Financial instruments* (Cont'd)

a. *Classification of financial assets and financial liabilities (Cont'd)*

Notes:

(i) Advances to cash clients of $54,171,000 were reclassified to financial assets carried at FVPL at 1 January 2018 as a result of the initial application of HKFRS 9.

(ii) Loans and advances were reclassified to financial assets carried at FVPL at 1 January 2018 as a result of the initial application of HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2.5(g), (l), (m) and (n).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

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

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

– financial assets measured at amortised cost; and

– other contract cost (see note 2.5(i));

For further details on the Group's accounting policy for accounting for credit losses, see note 2.5(h).

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(a) HKFRS 9, *Financial instruments* *(Cont'd)*

b. Credit losses (Cont'd)

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

	HK$'000
Loss allowance at 31 December 2017 under HKAS 39	–
Additional credit loss recognised at 1 January 2018 on:	
– Account receivables measured at amortised cost	1,215
Loss allowance at 1 January 2018 under HKFRS 9	1,215

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVPL.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(b) HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to HKFRS 15 on retained profits and the related tax impact at 1 January 2018:

	Impact of adopting HKFRS 15 at 1 January 2018 HK$'000
Retained profits	
Deferred revenue recognition for financial advisory and sponsorship fee income	**(3,180)**
Related tax	**524**
Net decrease in retained profits at 1 January 2018	**(2,656)**

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(b) HKFRS 15, *Revenue from Contracts with Customers* *(Cont'd)*

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

a. *Timing of revenue recognition*

Previously, revenue arising from provision of services was recognised over time.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The timing of revenue recognition for corporate finance business is affected as follows:

Financial advisory and sponsorship fee income: Financial advisory and sponsorship contracts with customers are not standardised and they are assessed on a contract-by-contract basis. Under some of these contracts, the Group does not have the right to be paid for work done to date if the customer was to cancel the contract before the service was fully completed. These contracts therefore do not satisfy the criteria for recognising revenue over time, whereas previously the Group recognise revenue over time. Accordingly, revenue and the associated costs for these contracts are recognised in profit or loss earlier under HKAS 18 than under HKFRS 15.

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(b) HKFRS 15, *Revenue from Contracts with Customers* (Cont'd)

b. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the completion date of legal assignment.

c. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to receive consideration. If the Group recognises the related revenue (see note 2.5(g)) before being unconditionally entitled to the consideration for the promised services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2.5(j)).

As a result of the above changes in accounting policy, the Group has made adjustments to opening balances at 1 January 2018 which decreased retained profits by HK$2,656,000, increased tax recoverable by HK$524,000 and increased contract liabilities by HK$3,180,000.

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(b) HKFRS 15, *Revenue from Contracts with Customers* (Cont'd)

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) HK$'000	Hypothetical amounts under HKAS 18 (B) HK$'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) HK$'000
Line items in the consolidated statement of profit or loss for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenue	519,619	531,584	(11,965)
Commission expenses	(89,909)	(94,909)	5,000
Profit before taxation	101,632	108,597	(6,965)
Income tax	(5,406)	(6,555)	1,149
Profit for the year	96,226	102,042	(5,816)
Profit attributable to ordinary equity holders of the Company	96,228	102,044	(5,816)
Earnings per share			
Basic and diluted	HK12.09 cents	HK12.82 cents	HK(0.73) cents
Line items in the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	96,226	102,042	(5,816)
Total comprehensive income attributable to the ordinary equity holders of the Company	96,228	102,044	(5,816)

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(b) HKFRS 15, *Revenue from Contracts with Customers* *(Cont'd)*

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (Cont'd)

	Amounts reported in accordance with HKFRS 15 (A) HK$'000	Hypothetical amounts under HKAS 18 (B) HK$'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Account receivables	457,414	459,414	(2,000)
Other contract cost	5,000	–	5,000
Tax recoverable	8,674	8,155	519
Total current assets	7,818,748	7,815,229	3,519
Contract liabilities	13,144	–	13,144
Tax payable	7,232	8,387	(1,155)
Total current liabilities	5,654,603	5,642,614	11,989
Net current assets	2,164,145	2,172,615	(8,470)
Total assets less current liabilities	2,209,053	2,217,523	(8,470)
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Profit before taxation	101,632	108,597	(6,965)
Increase in other contract costs	5,000	–	5,000
Decrease in account receivables	219,655	221,655	(2,000)
Increase in contract liabilities	9,964	–	9,964

The significant differences arise as a result of the changes in accounting policies described above.

(Expressed in Hong Kong dollars unless otherwise indicated)

2.3 CHANGES IN ACCOUNTING POLICY *(Cont'd)*

(c) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

2.4 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

Since the assessments of HKFRS 16 is in progress, the actual impacts on the initial adoption of the standards will be applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

2.4 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Cont'd)*

HKFRS 16, Leases

As disclosed in note 2.5(f), currently the Group classifies leases into operating leases. The Group enters into leases only as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 27, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$82,857,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK$68,301,000, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2.5(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2.5(h)).

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(b) Fair value measurement

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy with reference to the observability and significance of the inputs that are used in the valuation technique as follows:

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

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

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

For assets and liabilities that are measured at fair value and recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(c) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

– Leasehold land under finance leases	Over the lease terms
– Buildings	4%
– Leasehold improvements	Over the lease terms
– Furniture, fixtures and equipment	15% – $33^1/_3$%
– Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(e) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets, which consist of the Stock and Futures Exchange trading rights, being the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited with indefinite useful lives, are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of the Stock and Futures Exchange trading rights is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(f) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership are not transferred to the lessee are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVPL). When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss for which transaction costs are recognised directly in profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

All financial liabilities are recognised initially at its fair value net of directly attributable transaction costs.

(ii) Classification

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVPL.

<u>Financial asset measured at amortised cost or at FVOCI</u>

A financial asset is measured at amortised cost if it has contractual terms that give rise to cash flows that are solely for payments of principal and interest ("SPPI characteristics"). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as profit margin.

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows. The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets and financial liabilities *(Cont'd)*

(ii) Classification (Cont'd)

Policy applicable from 1 January 2018 *(Cont'd)*

Financial asset measured at amortised cost or at FVOCI *(Cont'd)*

– how the performance of the portfolio is evaluated and reported to the Group's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

– how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

– the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

– contingent events that would change the amount and timing of cash flows;

– leverage features;

– prepayment and extension terms;

– terms that limit the Group's claim to cash flows from specified assets; and

– features that modify consideration of the time value of money (e.g. periodical reset of interest rate).

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets and financial liabilities *(Cont'd)*

(ii) Classification (Cont'd)

Policy applicable from 1 January 2018 *(Cont'd)*

Financial asset measured at FVPL

Financial assets which are not held at amortised cost or not held at fair value through other comprehensive income are held at fair value through profit or loss (FVPL). Financial assets and financial liabilities held at fair value through profit or loss are either mandatorily classified as fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Financial assets and financial liabilities which are mandatorily held at fair value through profit or loss are split between two sub-categories as follows:

– Trading, including financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term and derivatives.

– Non-trading mandatorily at fair value through profit or loss, including instruments (other than trading or derivatives) in a business which has a fair value business model, financial asset that would otherwise be measured at amortised cost of FVOCI but which do not have SPPI characteristics and equity instruments that have not been designated as held at FVOCI.

Financial assets and financial liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis.

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

The Group's financial liabilities include account payables, other payables and certain accruals and interest-bearing bank borrowings. The Group classified its financial liabilities at amortised cost.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets and financial liabilities *(Cont'd)*

(ii) Classification (Cont'd)

Policy applicable from 1 January 2018 *(Cont'd)*

Financial asset measured at FVPL *(Cont'd)*

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Policy applicable prior 1 January 2018

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

(iii) Subsequent measurement

Policy applicable from 1 January 2018

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method.

Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in the income statement unless the instrument is part of a cash flow hedging relationship. Contractual interest income on financial assets held at fair value through profit or loss is recognised as interest income in a separate line in the consolidated statement of profit or loss.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets and financial liabilities *(Cont'd)*

(iii) Subsequent measurement (Cont'd)

Policy applicable prior 1 January 2018 *(Cont'd)*

Financial assets at FVPL

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive and negative net changes in fair value recognised in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss.

Loans and borrowings

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

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

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(g) Financial assets and financial liabilities *(Cont'd)*

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged or expired.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets

(i) Credit losses from financial assets measured at amortised cost

Policy applicable from 1 January 2018

Expected credit losses (ECLs) are determined for all financial instruments that are classified at amortised cost or at FVOCI. Financial assets measured at FVPL are not subject to the ECL assessment.

Measurement of ECLs

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

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

– fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof;

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets *(Cont'd)*

(i) Credit losses from financial assets measured at amortised cost (Cont'd)

Policy applicable from 1 January 2018 *(Cont'd)*

Measurement of ECLs *(Cont'd)*

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due over 90 days. 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.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets *(Cont'd)*

(i) Credit losses from financial assets measured at amortised cost (Cont'd)

Policy applicable from 1 January 2018 *(Cont'd)*

Significant increases in credit risk *(Cont'd)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

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

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

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

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets *(Cont'd)*

(i) Credit losses from financial assets measured at amortised cost (Cont'd)

Policy applicable from 1 January 2018 *(Cont'd)*

Basis of calculation of interest income

Interest income recognised in accordance with note 2.5(g) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

– significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets *(Cont'd)*

(i) Credit losses from financial assets measured at amortised cost (Cont'd)

Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

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

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

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

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets *(Cont'd)*

(i) Credit losses from financial assets measured at amortised cost (Cont'd)

Policy applicable prior to 1 January 2018 *(Cont'd)*

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

The Group considered evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any Impairment that had been incurred but not yet identified. Loans and advances that were not individually significant were collectively assessed for impairment by grouping together loans and advances with similar credit risk characteristics.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets (other than goodwill); and

– investments in subsidiaries, in company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets *(Cont'd)*

(ii) Impairment of other non-current assets (Cont'd)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(i) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, commission expense). Other costs of fulfilling a contract, which are not capitalised as property, plant and equipment or intangible assets, are expensed as incurred.

(j) Contract assets and contract liabilities

Policy applicable from 1 January 2018

A contract asset is recognised when the Group recognises revenue (see note 2.5(g)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2.5(h) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.5(q)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2.5(q)).

Policy prior to 1 January 2018

Amounts received before the related work was performed were presented as "Other payables".

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(k) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2.5(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2.5(h)), except for advances to cash clients which are measured at FVPL (see note 2.5(g)(ii)).

(m) Cash and bank balances

For the purpose of the consolidated statement of cash flows, cash and bank balances comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2.5(h)(i).

(n) Bank balances held on behalf of clients

The Group has classified clients' monies as bank balances held on behalf of clients under the current assets section of the consolidated statement of financial position and recognised a corresponding account payables to respective clients on grounds that the Group is liable for any loss or misappropriation of clients' monies. Bank balances held on behalf of clients are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2.5(h)(i).

2.5 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

(p) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(p) Income tax *(Cont'd)*

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(q) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services.

Revenue is recognised when control over service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties.

Where the contract contains a variable consideration, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised services to a customer and includes in the transaction price some or all of the variable consideration estimated, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(a) Brokerage business income

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling, research fee and facilitating fee income arising from brokerage business are recognised when the related services are rendered.

(b) Corporate finance business income

(i) Underwriting fee income

Underwriting fee income is recognised when the Group has fulfilled its obligations under the underwriting contract.

(ii) Sponsorship fee income and financial and compliance advisory fee income

Depending on the nature and the contract terms, the income is recognised progressively over time using a method that depicts the Group's performance, or at a point in time when the advisory service is completed.

In the comparative period, the income was recognised when the underlying services had been provided.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(q) Revenue and other income *(Cont'd)*

(c) Asset management fee income

Asset management fee income includes periodic management fees calculated based on assets under management and performance-based fees. The income is recognised progressively over time using a method that depicts the Group's performance, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

(d) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(h)(i)).

(e) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(f) Investment income

Investment income including realised fair value gains or losses on listed and unlisted investments trading, on a trade date basis and unrealised fair value gains or losses on changes in fair value at the end of the reporting period.

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(s) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. The Group also retains its previous retirement scheme (the "ORSO Scheme") registered under the Occupational Retirement Scheme Ordinance as a top-up benefit for its employees.

Contributions are made based on a percentage of the employees' relevant income or basic salaries, whichever is greater, and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme and the ORSO Scheme. For the ORSO Scheme, when the contribution exceeds the statutory maximum requirements, the excess contribution is credited as the employer's voluntary contribution to the ORSO Scheme. The employer's mandatory contributions to the MPF Scheme vest fully with the employees when contributed into the MPF Scheme. The employer's voluntary contributions to the ORSO Scheme vest with the employees according to the vesting scale of the ORSO Scheme. Forfeited contributions in respect of employees who leave the Group before their contributions fully vest are available to the Group to offset its future voluntary contributions.

The assets of the MPF Scheme and the ORSO Scheme are held separately from those of the Group in independently administered funds.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(t) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

The functional currencies of the overseas subsidiaries are determined as Hong Kong dollar and Renminbi.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at ruling at the transaction dates. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

When the functional currencies of overseas subsidiaries are currencies other than the Hong Kong dollar, as at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.5 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(u) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT JUDGEMENT AND ACCOUNTING ESTIMATES

The preparation of the Group's financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

(i) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(ii) Provision for impairment loss of financial assets measured at amortised cost

In determining expected credit loss for financial assets measured at amortised cost, the most significant judgements relate to defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. A high degree of uncertainty is involved in making estimations using assumptions that are highly subjective and very sensitive to the risk factors. Management reviews the provision on a regular basis.

4 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has six reportable operating segments as follows:

(a) brokerage business;

(b) corporate finance business;

(c) asset management business;

(d) financing and loans business;

(e) investment business; and

(f) others.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before taxation.

4 OPERATING SEGMENT INFORMATION *(Cont'd)*

Segment assets exclude deferred tax assets, tax recoverable and unlisted club debentures included in other assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liability and tax payable as these liabilities are managed on a group basis.

	Brokerage business HK$'000	Corporate finance business HK$'000	Asset management business HK$'000	Financing and loans business HK$'000	Investment business HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2018							
Revenue form contracts with customers by timing of recognition							
Point in time	225,757	57,744	–	–	–	–	283,501
Over time	–	18,402	40,845	–	–	–	59,247
Revenue form contracts with customers within the scope of HKFRS 15	225,757	76,146	40,845	–	–	–	342,748
Revenue form other sources and other gains/(losses)	–	–	–	186,628	(9,757)	2,173	179,044
Segment revenue and other gains/(losses)	225,757	76,146	40,845	186,628	(9,757)	2,173	521,792
Segment revenue and profit/(loss) before taxation	20,712	10,230	3,437	76,242	(11,162)	2,173	101,632
Other segment information:							
Interest expenses	–	–	–	11,433	–	–	11,433
Depreciation expenses	2,670	998	584	4,425	–	–	8,677
Capital expenditure	2,373	678	420	1,201	63	–	4,735

4 OPERATING SEGMENT INFORMATION (Cont'd)

	Brokerage business (Note) HK$'000	Corporate finance business (Note) HK$'000	Asset management business (Note) HK$'000	Financing and loans business HK$'000	Investment business HK$'000	Others HK$'000	Total (Note) HK$'000
Year ended 31 December 2017							
Segment revenue and other gains/ (losses)	248,080	98,694	9,531	174,036	15,623	10,779	556,743
Segment results and profit/(loss) before taxation	18,910	13,327	(5,245)	65,937	12,509	10,779	116,217
Other segment information:							
Interest expenses	–	–	–	11,771	–	–	11,771
Depreciation expenses	2,082	326	216	–	5,031	–	7,655
Capital expenditure	8,292	15	2,338	–	4,615	–	15,260

Note: The Group has initially applies HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see note 2.3(b)).

Geographical information

The Group's operations are substantially located in Hong Kong and substantially all non-current assets of the Group are located in Hong Kong. Therefore, no further analysis of geographical information is presented.

Information about major customers

As no customer of the Group from whom the revenue derived individually has amounted to over 10% of the Group's total revenue during the year, no information about major customers is presented.

5 REVENUE AND OTHER GAINS, NET

An analysis of revenue and other gains, net are as follows:

(a) Disaggregation of revenue and other gains, net

	2018 HK$'000	2017 *(Note)* HK$'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Brokerage business:		
Commission on securities dealing		
– Hong Kong securities	**151,024**	167,924
– Other than Hong Kong securities	**32,755**	27,442
Commission on futures and options contracts dealing	**18,581**	19,439
Handling fee and facilitating fee income	**10,613**	13,288
Research fee income and others	**12,784**	19,987
	225,757	248,080
Corporate finance business:		
Initial public offering, placing, underwriting and sub-underwriting commission	**54,399**	75,427
Financial advisory, compliance advisory, sponsorship fee income and others	**21,747**	23,267
	76,146	98,694
Asset management business:		
Management fee and investment advisory fee income	**40,103**	9,531
Performance fee income	**742**	–
	40,845	9,531

Note: The Group has initially applies HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see note 2.3(b)).

5 REVENUE AND OTHER GAINS, NET *(Cont'd)*

(a) Disaggregation of revenue and other gains, net *(Cont'd)*

	2018 HK$'000	2017 *(Note)* HK$'000
Revenue from other sources:		
Financing and loans business:		
— Interest income calculated using the effective interest method		
Interest income from banks and others	**67,275**	44,268
— Other interest income		
Interest income from initial public offering loans	**4,979**	6,020
Interest income from loans to cash clients and margin clients	**114,374**	123,748
	186,628	174,036
Investment business:		
Net realised and unrealised gains/(losses) on financial assets:		
– Listed investments	**(1,541)**	845
– Unlisted investments	**(14,067)**	9,453
Dividend income and interest income:		
– Listed investments	**235**	536
– Unlisted investments	**5,616**	4,789
	(9,757)	15,623
	519,619	545,964
Other gains, net:		
Exchange gains, net	**2,217**	10,779
Loss on disposal of property, plant and equipment	**(44)**	–
	2,173	10,779

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see note 2.3(b)).

5 REVENUE AND OTHER GAINS, NET *(Cont'd)*

(b) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15. For corporate finance business contracts in existence as at 31 December 2018, the Group will recognise the expected revenue in future when the remaining performance obligations under the contracts are satisfied (see note 2.5(q)). All of these contracts had an original expected duration of one year or less.

6 PROFIT BEFORE TAXATION

The Group's profit before tax is arrived at after (crediting)/charging:

	2018 HK$'000	2017 *(Note)* HK$'000
Employee benefit expenses (including directors' emoluments — note 7):		
Salaries and other staff costs	185,213	183,788
Retirement benefit scheme contributions	9,776	9,122
Less: Forfeited contributions	(1,279)	(1,613)
Net retirement benefit scheme contributions*	8,497	7,509
	193,710	191,297
Interest expenses on loans and overdrafts wholly repayable within five years	11,433	11,771
Minimum lease payments under operating leases in respect of land and buildings	29,297	28,663
Auditors' remuneration	1,961	2,016

* At 31 December 2018, the Group had forfeited contributions of HK$13,000 (2017: HK$82,000) which were included in prepayment, deposits and other receivables in the consolidated statement of financial position which is available to reduce its contributions to the retirement benefit schemes in future.

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition chosen, comparative information is not restated. See note 2.3.

7 DIRECTORS' EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 HK$'000	2017 HK$'000
Fees	**525**	540
Other emoluments:		
Salaries, allowances and benefits in kind	**5,636***	9,197
Retirement benefit scheme contributions	**–**	100
	5,636	9,297
	6,161	9,837

* The evaluation of the performance of the Executive Directors has not yet been completed. Thus, the amount of salaries, allowances and benefits in kind has not been determined and the final amount will be disclosed in due course.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 HK$'000	2017 HK$'000
Ng Wing Hang Patrick	**180**	180
Kwok Lam Kwong Larry	**180**	180
Zhuo Fumin (resigned on 4 September 2018)	**135**	180
Chen Liqiang (appointed on 28 November 2018)	**30**	–
	525	540

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

7 DIRECTORS' EMOLUMENTS *(Cont'd)*

(b) Executive directors and non-executive directors

The emoluments paid to executive directors and non-executive directors during the year was as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
2018				
Executive directors:				
Zhu Minjie	–	–	–	–
Chen Xiaosheng	–	–	–	–
Guo Chun	–	3,089*	–	3,089
Qiu Yizhou	–	2,547*	–	2,547
Zhang Jian (appointed on 28 November 2018)	–	–	–	–
	–	5,636	–	5,636
Non-executive directors:				
Zhang Lei	–	–	–	–
	–	5,636	–	5,636

* The evaluation of the performance of the Executive Directors has not yet been completed. Thus, the amount of salaries, allowances and benefits in kind has not been determined and the final amount will be disclosed in due course.

7 DIRECTORS' EMOLUMENTS *(Cont'd)*

(b) Executive directors and non-executive directors *(Cont'd)*

The emoluments paid to executive directors and non-executive directors during the year was as follows: *(Cont'd)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
2017				
Executive directors:				
Zhu Minjie	–	–	–	–
Chen Xiaosheng	–	–	–	–
Guo Chun	–	5,165	–	5,165
Lee Man Chun Tony (retired on 1 July 2017)	–	1,350	100	1,450
Qiu Yizhou (appointed on 15 May 2017)	–	2,682	–	2,682
	–	9,197	100	9,297
Non-executive directors:				
Zhang Lei	–	–	–	–
	–	9,197	100	9,297

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: one director), details of whose emoluments are set out in note 7 above. Details of the remuneration for the year of the remaining three (2017: four) non-directors, highest paid employees are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**14,130**	9,516
Bonuses	**1,920***	6,970
Retirement benefit scheme contributions	**737**	607
	16,787	17,093

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees *	
	2018	2017
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	2
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**–**	2
	3	4

* The evaluation of the performance of the employees has not been completed. Thus, the amount of bonuses has not been determined and the final amount will be disclosed in due course.

9 INCOME TAX

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 HK$'000	2017 HK$'000
Current tax — Hong Kong Profits tax		
Provision for the year	**5,415**	8,905
Under/(over) provision in respect of prior years	**110**	(212)
	5,525	8,693
Current tax — Elsewhere	**82**	651
Deferred tax *(note 15)*	**(201)**	2,802
	5,406	12,146

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the appropriate current rates of tax prevailing in the jurisdictions in which the Group operates.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense for the year at the effective tax rate is as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	**101,632**	116,217
Tax at the statutory tax rate of 16.5% (2017: 16.5%)	**16,769**	19,176
Under/(over) provision in respect of prior years	**110**	(212)
Tax effect of non-taxable income	**(19,773)**	(14,297)
Tax effect of non-deductible expenses	**6,983**	6,008
Effect of different tax rates of companies operating in other jurisdictions	**103**	(40)
Tax losses utilised from prior years	**(2,284)**	(343)
Temporary differences not recognised	**3,498**	1,854
Tax expense for the year at the Group's effective rate (2018: 5.3%; 2017: 10.5%)	**5,406**	12,146

10 DIVIDEND

	2018 HK$'000	2017 HK$'000
Proposed final — HK2 cents (2017: HK6 cents) per ordinary share	**31,223**	47,768

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

11 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Group had no potentially dilutive ordinary shares in issue during those years. As at 31 December 2018, the total number of the issued ordinary shares was 796,138,689 shares (2017: 796,138,689 shares).

	For the year ended 31 December	
	2018	2017
Earnings		
Profit for the year attributable to ordinary equity holders of the Company (HK$'000)	**96,228**	104,097
Number of shares		
Weighted average number of ordinary shares in issue (in thousands)	**796,139**	796,139
Earnings per share, basic and diluted (HK cents per share)	**12.09**	13.08

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2018					
At 31 December 2017 and 1 January 2018:					
Cost	4,095	26,541	58,310	2,463	91,409
Accumulated depreciation	(2,928)	(22,724)	(46,158)	(2,463)	(74,273)
Net carrying amount	1,167	3,817	12,152	–	17,136
Opening net carrying amount	1,167	3,817	12,152	–	17,136
Additions	–	1,316	3,419	–	4,735
Depreciation provided during the year	(123)	(2,686)	(5,868)	–	(8,677)
Disposal:					
— Cost	–	(336)	(1,305)	–	(1,641)
— Accumulated depreciation	–	331	1,266	–	1,597
Closing net carrying amount	1,044	2,442	9,664	–	13,150
At 31 December 2018:					
Cost	4,095	27,521	60,424	2,463	94,503
Accumulated depreciation	(3,051)	(25,079)	(50,760)	(2,463)	(81,353)
Net carrying amount	1,044	2,442	9,664	–	13,150

12 PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2017					
At 31 December 2016 and 1 January 2017:					
Cost	4,095	24,203	47,193	2,463	77,954
Accumulated depreciation	(2,805)	(20,105)	(43,064)	(2,449)	(68,423)
Net carrying amount	1,290	4,098	4,129	14	9,531
Opening net carrying amount	1,290	4,098	4,129	14	9,531
Additions	–	2,338	12,922	–	15,260
Depreciation provided during the year	(123)	(2,619)	(4,899)	(14)	(7,655)
Disposal:					
— Cost	–	–	(1,805)	–	(1,805)
— Accumulated depreciation	–	–	1,805	–	1,805
Closing net carrying amount	1,167	3,817	12,152	–	17,136
At 31 December 2017:					
Cost	4,095	26,541	58,310	2,463	91,409
Accumulated depreciation	(2,928)	(22,724)	(46,158)	(2,463)	(74,273)
Net carrying amount	1,167	3,817	12,152	–	17,136

The Group's leasehold land and buildings included in property, plant and equipment with a net carrying amount of HK$1,044,000 (2017: HK$1,167,000) are situated in Hong Kong and are held under a long term lease.

13 STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	2018 HK$'000	2017 HK$'000
Cost and carrying amount as at 1 January and 31 December	**4,212**	4,212

14 OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Deposits with exchanges and clearing houses	**13,565**	21,607
Unlisted club debentures	**2,470**	2,470
Other deposits and prepayments	**6,887**	7,149
	22,922	31,226

None of the above assets is either past due or impaired.

15 DEFERRED TAX

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

	Losses available for offsetting against future taxable profits HK$'000	**Deductible temporary differences** HK$'000	**Total** HK$'000
Deferred tax assets			
At 1 January 2017	6,382	97	6,479
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 9)*	(1,793)	(45)	(1,838)
At 31 December 2017 and 1 January 2018	**4,589**	**52**	**4,641**
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 9)*	**–**	**(17)**	**(17)**
At 31 December 2018	**4,589**	**35**	**4,624**

15 DEFERRED TAX *(Cont'd)*

	Accelerated tax depreciation HK$'000
Deferred tax liability	
At 1 January 2017	197
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 9)*	964
At 31 December 2017 and 1 January 2018	**1,161**
Deferred tax credited to the consolidated statement of profit or loss during the year *(note 9)*	**(218)**
At 31 December 2018	**943**

Other than the losses available for offsetting against future taxable profits for which deferred tax assets are recognised as at 31 December 2018, the Group has unrecognised tax losses arising in Hong Kong of HK$187,295,000 (2017: HK$185,523,000), subject to agreement by the Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be available from these group companies against which the tax losses can be utilised. At 31 December 2018, there was no significant unrecognised deferred tax liability (2017: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

16 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Investments at fair value through profit or loss		
Listed investment funds	–	39,691
Unlisted investment funds	3,670	25,669
Unlisted debt investments	598,602	83,418
	602,272	148,778

17 ACCOUNT RECEIVABLES

(a) Account receivables comprise:

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
(i) Measured at amorised cost:			
Account receivables arising from securities dealing			
— Cash Clients	121,726	162,665	162,665
— Broker and dealer	103,199	107,018	107,018
— Clearing houses	174,036	338,763	338,763
— Advances to cash clients	–	–	54,171
	398,961	608,446	662,617
Account receivables arising from corporate finance, advisory and other services			
— Corporate Clients	25,496	16,667	16,667
	25,496	16,667	16,667
	424,457	625,113	679,284
Less: Provision for loss allowance *(note i)*	(1,095)	(1,215)	–
Less: Provision for impairment	(1,000)	–	–
	422,362	623,898	679,284
(ii) Measured FVPL:			
Account receivables arising from securities dealing			
— Advances to cash clients *(note ii)*	35,052	54,171	–
Total	457,414	678,069	679,284

17 ACCOUNT RECEIVABLES *(Cont'd)*

(a) Account receivables comprise: *(Cont'd)*

Notes:

(i) Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognize additional ECLs on account receivables measured at amortised cost (see note 2.3(a)).

(ii) Advances to cash clients of HK$54,171,000 were reclassified to financial assets carried at FVPL at 1 January 2018 as a result of the initial application of HKFRS 9.

(b) Ageing analysis of account receivables

An ageing analysis of account receivables from cash clients and advances to cash clients based on the trade date is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	132,243	192,507
1 to 2 months	3,601	10,758
2 to 3 months	3,174	5,334
Over 3 months	17,760	8,237
	156,778	216,836

The ageing of account receivables from clearing houses, brokers and dealers are within one month and are not past due. They represent (1) pending trades arising from business of dealing in securities, which are normally due within a few days after the trade date, (2) deposits at clearing houses arising from the business of dealing in securities, futures and options contracts and (3) cash and deposits balances at brokers and dealers.

The ageing of account receivables from corporate clients arising from corporate finance, advisory and other services are mostly within one month. As at 31 December 2018, balances of HK$1,000,000 (2017: HK$1,000,000) were over 3 months past due, and fully impaired in 2018, balance of HK$274,000 (2017: HK$800,000) were over 1 month past due, and balances of HK$24,222,000 (2017: HK$14,867,000) were not past due.

Save for the credit period allowed by the Group, the account receivables from cash clients shall be due on the settlement dates of the respective securities and futures contract transactions. In view of the fact that the Group's account receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Although the Group does not hold any collaterals or other credit enhancements over its account receivables from cash clients, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts. Advances to cash clients of HK$35,052,000 (2017: HK$54,171,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2017: with reference to the Hong Kong dollar prime rate). Advances to cash clients is covered by securities deposited with the Group of total market vaue HK$947,776,000 (2017: HK$772,423,000).

17 ACCOUNT RECEIVABLES *(Cont'd)*

(b) Ageing analysis of account receivables *(Cont'd)*

The ageing analysis of the account receivables from cash clients and advances to cash clients that are not individually nor collectively considered to be impaired, i.e. based on the settlement date, is as follows:

	2018 **HK$'000**	2017 HK$'000
Not past due	**121,726**	162,665
Less than 1 month past due	**10,784**	29,842
1 to 3 months past due	**6,559**	16,092
Over 3 months past due	**17,709**	8,237
	156,778	216,836

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default and are covered by securities deposited with the Group.

Receivables that were past due but not impaired relate to a large number of diversified cash clients that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as they are covered by securities deposited with the Group and there has not been a significant change in credit quality. The balances are therefore considered to be fully recoverable.

18 LOANS AND ADVANCES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Loans and advances to customers, secured (Note):			
— at amortised cost	**–**	–	2,290,889
— at FVPL	**1,208,091**	2,290,889	–
	1,208,091	2,290,889	2,290,889

Note: Loan and advances were reclassified to financial assets at FVPL at 1 January 2018 as a result of the initial application of HKFRS 9.

Customers are required to provide collateral to the Group for the loans and advances granted. As at 31 December 2018, the total market value of the securities pledged by customers to the Group as collateral in respect of the above loans and advances to customers was HK$5,800,322,000 (2017: HK$9,461,306,000), of which a total market value of HK$ Nil (2017: HK$2,372,482,000) of such collateral was pledged with banks to secure certain of the Group's utilised bank loans (note 24) and HK$1,164,270,000 (2017: HK$ Nil) of such collateral was pledged with banks to secure certain of the Group's unutilised bank facilities as at 31 December 2018.

The Group is allowed to dispose of the collateral in settlement of the customers' obligation to maintain the agreed level of margin and any other liability of the customers due to the Group. The Group is allowed to deposit the collateral with an authorised institution as collateral for financial accommodation provided to the Group according to the applicable legislations and regulations.

In view of the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans and advances to margin clients of HK$1,208,091,000 (2017: HK$2,290,889,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2017: with reference to the Hong Kong dollar prime rate).

The Group's loans and advances to customers were repayable on demand at the end of the reporting period.

There was no provision for impairment of loans and advance as at 31 December 2018 and 2017.

19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Prepayments	11,675	6,603
Deposits and other receivables	25,602	19,150
	37,277	25,753

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20 BANK BALANCES HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold clients' monies in accordance with the relevant legislation. The Group is allowed to retain some or all of the interest on the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

21 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(a) Cash and bank balances comprise:

	2018 HK$'000	2017 HK$'000
Cash and bank balances	620,571	407,457

As at 31 December 2018, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$5,005,000 (2017: HK$50,243,000).

Cash at bank balances earn interest at floating rates based on daily bank deposit rates. Short term time deposit is made for one week, and earns interest at the respective short term time deposit rates. The cash and bank balances are deposited with creditworthy banks with no recent history of default.

21 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION *(Cont'd)*

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing bank borrowings ***(Note 24)*** **HK$'000**
At 1 January 2018	**845,000**
Change from financial cash flows:	
Net payments from bank loans	**(375,012)**
Interest paid	**(11,501)**
	(386,513)
Other change:	
Interest expenses *(note 6)*	**11,433**
At 31 December 2018	**469,920**

	Interest-bearing bank borrowings *(Note 24)* HK$'000
At 1 January 2017	278,590
Change from financial cash flows:	
Net proceeds from bank loans	566,417
Interest paid	(11,778)
	554,639
Other change:	
Interest expenses *(note 6)*	11,771
At 31 December 2017	845,000

22 ACCOUNT PAYABLES AND CONTRACT LIABILITIES

(a) Account payables

	2018 HK$'000	2017 HK$'000
Account payables		
— Clients	**5,012,850**	4,577,992
— Brokers and dealers	**15,969**	5,728
— Clearing houses	**53,303**	4,346
	5,082,122	4,588,066

All of the account payables are aged and due within one month or on demand.

(b) Contract liabilities

	31 December 2018 HK$'000	1 January 2018 (Note) HK$'000	31 December 2017 (Note) HK$'000
Contract liabilities			
Corporate finance contracts			
— advance consideration received	**13,144**	3,180	–

Notes: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

Movements in contract liabilities

	2018 HK$'000
Balance at 1 January	**3,180**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(3,180)**
Increase in contract liabilities as a result of advance consideration received from corporate finance contracts	**13,144**
Balance at 31 December	**13,144**

The amount of advance consideration received from corporate finance contracts is expected to be recognised as income within one year.

23 OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Other payables	**23,768**	10,662
Accruals	**58,417**	75,425
	82,185	86,087

Other payables are non-interest-bearing and have an average term of within one year.

24 INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate	**Maturity**	**HK$'000**	Effective interest rate	Maturity	HK$'000
Current liabilities						
Bank loans	**London Interbank Offered Rate ("LIBOR") + 1.5%**	**On demand**	**156,640**	Hong Kong Interbank Offered Rate ("HIBOR") +1.25% to 1.5%	On demand	500,000
	One month LIBOR + 1.4%	**On demand**	**313,280**	Lender's cost of fund +1.5%	On demand	345,000
			469,920			845,000

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans within one year or on demand	**469,920**	845,000

Notes:

(a) As at 31 December 2018, the Group's bank loans of HK$156,640,000 (2017: HK$845,000,000) were secured by certain marketable securities pledged by customers to the Group and/or corporate guarantee to banks by the Company.

HK$ Nil (2017: HK$795,000,000) of the Group's bank loans utilised was secured by certain marketable securities pledged by customers to the Group with a total market value of HK$ Nil (2017: HK$2,372,482,000) as at 31 December 2018 (note 18).

The Company had guaranteed the Group's bank loans of HK$156,640,000 (2017: HK$845,000,000), up to HK$1,123,250,000 (2017: HK$2,637,695,000), as at 31 December 2018.

24 INTEREST-BEARING BANK BORROWINGS *(Cont'd)*

Notes: (Cont'd)

(b) Certain of the Group's unutilised banking facilities are secured by guarantees given by the Company and/or certain marketable securities pledged by customers to the Group.

(c) As at 31 December 2018, all borrowings are denominated in United States dollars (2017: Hong Kong Dollars).

(d) The carrying amounts of the Group's borrowings approximate to their fair values.

25 SHARE CAPITAL

	2018 **HK$'000**	2017 HK$'000
Issued and fully paid:		
796,138,689 (2017: 796,138,689) ordinary shares	**1,200,457**	1,200,457

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** HK$'000	**Total** HK$'000
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	796,138,689	1,200,457	1,200,457

Subsequent to 31 December 2018, an allotment of 765,000,000 new shares was approved in the extraordinary general meeting held on 31 January 2019.

The Board meeting held on 15 February 2019 has resolved to recommend the payment of a final dividend of HK2 cents per ordinary share to shareholders whose name appear on the register of members of the Company on 20 May 2019. A final dividend of HK$31,223,000 (see note 10) was proposed for the year ended 31 December 2018, which was calculated based on the total number of share of 1,561,138,689, including the allotment of 765,000,000 new shares approved on 31 January 2019.

26 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The Group's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

27 COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years (2017: one to six years).

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**34,284**	28,501
In the second to fifth years, inclusive	**48,573**	18,646
	82,857	47,147

At 31 December 2018, the Group did not have any other significant commitments (2017: Nil).

28 RELATED PARTY TRANSACTIONS

(a) Material related party transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Note	**2018 HK$'000**	2017 HK$'000
Commission expenses for brokerage services in relation to the PRC capital markets paid to a wholly-owned subsidiary of the ultimate holding company	*(i)*	**718**	896
Research fee for supporting services in relation to research paid to a subsidiary of the ultimate holding company	*(ii)*	**3,500**	7,300
Consultancy fee for supporting services in relation to PRC market paid to the subsidiaries of the ultimate holding company	*(iii)*	**3,343**	4,078
Consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company	*(iv)*	**13,948**	12,950
Consultancy fee for supporting services in connection with corporate finance business paid by a wholly-owned subsidiary of the ultimate holding company	*(v)*	**1,425**	–
Consultancy fee for supporting services in connection with corporate finance business paid to the ultimate holding company	*(vi)*	**–**	777
Consultancy fee for supporting services in connection with corporate finance business paid by the ultimate holding company	*(vii)*	**274**	–

Notes:

(i) The commission expenses paid to a wholly-owned subsidiary of the ultimate holding company were calculated based on the prescribed percentage stated in the signed cooperation agreement for clients' transaction amount in Shenzhen and Shanghai B shares.

28 RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) Material related party transactions *(Cont'd)*

Notes:(Cont'd)

(ii) The research fee paid to a subsidiary of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.

(iii) The consultancy fee for supporting service in relation to PRC market paid to the subsidiaries of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.

(iv) The consultancy fee for supporting service in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company was calculated based on a fixed percentage of the relevant commission earned by the wholly-owned subsidiary of the ultimate holding company.

(v) The consultancy fee for supporting services in connection with corporate finance business paid by a wholly-owned subsidiary of the ultimate holding company was calculated based on prescribed percentage stated in the signed corporation agreement for relevant financial advisory fee earned by a wholly-owned subsidiary of the ultimate holding company. The amount is included in the account receivables balance as at 31 December 2018 and is unsecured, interest free and repayable on demand.

(vi) The consultancy fee for supporting services in connection with corporate finance business paid to the ultimate holding company were charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.

(vii) The consultancy fee for supporting services in connection with corporate finance business paid by the ultimate holding company was calculated based on prescribed percentage stated in the signed corporation agreement for relevant financial advisory fee earned by a wholly-owned subsidiary of the ultimate holding company. The amount is included in the account receivables balance as at 31 December 2018 and is unsecured, interest free and repayable on demand.

(viii) Included in the account receivables balance as at 31 December 2018 was a receivable due from a wholly-owned subsidiary of the ultimate holding company of HK$3,933,000 (2017: HK$8,478,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.

(ix) Included in the account payables balance as at 31 December 2018 was a payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK$1,177,000 (2017: HK$449,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and payable on the settlement date of the relevant transactions.

(x) Included in the other payables and accruals balance as at 31 December 2017 was a consultancy fee payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK$2,517,000 arising from supporting services for PRC market. This balance is unsecured, interest-free and payable on demand.

28 RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) Material related party transactions (Cont'd)

Notes:(Cont'd)

(xi) Included in the account receivables balance as at 31 December 2018 was consultancy fee receivable due from a wholly-owned subsidiary of the ultimate holding company of HK$6,002,000 (2017: HK$6,088,000) arising from supporting services relating to Hong Kong and overseas markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.

(xii) Included in the account receivables as at 31 December 2018 was the consultancy fee receivable due from the ultimate holding company of HK$274,000 (2017: Nil) arising from supporting services in connection with corporate finance business. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.

(xiii) Included in the account payables balance as at 31 December 2018 was the amount of segregated client money held on behalf of an intermediate holding company of the Company of HK$209,163,000 (2017: HK$204,654,000). This balance is unsecured, bears interest at the bank deposit rate and is payable on demand. A corresponding amount is also included in the bank balances held on behalf of clients as at 31 December 2018 and 2017.

(xiv) Included in the account payables balance as at 31 December 2018 was the amount of segregated client money held on behalf of directors of the Company and key management personnel of the Group of HK$6,858,000 (2017: HK$11,566,000). This balance is unsecured, bears interest at the bank deposit rate and is payable on demand. A corresponding amount is also included in the bank balances held on behalf of clients as at 31 December 2018 and 2017.

(b) Compensation of key management personnel of the Group:

	2018 **HK$'000**	2017 HK$'000
Short term employee benefits	**39,372**	52,137
Post-employment benefits	**2,052**	1,820
	41,424	53,957

Further details of directors' emoluments are included in note 7 to the financial statements.

The related party transactions in respect of items (a)(i-vi) above also constitute continuing connected transactions to be disclosed in annual report as defined in Chapter 14A of the Listing Rules.

29 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets			
Other assets	–	22,922	22,922
Investments at fair value through profit or loss	602,272	–	602,272
Account receivables	35,052	422,362	457,414
Loans and advances	1,208,091	–	1,208,091
Financial assets included in prepayments, deposits and other receivables (note)	–	25,602*	25,602*
Bank balances held on behalf of clients	–	4,879,449	4,879,449
Cash and bank balances	–	620,571	620,571
	1,845,415	5,970,906	7,816,321

	Financial liabilities at amortised cost HK$'000
Financial liabilities	
Account payables	5,082,122
Financial liabilities included in other payables and accruals *(note)*	71,437*
Interest-bearing bank borrowings	469,920
	5,623,479

* The balance of HK$11,675,000 and HK$10,748,000 which does not meet the definition of financial assets and liabilities were excluded in this disclosure.

29 FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

2017

	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Total HK$'000
Financial assets			
Other assets	–	31,226	31,226
Investments at fair value through profit or loss	148,778	–	148,778
Account receivables	–	679,284	679,284
Loans and advances	–	2,290,889	2,290,889
Financial assets included in prepayments, deposits and other receivables (note)	–	19,150*	19,150*
Bank balances held on behalf of clients	–	4,064,887	4,064,887
Cash and bank balances	–	407,457	407,457
	148,778	7,492,893	7,641,671

	Financial liabilities at amortised cost HK$'000
Financial liabilities	
Account payables	4,588,066
Financial liabilities included in other payables and accruals *(note)*	81,670*
Interest-bearing bank borrowings	845,000
	5,514,736

* The balance of HK$6,603,000 and HK$4,417,000 which did not meet the definition of financial assets and liabilities were excluded in this disclosure.

30 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group currently has a legally enforceable right to set off the Continuous Net Settlement ("CNS") money obligations receivable and trade payables with Hong Kong Securities Clearing Company Limited ("HKSCC"), which are included in "account receivables" and "account payables" as presented in the consolidated statement of financial position, respectively. It intends to settle on a net basis as account receivables from or account payables to the Stock Exchange. The net amount of CNS money obligations receivable or payable with HKSCC and guarantee fund placed in HKSCC do not meet the criteria for offsetting against each other in the financial statements and the Group does not intend to settle the balances on a net basis.

	As at 31 December 2018					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	Net amount HK$'000
Assets						
Account receivables	583,274	(125,860)	457,414	–	–	457,414

	As at 31 December 2018					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral pledged HK$'000	Net amount HK$'000
Liabilities						
Account payables	5,207,982	(125,860)	5,082,122	–	–	5,082,122

30 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Cont'd)*

	As at 31 December 2017					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	Net amount HK$'000
Assets						
Account receivables	914,370	(235,086)	679,284	–	–	679,284

	As at 31 December 2017					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral pledged HK$'000	Net amount HK$'000
Liabilities						
Account payables	4,823,152	(235,086)	4,588,066	–	–	4,588,066

31 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

The following tables present the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique (see note 2.5(b)).

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using		
	Level 1 (Unadjusted quoted prices in active markets) HK$'000	Level 2 (Significant observable inputs) HK$'000	Total HK$'000
As at 31 December 2018			
Investments at fair value through profit or loss:			
Unlisted debt investments	–	598,602	598,602
Unlisted investment funds	3,670	–	3,670
Loans and advances	–	1,208,091	1,208,091
Advances to cash clients	–	35,052	35,052
	3,670	1,841,745	1,845,415

31 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Cont'd)*

(a) Fair value hierarchy *(Cont'd)*

	Fair value measurement using Level 1 (Unadjusted quoted prices in active markets) HK$'000	Level 2 (Significant observable inputs) HK$'000	Total HK$'000
As at 31 December 2017			
Investments at fair value through profit or loss:			
Listed investment funds	39,691	–	39,691
Unlisted debt investments	–	83,418	83,418
Unlisted investment funds	25,669	–	25,669
	65,360	83,418	148,778

During the years ended 31 December 2018 and 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

The Group measures Level 2 fair values using the following method and there is no change to the valuation technique:

Level 2 — Valuation techniques based on observable input. This category includes unlisted debt investments and unlisted investment funds valued using:

— Quoted market prices in active market for similar instruments;

— Quoted prices for similar instruments in market that are considered less than frequent; or

— Other valuation techniques where all significant inputs are directly or indirectly observable from market data

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's operating segments include brokerage business, corporate finance business, asset management business, financing and loans business, investment business and other business.

The main risks arising from the Group's normal course of business and its financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's borrowings from banks during the year are for the provision of financing and loans to customers. The bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the Hong Kong dollar prime rate. As the Hong Kong dollar prime rate basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings, interest-bearing account receivables, cash and bank balances and loans and advances) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2018			
Hong Kong dollar	**25**	**4,127**	**–**
Hong Kong dollar	**(25)**	**(4,127)**	**–**
2017			
Hong Kong dollar	25	4,802	–
Hong Kong dollar	(25)	(4,802)	–

* Excluding retained profits

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Foreign currency risk

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars and RMB. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the consolidated statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and take necessary measures when the situations so justify. The Group's revenue denominated in currencies other than Hong Kong dollars and United States dollars constituted approximately 3% (2017: 3%) of the total revenue.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2018			
If the Hong Kong dollar weakens against the RMB	**8**	**3,499**	**–**
If the Hong Kong dollar strengthens against the RMB	**(8)**	**(3,499)**	**–**
2017			
If the Hong Kong dollar weakens against the RMB	8	7,254	–
If the Hong Kong dollar strengthens against the RMB	(8)	(7,254)	–

* Excluding retained profits

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk

The Group has put in place a well-established credit policy governing the granting of credit limit to customers. Customers are generally required to deposit their securities with the Group as collateral to their borrowings. The credit department is responsible for assisting the directors in formulating the credit policy of the Group, monitoring the credit risks of customers with reference to the realisable values of the collateral, managing the concentration of credit risk by customer and recommending measures to the directors for granting credit facilities which exceed the authority limit of the credit department. There are no significant concentrations of credit risk within the Group as it relates to a large number of diversified customers.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, bank balances held on behalf of clients, investments at fair value through profit or loss, other assets, and deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from account receivables and loans and advances are disclosed in notes 17 and 18 to the financial statements, respectively.

Liquidity risk

There is a constant need of funding for the settlement of securities transactions and for the provision of financing and loans to the customers. The source of funding is either from the Group's own capital or borrowings from financial institutions, if necessary.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both of its financial instruments and financial assets (e.g., account receivables) and projected cash flows from operations.

The Group's borrowings from banks during the year are for the provision of financing and loans to customers for their purchases and continuous holding of securities. The maturity of bank borrowings of the Group ranges from overnight to within one year, where the borrowings are either rolled over or repaid by the Group's own funding. In addition, for those clients who are unable to settle their settlement obligations or margin deficits, the Group may dispose of the securities collateral pledged by the customers to the Group. The Group always ensures that the securities collateral pledged by customers is able to be realised in the market within a reasonable period of time.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Liquidity Risk *(Cont'd)*

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

	On demand HK$'000	Less than 1 year HK$'000	Total HK$'000
2018			
Account payables	**4,888,190***	**193,932**	**5,082,122**
Financial liabilities included in other payables and accruals	**–**	**71,437**	**71,437**
Interest-bearing bank borrowings	**471,405#**	**–**	**471,405#**
	5,359,595	**265,369**	**5,624,964**
2017			
Account payables	4,345,819*	242,247	4,588,066
Financial liabilities included in other payables and accruals	–	81,670	81,670
Interest-bearing bank borrowings	845,081#	–	845,081#
	5,190,900	323,917	5,514,817

\# Included in interest-bearing bank borrowings were certain of the Group's bank loans in the amount of HK$469,920,000 (2017: HK$845,000,000), of which the loan agreements contain repayment on demand clauses giving the banks the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Had the banks not called in the loan, the scheduled repayment dates of interest bearing bank borrowing were less than 1 year from the end of the reporting period (2017: within 1 month from the end of the reporting period).

* Balance includes bank balances held on behalf of clients under the current asset section of the consolidated statement of financial position of HK$4,879,449,000 (2017: HK$4,064,887,000).

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Price risk

Price risk is the risk that the fair values or future cash flows due to changes in market prices. The Group was exposed to price risk through its investments at fair value through profit or loss (note 16) as at 31 December 2018 and 2017.

The following table demonstrates the sensitivity to every 1% change in the fair values of the investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in fair value %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2018			
Unlisted investments:			
— Investment funds	1	37	–
	(1)	(37)	–
— Debt investments	1	5,986	–
	(1)	(5,986)	–
2017			
Listed investments:			
— Investment funds	1	397	–
	(1)	(397)	–
Unlisted investments:			
— Investment funds	1	257	–
	(1)	(257)	–
— Debt investments	1	834	–
	(1)	(834)	–

* Excluding retained profits

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The gearing ratio is reviewed and assessed regularly by the board of directors. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Interest-bearing bank borrowings	**469,920**	845,000
Total equity	**2,208,110**	2,163,523
Gearing ratio	**21.3%**	39.1%

33 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Non-current assets		
Other assets	**70**	–
Interests in subsidiaries	**765,839**	196,277
	765,909	196,277
Current assets		
Amount due from subsidiaries	**1,118,357**	1,101,908
Prepayments, deposits and other receivables	**11,797**	968
Tax receivable	**810**	–
Cash and bank balances	**9,447**	8,082
Total current assets	**1,140,411**	1,110,958
Current liabilities		
Amount due to subsidiaries	**310,438**	21,664
Other payables and accruals	**43,784**	3,829
Tax payable	**–**	17
Interest-bearing bank borrowings	**313,280**	–
	667,502	25,510
Net current assets	**472,909**	1,085,448
NET ASSETS	**1,238,818**	1,281,725
EQUITY		
Share capital	**1,200,457**	1,200,457
Other reserves	**38,361**	81,268
TOTAL EQUITY	**1,238,818**	1,281,725

Approved and authorised for issue by the board of directors on 15 February 2019.

Zhu Minjie
Director

Qiu Yizhou
Director

33 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Notes:

A summary of the Company's reserves is as follows:

	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	656	106,514	107,170
Total comprehensive income for the year	–	5,944	5,944
Dividend paid	–	(31,846)	(31,846)
At 31 December 2017 and 1 January 2018	**656**	**80,612**	**81,268**
Total comprehensive income for the year	**–**	**4,861**	**4,861**
Dividend paid	**–**	**(47,768)**	**(47,768)**
At 31 December 2018	**656**	**37,705**	**38,361**

The Company's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

34 EVENT AFTER THE REPORTING PERIOD

(i) The proposed final dividend for the year set out in note 10 to the financial statement has been approved by the directors on 15 February 2019 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

(ii) Subsequent to the end of reporting period, the subscription agreement in relation to the subscription by Shenwan Hongyuan (International) Holdings Limited, an intermediate holding company of the Company, for the 765,000,000 new shares at the subscription price of HK$2.068 per subscription share is approved at the extraordinary general meeting held on 31 January 2019.

35 COMPARATIVE FIGURES

The company has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.3.

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