中國通海國際金融有限公司
CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED

(Incorporated in Bermuda with limited liability) (於百慕達註冊成立之有限公司)

Stock Code 股份代號：00952

2018

Annual Report

年報

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Contents

Corporate Information

BOARD OF DIRECTORS

Mr. HAN Xiaosheng *Chairman*
Mr. ZHANG Bo *Deputy Chairman*
Mr. ZHANG Xifang
Mr. FENG Henian
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing *Chief Executive Officer*
Mr. Bernard POULIOT^
Mr. LIU Bing^
Mr. ZHAO Yingwei^
Mr. ZHAO Xiaoxia^
Mr. Roy LO Wa Kei#
Mr. KONG Aiguo#
Mr. LIU Jipeng#
Mr. HE Xuehui#
Mr. HUANG Yajun#

^ *Non-executive Director*
# *Independent Non-executive Director*

EXECUTIVE COMMITTEE

Chairman: Mr. ZHANG Bo
Vice-chairman: Mr. Kenneth LAM Kin Hing
Members: Mr. HAN Xiaosheng
Mr. ZHANG Xifang
Mr. FENG Henian
Mr. LIU Hongwei

AUDIT COMMITTEE

Chairman: Mr. Roy LO Wa Kei
Members: Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

REMUNERATION COMMITTEE

Chairman: Mr. KONG Aiguo
Members: Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

COMPANY SECRETARY

Ms. Hortense CHEUNG Ho Sze

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th and 19th Floors
China Building
29 Queen's Road Central
Hong Kong

AUDITOR

KPMG
Certified Public Accountants
(Changed with effect from 3 December 2018)

HONG KONG LEGAL ADVISER

Howse Williams

BERMUDA LEGAL ADVISER

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Minsheng Banking Corp., Ltd. Hong Kong Branch
Chong Hing Bank Limited
Dah Sing Bank, Limited
Fubon Bank (Hong Kong) Limited
Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

STOCK CODE

00952

WEBSITE OF TONGHAI FINANCIAL GROUP

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INVESTOR RELATIONS

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Chairman's Statement

Dear Shareholders,

I am delighted to present that the Group recorded a profit before income tax of around HK$110 million for 2018 as compared with a profit before tax of HK$47 million in the last financial year. The Year of 2018 is the first full financial year after Oceanwide Holdings took control of the Company, which was officially renamed as "China Tonghai International Financial Limited" (Tonghai Financial). Thanks to all the management and staffs of the Group for their contribution towards the sustainability and business advancement of the Group.

In the last year, various uncertain factors of the macro-environment brought along great challenges to the whole financial industry and also the Company, including the increase in capital market fluctuation resulted from the US-China trade war, the performance of emerging markets affected by the interest hike imposed by the United States Federal Reserve as well as the upward adjustment of interest rate under the current economic environment. Facing the uncertainties on the external macro-economic environment, the Company adopted stringent risk management, while reduced our high-risk investments and promptly adjusted our strategies. The Company aimed to alleviate the impact of adverse external environment on the Company's profit, and placed emphasis on the development of risk-controlled business.

In respect of business development, the Company focused on establishing comprehensive business lines and income structure, and continued to enhance the competitiveness of our existing businesses, such as boosting up the income from traditional brokerage and interest income businesses. Meanwhile, the Company proactively expanded into investment banking, asset management and wealth management business to increase the proportion of revenue from structural finance, corporate finance, asset management, investment and other businesses. In respect of team building, the Company was improving the remuneration and welfare aspects of our staff. This aimed to retain outstanding staff while attracting talents in the market to build up a professional and experienced team.

Going forward, as the world international financial center equipped with sophisticated financial infrastructure, sound legal environment together with a pool of high trained talents, Hong Kong can fully seize the opportunities to be brought by the implementation of the national strategy for the development of the "Guangdong-Hong Kong-Macao Greater Bay Area" and the "Belt and Road Initiative" to extend its international connections and experiences to the Mainland and to foster the diversified development of its economy and industries. This will also bring ample business opportunities to the financial sector of Hong Kong. The Group, based in Hong Kong, will utilize its enriched experiences and extensive network to grasp these opportunities, enhance its operational capabilities, governance standards and core business competencies with the target to become the financial service partner for both corporate and individual investors in Hong Kong and China and to offer its clients with excellent one-stop financial services.

In addition, the Company will continue to maintain the business interaction between Oceanwide Holdings Group and Tohigh Group, while taking advantage of their various established networks and competitive edges to explore more business opportunities. We are ready and well prepared for 2019 to move ahead and thrive in the industry.

On behalf of the Board, I would like to express the gratitude to all our staff for their perseverance and dedication during these periods. I also wish to thank our shareholders, business partners and customers for their continued support for the Company. We will continue to deliver greater value to all of our shareholders.

Yours truly,
HAN Xiaosheng
Chairman

Hong Kong, 28 March 2019

Chief Executive Officer's Review

Dear Shareholders,

We have seen the year 2018 as a year of turbulence. Notwithstanding the many major political and economical policies devised by China that affected Hong Kong, there were events that heavily impacted on the structural on-goings of China. Naming a few, we have seen the US-China trade war, the Brexit, the US-North Korea peace talks, pressure to thwart global acceptance of China's 5G Technology etc. We expect that the results would not only affect us in 2018, but also with heavy spillover effects in a few more years to come.

Our performance with explanation has been described in details in the management discussion and analysis section. In brief, our turnover has increased by more than 90% from HK$352 million to HK$672 million. Our profit before income tax has also increased from HK$47 million to HK$110 million.

In light of the volatility we foresee in 2019, we are not recommending a dividend for this year.

Forward looking into our strategic and business development, we have the following initiatives being undertaken:

The Greater Bay Development, being a National Policy Directive by China, has triggered our repositioning in all aspects of our capital market coverages. We have started the discussions with our sister companies including Minsheng Trust, Minsheng Securities, Insurance and Wealth Management. The thought would be making use of the companies that we have already set up in Shenzhen and Qianhai to allow for an efficient flow of customer acquisitions and service their capital and wealth management needs.

Having our name changed from China Oceanwide to China Tonghai, we can finally re-embark on our marketing and branding exercise. Two initiatives have been made in sponsoring the Hong Kong Tennis Open 2018, and also the 2019 Chinese New Year Cup in football in Hong Kong. Through Quamnet, we also have successfully captured recognitions of companies in our Outstanding IR Awards and Outstanding Enterprise Awards. We have engaged a consultant to assist in clearly promoting our brand and identity to the public. We will adopt a systematic approach of combining events and media to create and establish our corporate brand with public recognitions.

Our Asset Management Division is embarking on a new initiative to increase our assets under management (AUM). Making use of the Oceanwide Funds SICAV in Luxemburg, we are renaming it Global Alliance Partners SICAV to leverage on the extensive membership of our long existed Global Alliance Partners which currently covers 14 countries. The latest addition is from Italy. We are also hoping to capture at least two more members this year from South Korea and Vietnam. Oceanwide Funds SICAV shall become a common platform for members who have interest in Asset & Fund Management by joining into this umbrella fund. We are already in discussion with our Spanish partner who is interested in joining the SICAV, adding another US$250 million to the existing US$214 million AUM of our Asset Management.

The Asset Management Division has also launched a Sino-HK connect fund and a guaranteed fund, and it is working together with our Private Clients Services of our Securities Division, to create products and team for Wealth Management's products distributions.

For our Corporate Finance Division, we have added Debt Capital Market (DCM), and expanded our Equity Capital Market (ECM) team to broaden our services and income stream. Despite a healthy transaction pipeline, as a result of timing issues out of our control, we have been quiet in the 2018 sponsorship and financial advisory market. We expect a much higher exposure in 2019 and we are enhancing our sales and marketing capabilities to substantially advance our respective rankings.

In our operations side, we have strengthened our teams and systems to support our day to day margin lending business, particularly in credit control and administration. We have also established Internal Legal and Risk Teams to bolster our investment and lending businesses which will be our important revenue makers in 2019.

All in all, for our shareholders, albeit 2018 has been extremely challenging to our capital market business, we have continued the strive, and to return a much stronger China Tonghai Financial in 2019.

Kenneth LAM Kin Hing
Chief Executive Officer

Management Discussion and Analysis

RESULTS AND OVERVIEW

The Group embarks to a new chapter in 2018, representing the first 12-month financial year since its right issue. Given the Company's financial year end date for 2017 changed from the end of March to the end of December, the comparative figures in the consolidated statement of profit or loss for 2018 covers 9 months between 1 April and 31 December 2017, while 2018 financial year covers 12 months.

The Group recorded revenue of HK$672 million for 2018 financial year, as compared to HK$352 million for 2017 financial year which only covers nine months, representing monthly average growth of 43%. Profit before income tax for 2018 financial year was HK$110 million, as compared to HK$47 million for 2017 financial year, representing monthly average growth of 76%. Net profit for 2018 financial year was around HK$100 million, as compared to HK$43 million for 2017 financial year, representing monthly average growth of 74%.

Excluding the impact of certain material items (since those items would distort the comparison to figures in the previous year, the adjusted data allows reader to enhance the understanding of actual business conditions of the Group), the Group's adjusted revenue for 2018 financial year was HK$690 million, as compared to HK$352 million for 2017 financial year, representing monthly average growth of 47%. Adjusted profit before income tax for 2018 financial year was around HK$199 million, as compared to HK$47 million for 2017 financial year, representing monthly average growth of 218%.

Adjusted results	**Twelve months ended 31 December 2018 HK$'000**	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Adjusted revenue	**689,844**	352,155
Other net operating income/(losses)	**23,261**	(403)
Adjusted total expenses	**(515,453)**	(307,896)
Share of results of associate	**—**	5,263
Share of results of joint ventures	**1,597**	(1,930)
Adjusted profit before income tax	**199,249**	47,189

Since the Company considers that the presentation in the financial statements would distort readers' understanding on the Group's normal businesses, specific descriptions are made for the certain major items of the Group. The Group invested US$15 million in a 1-year bond of China Energy Reserve since 2017. An event of default of China Energy Reserve occurred in the first half of 2018, and the Company also sold some of the bond with a coupon value of US$1 million in the second half of 2018. According to our understanding, the respective debt reorganisation has not been validly approved by relevant creditors. Nevertheless, considering that the respective interests due in 2018 have been paid and the Company is actively facilitating the debt reorganisation proposal, the Company accounted for the bond with a coupon value of US$14 million held by it at the end of 2018 at its amortised cost, with an impairment rate of around 68%. Besides, the Group also invested around HK$390 million in the H shares of a Mainland broker firm listed in Hong Kong in the first half of 2018 and was still holding it at the end of the year. Since the volatility of the share price of the said H shares is relatively large, the Company accounted for such shares at its closing market price. This accounting treatment has a relatively significant impact on the income statement of the Company, yet it is not related to the trend of our business operation. The share price of the said H shares has already rebounded as at the date of this report. The Group also invested around HK$157 million in the private equity fund managed by the Group's asset management team. The underlying assets comprise of several high-quality unlisted enterprises. The Company has engaged an independent valuer to conduct valuation and accounted for the valuation pursuant to the financial accounting standards. The valuation rose sharply, and its fair value increase is reflected in the account, yet the asset could not be realised immediately, and it is uncertain whether any such increase in fair value would be attained in future financial years.

The Group does not recommend the distribution of any final dividend for the current year.

MACRO ENVIRONMENT

According to a recent report from the International Monetary Fund (IMF), the global economic growth of 2018 is projected to reach 3.7%. In 2018, gross domestic products (GDP) of Mainland China exceeded RMB90 trillion for the first time, representing a growth rate of 6.6% and was in line with the pre-determined development target of 6.5% growth by the Mainland government at the beginning of last year. The downturn of global economy in the second half of 2018 was expected to continue, and the forecasted global economic growth rate for 2019 is 3.5%. Such growth trend of global economy was due to the uncertainties on trade policies as well as concerns on the economic prospects of Mainland China. It was encouraging to see the United States and China called a 90-day truce in their trade war on 1 December last year, yet the possibility of re-occurrence of trade conflicts in Spring this year casts a shadow on the prospects of global economy. For interest rate, the U.S. Federal Reserve lifted up the interest rate for four times for the Fed Funds, totaling 100 base points in 2018, but implied that the rate of interest hike would decelerate in 2019.

2018 Market Review

In review of 2018, the Hang Seng Index had a fluctuating trend. The upward trend by the end of 2017 carried forward at the beginning of this year and reached its highest at 33,154 points on 26 January, but subsequently stumbled to the lowest at 24,585 points on 30 October, with a volatility rate of 8,569 points. The Hang Seng Index recorded 25,846 points by the end of December 2018, representing a year-on-year decrease of 13.6%. Major global stock markets witnessed significant volatility during the period and worldwide financial markets continued to fluctuate. Investment atmosphere was hampered by uncertainties arising from intensifying US-China trade conflicts, geo-political risks in various regions as well as policies implemented by major central banks. However, the daily transaction quotas for Shanghai Connect and Shenzhen Connect have raised by three times since May 2018. The inclusion of A shares by MSCI Index in June also paved the path for further rise for the industry. As at the end of 2018, the total Hong Kong Stock Market capitalization amounted to around HK$29.9 trillion. The average daily turnover of the secondary stock market in Hong Kong amounted to HK$107.4 billion, 21.7% higher than that in 2017. In 2018, the turnover of the futures and options of Hong Kong Derivatives Market amounted to around 296 million contracts, around 37.9% higher than that in 2017.

In 2018, there were a total of 218 newly listed companies in the Hong Kong market[#], increasing by around 25.3% from 174 in 2017. Among these companies, 7 were companies with weighted voting rights structure or biotech companies listed in accordance with the newly added chapters of the Listing Rules. Total equity funds raised during the year amounted to around HK$541.7 billion, representing a decrease of around 6.8% as compared to around HK$581.4 billion in 2017, among which, HK$94.0 billion were from those 7 companies with weighted voting rights structure or biotech companies.

Including companies on the Main Board and the GEM (the number of listed companies that were transferred from GEM to the Main Board is included)

BUSINESS REVIEW

In 2018, the Group continued to effectively develop various businesses while proactively built up necessary personnel and systems. In 2018, the Company was renamed from "China Oceanwide International Financial Limited" to "China Tonghai International Financial Limited", and its subsidiaries also made the corresponding changes to their company names in the second half of the year. The Company has also changed to engage KPMG as its auditor and considered that such change was in pursuit of good corporate governance practices as well as enhanced independence of its auditor.

Management Discussion and Analysis

The Group expanded its business scope through enhancing the capital fund of the securities company, optimised its institutional securities sales team, enhanced its securities sales capability to capture more corporate finance business, increased resources support for debt capital market business, continued to expand structured finance loans to enlarged loan portfolios and diversify risks from reliance on margin loans. The Group also invested in shares of high-quality and industry leading listed companies when opportunities arise to attain capital return. In light of market fluctuations, the Company actively strengthened its risk control, reduced its proprietary investments in seed fund, better controlled the proportion of low leverage of the Group and adopted a more prudent manner towards approving new margin loans.

In respect of operating targets, in 2018, the Group's market share in the secondary market dealings in Hong Kong stock market decreased. At the end of 2018, the Group's balance of margin loans was HK$2,811 million (trade date basis), representing a significant increase as compared to HK$2,130 million (trade date basis) at the end of 2017. Fair value loss on margin loans in 2018 was relatively immaterial, accounting for less than 0.1%. The sponsorship engagement for initial public offerings executed by the Group in 2018 had also shown slight improvement. We also made a breakthrough in respect of merger and acquisition financing while completed 6 debt underwriting/placing projects. As at the end of 2018, our assets under management (AUM) significantly exceeded that at the end of 2017 due to the additional capital brought by the Group's newly developed products.

FINANCIAL REVIEW

Brokerage Business

In 2018, total income from brokerage business recorded around HK$201 million, which is higher than that of HK$172 million in 2017, however, in monthly average measurement, it has declined around 12%. Commission on dealings in Hong Kong securities recorded a decline in a larger extent, which was mainly due to the decrease in our market share in the secondary market dealings in Hong Kong. As a result, although the commission on dealings in securities increased from HK$61 million in 2017 to HK$67 million in 2018, the monthly average income declined by around 18%. In addition, the monthly average commission on dealings in global futures contracts also decreased, which was mainly due to the decrease in monthly average contracts of our clients' dealings. Although the commission on dealings in futures and options increased from HK$98 million in 2017 to HK$119 million in 2018, the monthly average revenue declined by around 9%.

Interest Income Business

The Group's interest income business includes interest income from margin loans, interest income from structured loans, interest income from proprietary investment business and interest income from treasury operation. Total revenue from interest income business in 2018 recorded HK$447 million, as compared to HK$94 million in 2017, representing monthly average revenue growth of around 257%. In particular, interest income from loans to margin clients recorded HK$178 million in 2018, as compared to HK$56 million in 2017, representing monthly average revenue growth of around 138%, which was mainly due to the increase in average margin loans balance. In addition, interest income from structured loans also rose sharply in 2018, increasing from HK$19 million in 2017 to HK$174 million in 2018, and representing monthly average revenue growth of around 587%. The increase was mainly due to the significant growth of structured loan balance, which also took into account of loans to connected parties through the continuing connected transaction frameworks. For proprietary investment and treasury operation, interest income from the treasury business of clients' trust and house money as well as the investment business of proprietary investment in fixed income products in 2018 recorded around HK$93 million, as compared to HK$17 million in 2017, representing monthly average revenue growth of around 310%. The increase was mainly due to the significant increase in the portion of proprietary debt investment, which included the purchase of bonds from connected parties conducted in accordance with the continuing connected transactions framework as well as the significant surge in the available average house money for treasury business. Interest income from structured loans mainly represents the interests arising from loans and notes measured at amortised costs. Interest income from proprietary investment and treasury operation mainly comprise of interests arising from trust fixed deposits at bank, bonds measured at amortised costs and bonds measured at fair value through profit or loss.

Corporate Finance Business

The Group's corporate finance business comprises sponsorship for listing, financial advisory, financing consultation service, equity capital market and debt capital market. In 2018, total revenue from corporate finance business recorded HK$41 million, as compared to HK$49 million in 2017, representing monthly average revenue decline of around 37%. In 2018, commission income (from placing, underwriting and sub-underwriting deals) amounted to HK$11.44 million, as compared to HK$2.89 million in 2017, representing monthly average revenue growth of around 197%. The major reason was the increase in the number of mandates on underwriting/placing of bonds, which increased from 1 in 2017 to 6 in 2018. In 2018, fee income (from sponsorship, financial advisory, compliance advisory engagements) was around HK$29.23 million, as compared to HK$46.22 million in 2017, representing monthly average revenue decline of around 53%. The decline was mainly due to the change of the respective team at the beginning of the year, which in turn affected the development of its business. In 2018, 4 (2017: 3) sponsorship mandates for initial public offerings were signed, 12 (2017: 13) financial advisory mandates and independent financial advisory mandates were signed and 1 (2017: nil) compliance advisory mandates were signed.

Asset Management Business

In 2018, total revenue from asset management business recorded HK$24.14 million, which is higher than that of HK$21.60 million in 2017, however, in monthly average measurement, it has declined around 16%. Indeed, management income recorded considerable growth due to the launch of various funds, and the decline in monthly average revenue was mainly due to the decrease in performance fees. Our asset management business currently includes the management of China Tonghai China Focus Segregated Portfolio ("CTCF", a private fund incorporated in the Cayman Islands), Oceanwide Greater China UCITS fund ("UCITS", a European public fund registered in Luxemburg), a private equity fund named Oceanwide Pioneer Limited Partnership, CRS Trust-Oceanwide Hong Kong Stock Connect Fund, China Tonghai Kilmorey Guaranteed Return Segregated Portfolio, Golden Global Segregated Portfolio No. 1, a Merger and Acquisition Fund and various discretionary accounts and so on. AUM was US$250 million at the end of 2018, representing a surge of 46% from US$171 million at the end of 2017.

Investments and Others Business

In 2018, losses from investments and others business recorded around HK$40.34 million, as compared to a gain of HK$16.16 million in 2017. The main reasons for the losses were, firstly, the fair value loss of H shares of a Mainland broker firm held by the Company, and secondly, investment loss resulting from market fluctuation of UCITS fund managed by the asset management business of the Company which the group provided seeding to the fund. Fortunately, the fair value increase in the aforesaid private equity fund invested by the Company had offset part of the negative impact brought by both factors.

Expenses

Direct costs recorded HK$181 million in 2018, which is higher than that of HK$137 million in 2017, however, in monthly average measurement, it has declined around 0.9%. The decline was mainly due to the decrease in income from brokerage business which in turn resulted in the decline in commission income. Staff costs recorded HK$165 million in 2018, as compared to HK$98 million in 2017, representing monthly average growth of around 26%. The increase was mainly resulted from three factors: firstly, one-off bonus before Chinese New Year in 2018; secondly, a systematic initial remuneration adjustment became effective in January 2018, which aimed to partially align the remuneration level of the Group's staff with industry average; thirdly, the Group continued to strengthen building of personnel in 2018, and thus headcount increased by around 10% from the end of 2017. Other operating expenses and impairment loss on financial instruments recorded around HK$172 million in 2018, as compared to HK$57 million in 2017, representing monthly average growth of around 126%. Excluding the impairment provision of around HK$72 million for the bond of China Energy Reserve, the monthly average amount only increased by around 32%, which was mainly due to additional rental expenses for additional offices, increase in professional fees for various corporate actions of the listed company as well as advertisement and promotion expenses. Finance costs in 2018 rose sharply, increasing from HK$10 million in 2017 to HK$59 million in 2018 and representing monthly average growth of around 343%. The major reason was the gradual enhancement of the Group's leverage, whereas borrowings as at the end of 2018 increased by 326% from HK$562 million as at the end of 2017 to HK$2,393 million, with an aim to effectively utilise capital.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow as well as through the utilisation of banking facilities and short-term loans and notes from independent third parties. From time to time, the Company may raise capital by issuing new shares or issuing debt instruments. The Group's cash and short term deposits as at the end of 2018 stood at around HK$357 million (2017: HK$1,075 million).

At the end of 2018, the Group's total borrowings amounted to HK$2,393 million, increased by 326% from HK$562 million at the end of 2017. Borrowings mainly consisted of three components. The first component was bank facilities and secured financing of around HK$2,308 million (2017: HK$256 million), of which the Group had available aggregate banking facilities of around HK$3,840 million (2017: HK$1,280 million), and most was secured by the legal charge on certain securities as owned by the margin clients of the Group. The second component was the obligations under repurchase agreement, which recorded HK$35 million as at the end of 2018 (2017: HK$306 million). The third component was notes issued to independent third parties, which recorded HK$50 million as at the end of 2018 (2017: nil). At the end of 2018, the Group's gearing ratio (leverage) was 41% (2017: 10%), being calculated as total borrowings over net assets. The management has applied prudent risk and credit management on the increased borrowing. In addition, the Group is required to strictly follow regulatory re-pledging ratios and prudent bank borrowing benchmarks that govern the extent of bank borrowings in the securities margin lending business.

PROSPECTS

In light of market fluctuation and uncertainties on external political environment, the Company will adopt a prudent operation strategy in the future, and will stay alert in the course of development. Although the Company's overall leverage is still among the lowest in the industry, we will slightly increase our leverage to strike a balance between risks and equity return.

Besides, the Company will carry forward the structural transformation of revenue. By adopting a capital-based intermediary approach, the Group will develop fee-based businesses such as asset management, debt capital market, equity capital market and structured financing. We will continue to develop and expand the brokerage business for institutional clients to better support and develop the Group's capital market business. We aim to substantially increase the proportion of revenue from structured financing, corporate financing, asset management and investment business while increasing the absolute amount of income from traditional brokerage commission and interest income from margin loans, so as to reduce our reliance on the latter.

The Company will also strive to enhance the business interaction between Oceanwide Holdings and Tohigh Holdings. Under the continuing connected transaction frameworks approved by shareholders at the end of 2017, the Company has greatly explored transactions with the parent company. Since certain businesses are currently not included in the frameworks, the scope of connected transactions will be expanded upon next renewal. Meanwhile, the Company will take advantage of various established networks and competitive edges of our substantial shareholders to generate income for the Group.

After aligning our remuneration closer to the industry level in 2018, the Group will continue to improve our remuneration and welfare structure in a systematic manner in the future (including the completion of remuneration adjustment to the industry level) and put in place suitable incentive schemes (including but not limited to the adoption of share option scheme and share award scheme) at the right timing in order to attract talents and ensure that our high caliber core employees are fully committed to serving the Group.

We attach great awareness on the share price of the Company. By delivering excellent results and strengthening investor relation, the Group strives to better reflect the value of the Company in the market. We will also edge up our efforts on investor relation activities to make the public understand our overall development strategies and operation. In 2018, the Company was conferred the "Listed Company Award of Excellence 2018" (Main Board) by Hong Kong Economic Journal, evidencing its recognition in the business sector and among investors. The Company has also formulated a written dividend policy based on the requirements of the Listing Rules of the Hong Kong Stock Exchange.

All in all, the Group is endeavoured to become an international financial platform owned by a leading China private enterprise, with a base in Hong Kong, support from Mainland and presences in overseas.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

For the current year, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies. As at the end of the current year, the Group did not hold any significant investments.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2018, HK$810 million (2017: Nil) corporate bonds were charged to bank for facilities.

EMPLOYEES AND REMUNERATION POLICIES

In 2018, the Group had 221 full time employees (2017: 192) in Hong Kong and 31 full time employees (2017: 37) in Mainland China. In addition, the Group has 91 commission sales representatives (2017: 116). Competitive total remuneration packages are offered to employees by reference to industry remuneration research reports, prevailing market practices and standards and individual merit. Salaries are reviewed annually, and bonuses are paid with reference to individual performance appraisals, prevailing market conditions and the Group's financial performance. Other benefits offered by the Group include a mandatory provident fund scheme and medical and health insurance. In addition, the Group has maintained a restricted share award scheme and a phantom share scheme as means for reward and staff retention.

RISK MANAGEMENT

The Group's business is closely related to the economy and market fluctuation of Hong Kong and China, and indirectly affected by other overseas financial markets. To cope with the unpredictable market fluctuation and minimise risks, the Group takes preventive measures and establish a risk management system with defined segregation of duty between business departments on the front line and internal control units such as the Risk Management Department and Compliance Department.

The Group established the Risk Management Department in 2017 which is responsible for overseeing all risk management functions. These functions primarily include risk identification, risk limits setting, measurement and monitoring of risk limits, analysis of risk scenarios, and produce timely reports to the management. The Risk Management Department (RMD) team also perform pre and post risk assessments on both asset and liability items, as well as having control and supervision over newly developed financial products and businesses.

Credit Risk

Credit risk is the risk in respect of loss arising from incompetence of a borrower, counterparty or issuer of financial instruments to meet its obligation, or potential deterioration of credit ratings. The Group has Credit Risk Approving Policy and Post Lending Monitoring Policy in place to dictate procedures and approving authorities required for all credit applications relating to increases in credit risk.

The credit risks of the Group mainly arise from six business areas: brokerage business, asset management business, debt and equity underwriting/trading business, loans lending business, propriety investment and capital raising business. The Group's management has also set up a Business Assessment Committee to review and approve credit risky products/transactions within each of the business line.

Advance risk systems are also developed and implemented by the Group to conduct daily monitoring on credit and concentration risk limits, as well as periodic stress tests applied on margin financing products.

Management Discussion and Analysis

Market Risk

Market risk refers to potential losses due to market price movement of investment positions held, which includes interest rates risk, equity prices risk and foreign exchange rates risk.

RMD is an independent department from business lines responsible for setting up market risk limits and investment guidelines for the Group's various business functions and their investment activities. Investments which carries market risks potential are, where appropriate, assessed and approved by RMD. Daily monitoring and assessments of market risks positions are conducted timely, and significant risks shall be reported to senior management to ensure the market risks of the Group collectively is controlled within an acceptable level.

The Group continues to modify the market risk models though periodic back-testing and stress scenarios tests. The RMD recently brought in a more comprehensive system to consolidate market risks exposures of various business lines to increase the efficiency of risk return analysis and resources allocation.

Liquidity risk

Liquidity risk refers to the risk that the Group might face in obtaining sufficient capital and funds in a timely manner to meet its payment obligations and capital requirements for normal business activities. The Treasury Department is responsible for management and allocation of funds for the Group. The Finance Department has a monitoring system to ensure compliance to relevant rules, including Financial Resources Rules (FRR). In addition, the Group has maintained good relationships with banks to secure stable channels for short-term financing such as borrowing and repurchases. The Group may also raise long-term working capital through public and private offerings of corporate bonds. The Group has also established a liquidity system to ensure it has sufficient liquid assets to meet any emergency liquidity needs.

Operational risk

Operational risk is the risk of financial loss arises mainly from negligence or omission of internal procedural management, information system failures or personnel misconduct of staffs. The Group actively schedules briefing sessions to improve risk awareness amongst employees, and instructs all departments to establish internal procedural and control guidelines. There is an Operational Risk Events Reporting procedure to ensure that all risk events are timely reported to the Risk, Compliance and IT departments for immediate implementation of remedial action. In 2018, the Group has further invested in enhancing the contingency system to ensure continuity of business in case of system failures.

Regulatory Compliance Risk

As a financial group operating regulated businesses, we endeavour to meet the stringent and evolving regulatory requirements, including but not limited to those related to investor protection, market integrity and anti-money laundering. Our compliance team working together with third party professionals has continually reviewed and scrutinized our internal control processes to reduce regulatory risks that can impact the Group's operation.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This report is the third[1] Environmental, Social and Governance ("ESG") report published by China Tonghai International Financial Limited (the "Company"). By reporting the policies, practices and performances of the Company and its subsidiaries (the "Group") in ESG aspects, it allows all stakeholders to understand the progress and development direction of the Group towards sustainable development.

The report is available in both Chinese and English.

Reporting Scope and Boundary

This report focuses on the Group's five business segments, including brokerage, advisory, asset management, website management and investments, for the financial year from 1 January to 31 December 2018 (the "reporting year"). Compared with the ESG report published on 17 April 2018[2], the reporting scope of this report is expanded to cover four offices in Central, Causeway Bay and Sai Ying Pun, Hong Kong.

While this report does not cover some operations of the Group, it is on our agenda to extend the scope of the report in the future.

Reporting Standard

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as contained in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The four reporting principles, namely the principles of materiality, quantitative, balance and consistency, form the backbone of this report.

To provide stakeholders with an overview of the Group's performance in ESG aspects, the report not only discloses environmental KPIs under the "comply or explain" provisions but also reports additional social KPIs under the "recommended disclosures" as set out in the ESG Reporting Guide. A complete index is inserted in the last chapter of the report for reference.

Data Preparation

The Group has established internal controls and a formal review process to ensure that any information presented in this report is as accurate and reliable as possible. The Board of Directors (the "Board") of the Company has overall responsibility for the establishment and disclosure of relevant measures and KPIs. This report were reviewed by the Board in 28 March 2019.

Feedback Mechanism

Stakeholder comments and suggestions can help define and strengthen the Group's future ESG strategy and reporting. They are welcome to contact us by email at ir@tonghaifinancial.com.

STRENGTHENING OUR ESG GOVERNANCE

The Board has the overall responsibility for the oversight of the Group's policies, initiatives and performance on sustainability matters, principally in respect of environmental protection, employment, operational responsibility and community investment. Acting in good faith and in the best interest of the Company, each Board committees is aware of their collective and individual responsibilities to direct and supervise its affairs in a responsible and effective manner.

1 The previous corporate social responsibility report and ESG report were issued, together with the Annual Report, by the Company in its former name, Quam Limited and China Oceanwide International Financial Limited respectively.

2 Including two offices in Central, Hong Kong.

During the reporting year, the Board explored ways to further strengthen the ESG Governance of the Group. It is on its agenda to establish an ESG working group in 2019. The ESG working group will be delegated with the authority from the Board to review and monitor the Group's ESG policies and practices, respond to emerging ESG issues and make recommendations to the Board where appropriate to improve the Group's ESG performance.

ESG Risk Management

The Group considers risk management as an integral part of daily management processes and good corporate governance. While the Executive Committee, comprised of the executive Directors of the Board, is responsible for overseeing the Group's risk management strategy, the Board acknowledges its responsibility for establishing and maintaining an adequate system of internal control systems, which include an established organisational structure with clearly defined lines of responsibility and authority.

The Group's internal control and risk management includes a framework of prudent and effective control to enable risk identification, evaluation and management. To ensure the effectiveness of the systems, the Board engages external professional providers to conduct review on the risk management and internal control systems, and make recommendations for further strengthening.

Along the risks identified, the company's most significant ESG risks can be categorized as follows:

ESG Risk	Management Approach
Data Security	The Group has adopted data security measures in respect of the handling of confidential information. In case of any loss or unauthorised use of personal data, remedial measures will be adopted immediately.
Regulatory Compliance Risk (anti-money laundering)	The Group has included terms related to anti-money laundering in the Compliance Manual, and established grievance mechanism to handle related complaints in a timely manner.

Moving forward

The Group noticed that the Group's internal control and risk management system does not cover environmental and social issues comprehensively. Looking ahead, the Group will expand and enforce risk management as an on-going process to evaluate imminent ESG risks, enabling us to determine action plans in a timely manner.

ENGAGING OUR STAKEHOLDERS

Understanding and meeting the needs of our stakeholders is of paramount importance for us to move forward on the path towards sustainability. Every feedback will take eventually lead the Group to identify material ESG issues and manage relevant risks and opportunities.

Our stakeholders are those who have a considerable influence on our business, and whom our business has a significant impact on. We engage our key stakeholders via multiple channels to gather their feedback and strive for continuous improvement. Meetings, workshops and other communicative events are held across daily operations for internal and external stakeholder groups.

Employees	Customers	Communities
Organising recreational activities to relieve stress and to maintain work-life balance of employees	Maintaining customer service through hotline, facsimile and emails, for clients to lodge complaints	Supporting and sponsoring various events and charities

Environmental, Social and Governance Report

Material Assessment

Stakeholder engagement allows the Group to better understand needs and expectations of our different stakeholders. Their participation also helps the Group review potential risks and business opportunities. While the Group is keen to develop a long-term stakeholder engagement strategy, senior management executives reviewed the four aspects under the ESG Reporting Guide and identified the following issues as the most important environmental and social issues to be the focuses of this report.

Environment Protection	Employment	Operating Practices	Community Investment
• Promoting energy efficiency • Protecting the environment and natural resources	• Eliminating workplace discrimination • Providing training opportunities	• Protecting customer privacy • Preventing corruption	• Supporting the local community

Moving forward

To better understand the expectations and interests of a wider range of our stakeholders, the Group is considering to develop an engagement strategy which ensures engagement activities with different internal and external stakeholder groups will be carried out on a systematic and regular basis.

PROTECTING OUR ENVIRONMENT

Recognising climate change as one of the medium to both long-term risks and opportunities, we are committed to reduce our environmental impact associated with our activities, products and services. The Group has formulated the Environmental Protection Policy Statement to demonstrate its determination to enhance performance in energy efficiency, emission reduction, waste and resource management.

Emissions and energy management

Recognising that carbon (or "Greenhouse Gas" or "GHG") emissions have impending impacts on climate change and global warming, companies around the global have been aligning their strategy and operations in reducing carbon footprint. To gain a better understanding of our carbon footprint, we commissioned an external professional consultancy firm to implement carbon assessment in accordance with the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong.

Greenhouse Gas Emissions	
Scope 1: Direct emissions (tonnes of CO_2-e)	7.8
Scope 2: Energy indirect emissions (tonnes of CO_2-e)	315.0
Total Greenhouse Gas Emissions (tonnes of CO_2-e)	**322.8**
Greenhouse Gas Intensity (tonnes of CO_2-e/per employee)	**1.03**

The assessment showed that scope 2 emissions, contributed by electricity consumption, was the largest source of the total carbon emissions, accounting for about 98%. During the reporting year, the Group continued its effort in reducing carbon emissions and improving energy efficiency, through a series of energy-saving initiatives.

Energy-saving initiatives includes:

- implementing casual wear policy in the office to reduce the need for air-conditioning in summer;
- cleaning the filter and coiled fan regularly;
- replacing traditional light bulbs with LED light;
- switching off lighting and other electronic devices when leaving office;
- keeping the refrigerator storage to not exceed 80% of capacity; and
- deploying energy-efficient devices which carry Energy Label issued by the Electrical and Mechanical Services Department.

Energy Consumption	
Direct Energy	
— Petrol (MWh)	26.1
Indirect Energy	
— Electricity (MWh)	398.7
Total energy consumption (MWh)	**424.8**
Energy intensity (MWh/employee)	**1.4**

Air pollutants from our operations includes nitrogen oxides (NOx), sulfur oxides (SOx) and respiratory suspended particles from the Group's passenger cars. In order to reduce generation of air emissions, the Group encourages video conference and tele-conference in offices to reduce the use of vehicle, and is considering to replace our vehicles by one that comply with Euro 6 emission standards or are electric-driven in the future.

Waste and resource management

The Group believes that using resources in an efficient and sustainable way helps conserve resources and minimise adverse impacts on the environment.

As a financial service providing company, the Group's business operations would consume a significant amount of paper. The Group has a host of on-going environmental measures to reduce the use of paper:

Paper reduction practices	—	Implement Office Automation (OA) System to encourage use of e-forms for internal communications and requests
	—	Adjust the default setting to double-sided printing
	—	Reuse envelopes and folders for internal documents and letters

Water is one of the most valuable natural resource. During the reporting year, the offices of the Group consumed a total 156 m^3 of freshwater, with a water intensity of 0.5 m^3/employee. To help conserve the natural resources, we have adopted faucet of Grade 1 water efficiency and regularly check pipes and taps for leakage and repair when needed.

The Group is also clear on its responsibility of managing the waste our operation activities produce. During the reporting year, the Group generated 14.4[3] tonnes of non-hazardous waste, which are mainly office paper. Apart from the paper reduction measures above, recycle bins and reusable utensils were provided at offices to encourage recycling and reuse. The Group's operation also produced hazardous waste, which are collected and handled by collectors for further treatment.

Moving forward

In order to review the effectiveness of our measures and identify room for further improvement, the Group will conduct continuous assessment and develop specific action plans and develop reduction targets on electricity, paper and other resource consumption.

The Environment and Natural Resources

Apart from emissions and use of resources, the Group's business operations do not have a significant direct impact on the environment and natural resources.

Moving forward

Considering its responsibility and unique role as a financial service provider, the Group understands that the extent and nature of investment projects would affect the surrounding environment. As part of its risk management and internal control systems, the Group is going to establish guidelines incorporating both positive and negative environmental impacts in the screening and assessment of investment projects.

In the reporting year, the Group complied with laws and regulations related to emissions, including but not limited to the Air Pollution Control Ordinance, the Water Pollution Control Ordinance and the Waste Disposal Ordinance of Hong Kong. There were no cases of non-compliance in relation to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Meanwhile, we are also not aware of other significant impacts on the environment or the natural resources.

CARING FOR OUR EMPLOYEES

As a caring and responsible employer, the Group is devoted to provide a respectful and belonging workplace, cultivate a healthy and safe working culture, invested in securing and nurturing talents. Our Employment and Labour Practices Policy Statement also outlines our commitments in providing our employees a workplace that is free of discrimination and harassment and emphasises diversity, health and safety.

Employment

The Group respects every employee and recognizes the value of diversity and equality. We communicate our employment system through a set of policies and statement, including the Staff Manual and Employment and Labour Policy Statement, outlining our procedures and guidance regarding recruitment, promotion, dismissal, working hours, rest periods, compensation, benefits and welfare, equal opportunities, diversity and anti-discrimination.

The Group also offers competitive remuneration, compensation and benefit packages to attract and retains talents. The packages are reviewed on a yearly basis taking reference to the market trend, employee's qualification, experience and performance.

3 The figure includes the amount of general waste and paper collected for recycling, while the amount of general waste produced was estimated from weighting in December 2018. The Group will start to measure the weight of waste produced from 2019 more systematically and disclose the figure in next year's report.

The Group is adopting an equitable, fair and open employment system which provide equal opportunities and inclusive workplace. It also has zero tolerance against sexual harassment and discriminatory behaviour. If there is any case of suspected sexual harassment and discriminatory behaviour, the employees are encouraged to make complaints through the Group's grievance mechanism. All issues raised are impartially and efficiently reviewed by the Group's Chairman, Chief Executive Officer, Chief Financial Officer and Company Secretary directly for investigation and action.

Health and Safety

The Group considers employee health and safety as a priority at all times across our business operations. The Employment and Labour Policy Statement states the Group's commitments in maintaining a healthy and safe work environment. As most of our employees are office based, the Group recognises the importance of good indoor air quality. Air fresheners are installed at all offices, providing employees with sufficient fresh air and thermal comfort throughout the working day.

The Group also places emphasis on the wellness of our employees. In the reporting year, the Group provided a series of health and safety training courses, including a workshop co-organised with the Hong Kong Society of Rehabilitation about preventing stroke. In the workshop, our employees learnt more about the symptoms and prevention of stroke. In addition, the Group organised a Christmas party and annual dinner where employees can gather outside workplace.

During the reporting year, there were no cases of work-related injury and fatality.

Development and Training

The Group devotes itself to providing opportunities to develop and realise the employees' potential as they move along the career path.

In line with our commitments stated in the Employment and Labour Policy Statement, the Group provides training programmes of various topics according to the needs of employees in different positions and roles. Employees at different working levels were encouraged to take part in a wide range of training programs, covering anti-money laundering, updates on regulatory requirements and internal guidelines. Besides, all full-time employees are eligible to apply for the Training and Education Allowance.

The Group values the career planning and development of employees and has established the procedure of annual performance appraisal. The procedure was designed to establish a mutually agreed appraisal framework for evaluating employees' performance, recognising their achievement and identifying areas for improvement.

Labour Standards

The Group prohibits the use of child labour and forced labour. Measures are taken to ensure adherence to its commitments in Employment and Labour Policy Statement. To avoid hiring child labour, all original identification card and certificates shall be provided to the Human Resources Department for checking. In line with the regulation requirement, compensation leave will be provided to employees who are required to work on public holidays.

The Group is in compliance with the Employment Ordinance in Hong Kong, Occupational Safety and Health Ordinance in Hong Kong. In the reporting year, there were no cases of non-compliance in relation to employment, health and safety, and labour standards.

Environmental, Social and Governance Report

OPERATING OUR BUSINESS RESPONSIBLY

The Group is committed to upholding the highest standard of corporate governance and business integrity in its business activities. A set of corporate policies states the Group's objectives and requirements regarding supply chain management, customer privacy, advertising, labelling, intellectual property rights and anti-corruption.

Anti-corruption

Operating with honesty, integrity and fairness has always been essential to business. As a financial service provider, the Group recognises its responsibility to ensure that we offer services that follow internal and external requirements for high ethical standards and compliance.

As stated in the policy statement, the Group has zero tolerance for bribery, extortion, fraud and money laundering. Our Staff Manual clarifies the definition of work-related advantages, and sets the standards and practices for what is expected of our employees with regard to anti-bribery and anti-corruption. With respect to anti-money laundering and counter-terrorist financing, the Compliance Manual also provides our employees with guidance. Upon establishing business relationship with new clients, risk-classification and client due diligence shall be conducted to obtain necessary information about clients in different risk levels. The process enables the Group form a reasonable view that it knows the true identity of each client and with an appropriate degree of confidence, know the type of business and transactions the client is likely to undertake, thereby reducing our possibility to be victim of illegal activities carried out by criminals and money launderers.

The Group has a grievance mechanism which enables employees to raise concerns on possible improprieties or non-compliance of employees without fear of reprisal. Each report will be handled to Compliance Department for independent investigation.

The Group abides by the relevant laws and regulations in relation to corruption, including but not limited to the Prevention of Bribery Ordinance and Anti-Money Laundering and Counter-Terrorist Financing Ordinance of Hong Kong. During the reporting period, there were no cases of non-compliance or legal cases in relation to corruption.

Supply Chain Management

By committing to the responsible, fair and ethical business practices, the Group considers an effective supply chain management system is essential for nurturing long-term business relationships with suppliers. As stated in our policy statement, the Group is committed to the following:

- stringently select suppliers and review their performance regularly;
- identity environmental and social risks in the supply chain and formulate corresponding measures; and
- ensure continuous communication with supplier and provide them with timely support.

Moving forward

To better monitor the environmental and social risks associated with our suppliers, the Group will develop a set of assessment criteria for supplier identification and evaluation. It will also be served as a communication tool, outlining our expectations on the suppliers.

Product Responsibility

As a business providing financial products and services, it is our goal to protect customers' privacy and offer quality products and services to all of our customers. The Group has in place a set of policy statements and internal procedures regarding customer privacy, health and safety, advertising and labelling of products and services provided.

Protection of customers' personal data	• providing guiding principles for employees to protect customer data and information • including appropriate terms to ensure proper handling of personal data in the contracts with any third party data handler of the Group • adopting data security measures to prevent unauthorised or accidental saving, transfer, deletion, loss or use of personal data
Marketing communication and information	• provides easy-to-access and accurate information regarding its products and services for customers making informed choices • establishing product development procedure guideline and requirements in respect of the protection of intellectual property including trademarks, domain names, patents and copyrights
Customer complaint handling	• providing various channels for customers to express their opinions and feedback • reviewing and investigating the complaint in a fair and timely manner • submitting reports to the Group's management for confirming follow-up actions

During the reporting year, the Group complied with laws and regulations related to product responsibility, including but not limited to the Personal Data (Privacy) Ordinance in Hong Kong. There were no cases of non-compliance in relation to health and safety, advertising, labelling and privacy matters.

INVESTING IN OUR LOCAL COMMUNITY

Understanding and meeting the needs of the communities where the Group operates is one of our opportunities to create value. Our commitment to engaging and supporting the communities is underlined in our Community Investment Policy Statement. The Group strives to build a long-term relationship with the communities through understanding their needs and minimising the impacts of our operations brought to our neighbourhoods.

The Group encourages employees to participate in voluntary and community services.

Giving corporate philanthropic support	Mobilising employees to participate in volunteer work

Environmental, Social and Governance Report

During the reporting year, our employees participated in Oxfam Trailwalker to support the Oxfam's various poverty alleviation and emergency relief projects in Africa and Asia, including Hong Kong and Mainland China.

The Group also dedicates to utilizing its financial services and technology. Our financial media, Quamnet, organised the "Quamnet Options & Futures Virtual Investment Contest" to promote financial literacy which is necessary for making financially responsible decisions. Participants were provided with valuable learning opportunities and investment experiences through the simulated trading platform. Besides, a number of seminars in regard to futures investment were held in the university and the local community in Hong Kong.

KEY PERFORMANCE INDICATOR SUMMARY

Environmental Key Performance Indicators	Amount	Unit
Air Emissions		
Nitrogen Oxides (NOx)	1.82	kg
Sulphur Oxides (SOx)	0.04	kg
Respiratory Suspended Particles (RSP)	0.13	kg
Greenhouse Gas Emissions		
Scope 1:		
Direct Emissions	7.8	tonnes of CO_2-e
Scope 2:		
Energy Indirect Emissions	315.0	tonnes of CO_2-e
Greenhouse Gas Emissions in Total	322.8	tonnes of CO_2-e
Greenhouse Gas Intensity	1.03	tonnes of CO_2-e/ employee
Non-Hazardous Waste[4]		
Non-Hazardous Waste	14.4[5]	tonnes
Non-Hazardous Waste Intensity	0.05	tonnes/employee
Energy Consumption		
Direct Energy — Petrol	26.1	MWh
Indirect Energy — Electricity	398.7	MWh
Energy Consumption in Total	424.8	MWh
Energy Intensity	1.4	MWh/employee
Water Consumption		
Water Consumption	156	m^3
Water Intensity	0.50	m^3/employee

4 Amount of hazardous waste generated was not recorded in the reporting year. While the Group believes that office operations do not involve significant amount of hazardous waste, the Group has implemented a formal procedure for data collection to ensure that such information will be presented in next reporting year.

5 The figure includes the amount of general waste and paper collected for recycling, while the amount of general waste produced was estimated from weighing in December 2018. The Group will start to measure the weight of waste produced from 2019 more systematically and disclose the figure in next year's report.

ESG REPORTING GUIDE CONTENT INDEX

Material Aspect	Content	Page Index/Remarks
A. Environmental		
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 greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	18-19
A1.1	The types of emissions and respective emissions data.	24
A1.2	Greenhouse gas emissions in total and intensity.	24
A1.3	Total hazardous waste produced and intensity.	Data is unavailable. The Group will start to measure the weight of waste produced and disclose the figure in next reporting year.
A1.4	Total non-hazardous waste produced and intensity.	24
A1.5	Description of measures to mitigate emissions and results achieved.	18-19
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	20
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	19
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	24
A2.2	Water consumption in total and intensity.	24
A2.3	Description of energy use efficiency initiatives and results achieved.	19
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Currently sourcing sufficient water from municipal water supplies.
A2.5	Total packaging material used for finished products.	No packaging material was used in the operation of offices.
A3. The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	20
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	20
B. Social		
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.	20-21

Environmental, Social and Governance Report

Material Aspect	Content	Page Index/Remarks
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.	21
B2.1	Number and rate of work-related fatalities.	21
B2.2	Lost days due to work injury.	21
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	21
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.	21
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	22
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.	23
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.	22
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.	23

Corporate Events and Affiliations

Tonghai Financial is dedicated to offer premier one-stop financial services to its clients, it has also built up a close relationship with professional organizations, and is actively engaged in corporate events to contribute to the local community.

HONG KONG CORPORATE GOVERNANCE EXCELLENCE AWARDS

Tonghai Financial has been advocating outstanding corporate governance and support activities organised by The Chamber of Hong Kong Listed Companies. In the year of 2018, Tonghai Financial once again became Gold Sponsor of The Hong Kong Corporate Governance Excellence Awards 2018. Quamnet, a major financial media in Hong Kong and a member of Tonghai Financial, was an online media partner of the Awards and strove for promoting the importance of good corporate governance in Hong Kong.

Corporate Events and Affiliations

BRITCHAM BALL OF BRITISH CHAMBER OF COMMERCE

Tonghai Financial has been supporting activities organized by The British Chamber of Commerce in Hong Kong. The event dinner was held on 7 September 2018 at the Grand Ballroom of Grand Hyatt Hong Kong. The management of Tonghai Financial Group were invited to the event and take this opportunity to meet business partners.

HK SECURITIES AND INVESTMENT INSTITUTE ANNUAL DINNER

Tonghai Financial has been achieving high standard of business, meanwhile it is keen to further promote the development of the industry. Hong Kong Securities and Investment Institute held its annual significant event, Autumn Dinner at JW Marriott Hotel Hong Kong. The management of Tonghai Financial Group were invited to the event and shared the insights and latest development with industry peers.

QUAMNET OUTSTANDING ENTERPRISE AWARDS

The award presentation ceremony of the Quamnet Outstanding Enterprise Awards 2018 was successfully held on 24 January 2019 at The Murray Hong Kong. Representatives and honourable guests attended and witnessed the 10th anniversary of the awards. With celebration of the remarkable achievement, the awards gained wide support from the business community and media from both Hong Kong and overseas.

Corporate Events and Affiliations

QUAMIR AWARDS

China TonghaiIR held the third QuamIR Awards (QIRA) to honour models of practice and leadership in Investor Relations (IR) among the listed companies in the Asia Pacific Region.

The award presentation ceremony of Quam IR Awards 2017 successfully took place on 30 May 2018 at Four Seasons Hotel Hong Kong. Business elites of the awarded listed companies received the distinction and shared their joy at the ceremony. A total of 15 awards were presented, honouring the outstanding IR achievements of listed companies from four categories, which included Hang Seng Index Constituents, Main Board, Growth Enterprise Market and First Year after Listing. Eminent figures from the business community and notable guests supported the event and exchanged the ideas of excellent investor relations.

QUAMNET GIANT FINANCIAL FORUM

Organised by Quamnet, the annual event Quamnet Giant Financial Forum (QGFF) has gathered distinguished guest speakers to share their insights in global markets and various investment opportunities. The 13th QGFF was successfully held on 9 June 2018 at JW Marriott Hotel Hong Kong with support of Hong Kong and China media. Hundreds of public audiences and high-net-worth investors attended the grand event.

Corporate Events and Affiliations

QUAMNET OPTIONS & FUTURES VIRTUAL INVESTMENT CONTEST

Quamnet Options and Futures Virtual Investment Contest, organised by Quamnet, and sponsored by Direct Spot and CME Group, was successfully held during April to May 2018. The contest aimed at educating and offering valuable investment experience to both university students and the general public through simulated trading platform. The contest was widely supported by the students and the public, successfully gained wide attention and support of the media in Hong Kong and China.

OUR GLOBAL M&A CAPABILITY — OAKLINS INTERNATIONAL INC. ("OAKLINS")

Oaklins

Founded in 1985, Oaklins is one of the world's largest and most experienced M&A advisor in the mid-market, with over 800 professionals globally and dedicated industry teams in over 40 countries worldwide that focus on 15 dedicated industry sectors. The members advise primarily middle-market companies on acquisitions, divestitures, fundraising and fairness opinions. China Tonghai Capital Limited is the Hong Kong based member of Oaklins and has been acting as its exclusive Hong Kong member since 2005.

Oaklins has a solid record of over 30 years of successful cooperation and has successfully closed over 1,500 deals in the last five years. 382 deals successfully closed in 2018 worth US$37.1 billion, in which 126 deals were cross-border.

China Tonghai Capital Limited is both a contributor and a beneficiary to Oaklins' various events aimed at delivering best practice and better clients. China Tonghai Capital Limited participates actively in all Oaklins activities, particularly in its worldwide conferences, including the global conferences in Montreal and Vienna held in April and November 2018 respectively, as well as the regional Asian conference held in Ho Chi Minh City in September 2018.

Corporate Events and Affiliations

GLOBAL ALLIANCE PARTNERS (GAP)

After the turbulence we experienced in the capital markets towards the end of the year, all eyes are now on recovery. Clearly, values are low; but then this creates opportunities. As we all know, the Chinese character for danger and opportunity is the same.

GAP Investment Conferences

Last year we held our GAP conferences in the Middle East at Amman, Jordan last May, and in Europe at Barcelona, Spain last November. Our next conference will be on 29–31 May 2019 in Bangkok, Thailand as hosted by Country Group Holdings (CGH) headed by its principal, Mr. Tommy Taechaubol.

Global Alliance Partners SICAV

One of the big decisions adopted during the GAP conference in Barcelona was the establishment of the Global Alliance Partners SICAV, which emanated through the change of name from Oceanwide Funds SICAV. Tonghai Financial Group CEO Mr. Kenneth Lam, initiated this undertaking and it was approved at two levels — both by the board of GAP and the board of China Tonghai International Financial Limited.

We are looking at the integration and rollout of the funds under this new flag that should be worth nearly US$700 million. Capital Partners Securities (Japan) is thinking to inject their ESG fund and Aris Prime-Partners (Singapore) would also like to ride on the platform and introduce one of their funds.

Recognition Awards

On the occasion of GAP's 10th year anniversary, we recognized the contributions of three Partners. Mr. Kenneth Lam received the award on behalf of Tonghai Financial (Hong Kong), for their consistent support of GAP since inception.

The Best Deal Award (Among All Deals category) was shared between Petra Capital (Australia) and GVC Gaesco (Spain) as received respectively by Mr. George Marias and Mr. Jesus Muela. The Best Deal Award (Among Partners category) went to Mr. Robert McMillen of MAC Capital Advisors (Dubai) for having closed the Sunplay deal in collaboration with GAP and with CGH of Thailand.

Prospective New Members

The start of Y2019 saw GAP solidifying its presence in Asia with two prospective new members. One is KTB Securities based in Seoul. It was always our desire to find a partner in Korea as this market is very important. Korean companies are very active in emerging markets. The other candidate for membership is Ho Chi Minh City Securities Corporation based in Vietnam.

The agenda for this year is heavy but exciting. GAP illuminates its color through its international platform that puts mind and opportunities together in Brokerage, Investment Banking, and Asset Management.

By **MR. BERNARD POULIOT**
Chairman and Executive Director
Global Alliance Partners (GAP)

NEARLY **800** CORPORATE TRANSACTIONS CLOSED IN 27 COUNTRIES

MORE THAN **88** BILLION USD WORTH OF CLOSED TRANSACTIONS COVERING OVER 50 SECTORS

ALMOST **800** BILLION USD WORTH OF EQUITY TRADES IN MORE THAN 20 COUNTRIES

OVER **18** BILLION USD WORTH OF INDIVIDUAL AND INSTITUTIONAL FUNDS UNDER MANAGEMENT OR ADVISORY

ABOUT **300** RESEARCH ANALYSTS INTERNATIONALLY

MORE THAN **700** RESEARCH PRODUCTS SHARED

SOME **500** PROJECTS/DEALS SHOWCASED IN CONFERENCES

22 INVESTMENT CONFERENCES HOSTED IN 17 COUNTRIES

66 OFFICES AROUND THE GLOBE

22 COUNTRIES WORLDWIDE

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. HAN Xiaosheng (韓曉生), aged 62, is the Chairman and executive Director with effect from 3 February 2017. He is also currently an executive director, the chairman and chief executive officer of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715). Mr. HAN is currently the chairman of supervisory committee and was the executive director and chief executive officer of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046). He obtained a master's degree in economics from Renmin University of China in July 1996. Mr. HAN is a senior accountant in the PRC. He is also directors of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司), China Oceanwide Group Limited and Oceanwide Holdings International Financial Development Co., Ltd., which are substantial shareholders of the Company.

Mr. ZHANG Bo (張博), aged 45, is the Deputy Chairman and executive Director with effect from 3 February 2017. He is also currently a director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), and an executive director and the president of China Minsheng Trust Co., Ltd.* (中國民生信託有限公司), a director of Asia-Pacific Property & Casualty Insurance Co., Ltd.* (亞太財產保險有限公司), a director of Minsheng Securities Co., Ltd.* (民生證券股份有限公司) and supervisor of China Minsheng Banking Corp. Ltd.* (中國民生銀行股份有限公司). He is also a director of Wuhan CBD Co., Ltd. He served as the deputy general manager of the risk management division, general secretary of the corporate banking marketing committee and general manager of the corporate banking division of CMBC, Taiyuan Branch* (中國民生銀行太原分行), a member of the integrated operation of corporate business reform group* (公司業務集中經營改革小組) and head of finance office of the corporate banking division of the head office of CMBC, the deputy chief of the preparatory group of CMBC, Changsha Branch* (中國民生銀行長沙分行), a member of Party Committee, risk director, the vice president and president of the aircraft leasing unit of Minsheng Financial Leasing Co., Ltd.* (民生金融租賃股份有限公司). He obtained a master's degree in business administration from Wuhan University in December 2006 and is currently pursuing a doctor's degree in western economics in Fudan University.

Mr. ZHANG Xifang (張喜芳), aged 46, is the executive Director with effect from 3 February 2017. He is an executive director of China Oceanwide Holdings Limited whose shares are listed on Stock Exchange (Stock Code: 715). He is also the director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), a director and the president of Oceanwide Equity Investment Management Co., Ltd.* (泛海股權投資管理有限公司), a director of China Minsheng Trust Co., Ltd* (中國民生信託有限公司), a director of Minsheng Securities Co., Ltd.* (民生證券股份有限公司) and a director of International Data Group, Inc. He served as the head of the operation division of the finance and asset management department and the deputy director of the finance and asset management department of State Grid Corporation of China* (國家電網公司), the deputy general manager of State Grid Asset Management Co., Ltd.* (國網資產管理有限公司), the deputy general manager of State Grid Yingda International Holdings Group Co., Ltd.* (國網英大國際控股集團有限公司), the general manager of Yingda Taihe Property Insurance Co., Ltd.* (英大泰和財產保險股份有限公司) and the chairman of Yingda Insurance Asset Management Co., Ltd.* (英大保險資產管理有限公司). He studied the undergraduate programme of Accounting at Central University of Finance and Economics from September 1991 to June 1995 and received a degree of Bachelor of Economics. After that, he studied the programme of business administration at Tsinghua University School of Economics and Management from March 2006 to January 2009 and received a Master degree in Business Administration.

Mr. FENG Henian (馮鶴年), aged 57, is re-designated as an executive director with effect from 28 March 2018, and he was the non-executive Director since 3 February 2017. He is currently a director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), and the chairman and secretary of Party Committee of Minsheng Securities Co., Ltd.* (民生證券股份有限公司). He served as a director and secretary of Party Committee of Shandong Securities Regulatory Bureau of China Securities Regulatory Commission, a deputy director of the Department of Law of China Securities Regulatory Commission, a director of the Department of Unlisted Public Companies and a director of the Department of GEM Public Offering Supervision of China Securities Regulatory Commission. He obtained a master's degree in economic law from China University of Political Science and Law in July 1989.

Biographical Details of Directors and Senior Management

Mr. LIU Hongwei (劉洪偉), aged 52, is the executive Director with effect from 3 February 2017. He is also an executive director of China Oceanwide Holdings Limited (中泛控股有限公司), whose shares are listed on the Stock Exchange (Stock Code: 715), a non-executive director of CuDECO Limited, whose shares are listed on the Australian Securities Exchange (Stock Code: CDU) and the vice-president of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司). He served as a supervisor of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046) and a director of Minsheng Holdings Co., Ltd.* (民生控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000416). He obtained a bachelor's degree in engineering from Dalian Ocean University (formerly known as Dalian Fisheries College) in July 1989 and a master's degree in management from Massey University in New Zealand in April 2006. He is also a director of China Oceanwide Group Limited, which is substantial shareholder of the Company.

Mr. Kenneth LAM Kin Hing (林建興), aged 65, joined the Company in 2001, and is currently the executive Director of the Company and Chief Executive Officer of the Group. Since 1994, he has been the Managing Director of Dharmala Capital Holdings Group, a company which was subsequently amalgamated with the Company. Mr. LAM is a responsible officer for Types 1, 2, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance (the "SFO") for China Tonghai Securities Limited and a responsible officer for Types 4 and 9 regulated activities under the SFO for China Tonghai Asset Management Limited. Mr. LAM had worked for an international bank for 10 years as the head of its PRC and corporate banking operations. Mr. LAM has more than 30 years of experience in corporate finance and banking. He was an independent non-executive director of Hon Kwok Land Investment Company, Limited, a company listed in Hong Kong (March 2004 to August 2015) and a director of Seamico Securities Public Company Limited, a company listed in Thailand (September 1997 to August 2013). He is the member of the General Committee of The Chamber of Hong Kong Listed Companies since June 2013 and the Vice Chairman and past Chairman (2009–2010) of the Institute of Securities Dealers Limited. He holds a Bachelor of Science Degree in University of Western Ontario (now known as Western University) with a double major in Computer Science and Economic (1976), and a Master of Business Administration in the 3-Year MBA Program of The Chinese University of Hong Kong (1983). In 2012, he was conferred on Honorary Fellowship by Canadian Chartered Institute of Business Administration and Honorary Doctor of Laws by Lincoln University.

NON-EXECUTIVE DIRECTORS

Mr. Bernard POULIOT, aged 67, joined the Company in 2000. He was the Chairman of the Company until February 2017 and became Deputy Chairman of the Company (from February 2017 to September 2017). He is now the non-executive Director of the Company with effect from 1 October 2017. Mr. POULIOT has more than 30 years of experience in investment, finance and corporate development. Mr. POULIOT was a director of Seamico Securities Public Company Limited, a company listed in Thailand (September 1997 to May 2013) and was appointed as the vice-chairman in February 2008.

Mr. LIU Bing (劉冰), aged 61, is the non-executive Director with effect from 3 February 2017. He is currently the global president, director and chair of executive committee of International Data Group, Inc., an executive director of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), the executive director and executive vice president of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) which is substantial shareholder of the Company, the vice chairman of the board of Minsheng Holdings Co., Ltd.* (民生控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000416) and a director of Minsheng Securities Co., Ltd.* (民生證券股份有限公司). He was the chairman of the supervisory committee of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046). He obtained a master's degree in business administration from Sacred Heart University in the United States in August 1989.

Mr. ZHAO Yingwei (趙英偉), aged 48, is the non-executive Director with effect from 28 March 2018. He is currently a non-executive director of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), the vice-chairman of supervisory committee and was the executive director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046) and the chairman of the supervisory committee of Minsheng Holdings Co., Ltd.* (民生控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000416). He is a senior accountant in China. Mr. ZHAO obtained a Bachelor's degree in economics from Renmin University of China in January 1997 and a Master's degree in engineering from Beihang University in January 2013. He is also directors of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) and China Oceanwide Group Limited, which are substantial shareholders of the Company.

Mr. ZHAO Xiaoxia (趙曉夏), aged 55, is the non-executive Director with effect from 3 February 2017. He served as a director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), the sub-manager of international business division and the representative of London liaison office of People's Insurance Company of China* (中國人民保險總公司), director and the general manager of Huatai Insurance Agency & Consultant Service Ltd.* (華泰保險代理和諮詢服務公司), director and the executive vice president of AXA-Minmetals Assurance Co., Ltd.* (金盛人壽保險有限公司), senior vice president of New York Life Insurance (International)* (美國紐約人壽 (國際) 保險公司), president and the chief executive officer of Haier New York Life Insurance Co., Ltd.* (海爾紐約人壽保險有限公司), senior vice president of Asia Capital Holding Group Limited* (亞洲資本控股集團公司) and executive vice president of North Asia Region and the head of China of ACR Reinsurance Group* (ACR再保險集團). He obtained a bachelor's degree in law from Peking University in 1985.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Roy LO Wa Kei (盧華基), aged 47, is the independent non-executive Director with effect from 3 February 2017. He is the chairman of audit committee of the Company. He is currently the independent non-executive director of several public companies whose shares are listed on the Stock Exchange, including China Oceanwide Holdings Limited (Stock Code: 715), Sheen Tai Holdings Group Company Limited (Stock Code: 1335), Sun Hing Vision Group Holdings Limited (Stock Code: 125), China Zhongwang Holdings Limited (Stock Code: 1333), Xinming China Holdings Limited (Stock Code: 2699), Wan Kei Group Holdings Limited (Stock Code: 1718) and G-Resources Group Limited (Stock Code: 1051). He also serves as the managing partner of SHINEWING (HK) CPA Limited, the member of the Shanghai Pudong New Area Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議上海市浦東新區委員會), the founding executive vice-president and council member of the Hong Kong Independent Non-Executive Director Association and the Divisional President 2019 — Greater China of CPA Australia. He served as an independent non-executive director of North Mining Shares Company Limited (Stock Code: 433) from September 2004 to November 2015. He obtained a bachelor's degree in business administration from University of Hong Kong in November 1993 and a master's degree in professional accounting from Hong Kong Polytechnic University in November 2000. He is a certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of CPA Australia and a fellow of the Institute of Chartered Accountants in England and Wales.

Mr. KONG Aiguo (孔愛國), aged 51, is the independent non-executive Director with effect from 3 February 2017. He is the chairman of remuneration committee of the Company and a member of audit committee of the Company. He is currently an independent director of Oceanwide Holdings Co., Ltd.* (泛海控股股份有限公司) whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000046), an independent non-executive director of Harmonicare Medical Holdings Ltd., whose shares are listed on the Stock Exchange (Stock Code: 1509), an independent director of Tianjin Xinmao Science and Technology Co., Ltd.* (天津鑫茂科技股份有限公司) whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000836), an independent director of Simei Media Co., Ltd.* (思美傳媒股份有限公司), whose shares are listed on Shenzhen Stock Exchange (Stock Code: 002712), a director of Shanghai Fudan Forward Science and Technology Co., Ltd.* (上海復旦復華科技股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600624). He is a professor and Ph.D supervisor in School of Management of Fudan University. From July 1989 to August 1992, he was an assistant engineer of Wuxi 721 Factory* (無錫721廠). He obtained a doctor's degree from Fudan University in December 1996.

Biographical Details of Directors and Senior Management

Mr. LIU Jipeng (劉紀鵬), aged 62, is the independent non-executive Director with effect from 18 December 2017. He is a member of the audit committee and remuneration committee of the Company. He is also currently an independent non-executive director of China Oceanwide Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 715), China Minsheng Banking Corp., Ltd.* (中國民生銀行股份有限公司), whose shares are dually listed on the Stock Exchange (Stock Code: 1988) and the Shanghai Stock Exchange (Stock Code: 600016), an independent director of Zhongjin Gold Corporation, Ltd.* (中金黃金股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600489), and Chongqing Changan Automobile Co., Ltd.* (重慶長安汽車股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000625). He also served as directors of various public companies including independent director of AVIC Capital Co., Ltd.* (中航資本控股股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600705) (from May 2011 to May 2017), independent non-executive director of Dalian Wanda Commercial Properties Co., Ltd., whose shares are listed on the Stock Exchange (Stock Code: 3699, delisted on 20 September 2016) (from 2012 to 2016) and independent non-executive director of Wanda Hotel Development Company Limited, whose shares are listed on the Stock Exchange (Stock Code: 169) (from July 2013 to March 2019). He is a senior economist and certified public accountant in China. Mr. LIU obtained a Bachelor's degree in economics from Capital University of Economics and Business (formerly known as Beijing School of Economics) in July 1983 and a Master's degree in economics from Graduate School of Chinese Academy of Social Sciences in July 1986.

Mr. HE Xuehui (賀學會), aged 47, is the independent non-executive Director with effect from 3 February 2017. He is a member of the audit committee and remuneration committee of the Company. He is currently an EMBA professor in Shanghai National Accounting Institute* (上海國家會計學院), a senior partner of Shanghai Sigma Investment Consulting Corporation, an executive director of Shanghai Finance Institute* (上海市金融學會) and a member of Expert Committee on Working Mechanism of Prudential Qualification Appraisal of Risks Relating to Separate Accounting Business in Shanghai Pilot Free Trade Zone* (上海自貿試驗區分賬核算業務風險審慎合格評估工作機制專家委員會). From December 2012 to September 2016, he was Dean of School of Finance of Shanghai University of International Business and Economics* (上海對外經貿大學). From May 2009 to August 2012, he was a professor in Shanghai National Accounting Institute* (上海國家會計學院). From September 2003 to April 2009, he was Deputy Dean of School of Finance of Hunan University* (湖南大學金融學院). From May 2001 to January 2002, he served as a senior researcher in Shanghai Jin Xin Financial Engineering Research Institute* (上海金新金融工程研究院). He obtained a master's degree in economics from Hunan University (then known as "Hunan College of Finance and Economics*") (湖南財經學院 (現湖南大學)) in September 2009. He obtained a Ph.D in economics from Fudan University in December 2003.

Mr. HUANG Yajun (黃亞鈞), aged 66, is the independent non-executive Director with effect from 3 February 2017. He is a member of audit committee and remuneration committee of the Company. He is currently the head of the world economy department, School of Economics of Fudan University and a director of Securities Research Institute of Fudan University. He is also an independent director of Donghai Securities (東海證券股份有限公司), an independent director of Shanghai Zi Jiang Enterprise Group Co., Ltd.* (上海紫江企業集團股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600210), an independent director of Zhongxin Information Development Inc., Ltd. Shanghai* (上海中信資訊發展股份有限公司), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 300469) and an independent director of Shanxi Yuci Rural Commercial Bank Co. Ltd.* (山西榆次農商行股份有限公司). He served as Deputy Dean and Dean of School of Economics of Fudan University from July 1992 to December 2000 and Deputy Dean of University of Macau from December 2000 to July 2006. He obtained a master's degree in economy from Fudan University in 1985 and a doctor's degree in economy from West Virginia University in 1992.

SENIOR MANAGEMENT

Group Management

Mr. WONG Stacey Martin, aged 51, joined the Group in November 2017 and is the Chief Operating and Risk Officer of the Group. Mr. WONG has over 27 years of experience in the investment banking industry and has extensive experience in fund raising transactions of Hong Kong and Chinese Companies and has participated various kinds of transactions of Blue-chips, Red-chips and H-shares and mergers and acquisitions. He is a responsible officer for Types 1, 2, 4, 6 and 9 regulated activities under the SFO for China Tonghai Securities Limited and a responsible officer for Types 1 and 6 regulated activities under the SFO for China Tonghai Capital Limited. Mr. WONG is the independent non-executive director of OCI International Holdings Limited (Stock code: 329.HK) and non-executive director of Minsheng Creative Technology Holdings Limited (formerly known as Food Wise Holdings Limited) (Stock code: 1632.HK). Prior to joining Tonghai Financial, Mr. WONG was the Chief Operating Officer and a director of CMBC International Holdings Limited (formerly named as China Minsheng International Holdings Limited) since February 2013. Mr. WONG was the Head of Investment Banking of Piper Jaffray Asia Limited (formerly named as Goldbond Group Holdings Limited (2003–2007) which was merged by Piper Jaffray Companies (NYSE: PJC) in July 2007) and also headed Bear Stearns Asia Limited's corporate finance team, worked as the Head of BNP Paribas Peregrine Capital Limited's infrastructure and public utility corporate finance team, and spent ten years with Peregrine Capital Limited. Mr. WONG received his master's degree from the University of Cambridge, the United Kingdom.

Mr. Chris WU Kwok Choi, aged 45, joined the Company in June 2017 and is the Chief Financial Officer of the Company. Mr. WU has more than 20 years of finance and accounting experience in the Greater China region. Mr. WU graduated from the Hong Kong University of Science and Technology with a bachelor's degree in Business Administration. Mr. WU is a fellow member of the Association of Chartered Certified Accountants and a fellow member of The Hong Kong Institute of Certified Public Accountants.

Mr. YAN Chi Kwan, aged 43, joined the Group in May 2018 and is the Chief Investment Officer of the Group. He has over 18 years of investment experience in the financial markets of the Asia-Pacific region. Mr. YAN is a responsible officer for Types 4 and 9 regulated activities under the SFO for China Tonghai Asset Management Limited and a responsible officer for Type 1 regulated activity under the SFO for China Tonghai Securities Limited. Prior to joining the Group, he was the Chief Investment Officer of CMBC International Holding Limited, responsible for investment, financing and asset management. Mr. YAN has also set his footprints in other financial institutions. He was the Head of Product and Business Development in Shenwan Hongyuan Asset Management (Asia) Limited (formerly known as Shenyin Wanguo Asset Management (Asia) Limited) and Deputy Managing Director in Shenwan Hongyuan Securities (H.K.) Limited (formerly known as Shenyin Wanguo Securities (H.K.) Limited). Mr. YAN was also the Management Director in a number of well-established asset management companies where he participated in investment management, research, business and product development. He holds a Master degree in Economics and Bachelor degree in Finance from The University of Hong Kong. He is a CFA® charterholder. On personal front, Mr. YAN was a prominent speaker or lecturer in several university institutions. He conducted lectures at The Open University of Hong Kong, and National Kaohsiung University of Applied Sciences (now known as National Kaohsiung University of Science and Technology).

Securities Broking Business

Mr. Calvin CHIU Chun Kit, aged 48, is the Deputy Chief Executive Officer of the securities and futures businesses of the Group. He is a responsible officer for Types 1, 2, 4 and 9 regulated activities under the SFO for China Tonghai Securities Limited. He joined the Group in 2002.

Mr. LIU Zhihong, aged 53, joined the Group in December 2017 as Head of Institutional Equities business, responsible for overseeing sales and trading, research and ECM businesses. Mr. LIU has more than 20 years of extensive experience in investment banking and asset management industry, previously held senior positions with a number of leading global and Chinese financial institutions. He is a responsible officer for Types 1, 4 and 6 regulated activities under the SFO for China Tonghai Securities Limited. Mr. LIU received a Master of Business Administration from Columbia University and a Bachelor's degree from Zhejiang University in China.

Biographical Details of Directors and Senior Management

Mr. Abe TSUI Chi Kuen, aged 36, joined the Group in August 2018 as the Head of Institutional Fixed Income, responsible for overseeing Debt Capital Markets and sales and trading of fixed income products. Mr. TSUI has more than 15 years of experience in investment banking and banking industry. He is a responsible officer for Types 1 and 4 regulated activities under the SFO for China Tonghai Securities Limited. Prior to Tonghai Financial, Mr. TSUI was the Head of Debt Capital Markets of CMBC Capital and Bocom International. Mr. TSUI received a Master of Laws (LLM) from Chinese University of Hong Kong and a degree from the Hong Kong Polytechnic University.

Corporate Finance Business

Mr. Benny CHUNG Koon Chung, aged 45, joined the Group in May 2017 and is the Chief Executive Officer of corporate finance of the Group. Mr. CHUNG has over 20 years of investment banking experience and had worked at the investment banking division of various multinational banks. He is a responsible officer for Types 1 and 6 regulated activities under the SFO for China Tonghai Capital Limited. Prior to joining the investment banking industry, Mr. CHUNG worked as an auditor at one of the major international accounting firms for over two years.

Financial Media

Mr. George WONG Yan Wai, aged 34 is Managing Director of China Tonghai Financial Media Limited. He manages the entire operations of Quamnet, including the sales and marketing. He has extensive experience in media, public relations and event marketing. Previously, he also acted as a director for an asset management company in Hong Kong which is licensed to carry out Types 4 and 9 regulated activities under the Securities and Futures Ordinance. He is acting as independent non-executive Director of Core Economy Investment Group Limited (Stock code: 339.HK) since 2017. Mr. WONG holds a Bachelor's degree in Business Management (BSc) from King's College London, University of London.

Head Office

Mr. Keith CHAN Chin Wang, aged 43, joined the Group in July 2018 and is the Head of Legal of the Group. Mr. CHAN was admitted as a solicitor of the High Court of Hong Kong Special Administrative Region in 2003. Mr. CHAN has been a practising solicitor in Hong Kong for over 10 years specialised in corporate finance, merger and acquisition and regulatory compliance. Prior to joining the Group, Mr. CHAN was also appointed as the Company Secretary for a number of companies whose shares are listed on the Main Board and GEM of the Stock Exchange.

Ms. Hortense CHEUNG Ho Sze, aged 44, is the Company Secretary of the Company. She joined the Group in 2007. Ms. CHEUNG has extensive experience in handling listed company secretarial matters and is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in United Kingdom.

Mr. TSANG Chung Him, aged 47, joined the Company in 2007 as the Head of Compliance. He had also acted as Company Secretary of the Company from April 2008 to October 2015. He has extensive experience of compliance in the financial industry. He had worked for the Securities and Futures Commission and several major financial groups. Mr. TSANG holds a Bachelor of Social Sciences and a Master of Laws from The University of Hong Kong and the professional designations of Chartered Financial Analyst, Certified Public Accountant and Financial Risk Manager.

Ms. TSUI Ka Chi, aged 49, is the Group Human Resources Manager of the Group. She is responsible for the overall human resources management and administration of the Group. She joined the Group in 2006. Ms. TSUI has extensive experience in human resources and administration and is a professional member of the Hong Kong Institute of Human Resource Management.

Directors' Report

The board of directors (the "Board" or "Directors") of China Tonghai International Financial Limited (the "Company") presents the annual report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2018 (the "Year").

PRINCIPAL ACTIVITIES

During the Year, the principal activity of the Company is investment holding and the principal activities of the subsidiaries are as follows:

a) discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing and money lending services, insurance broking and wealth management services;

b) corporate finance advisory and general advisory services;

c) fund management, discretionary portfolio management and portfolio management advisory services;

d) financial media services; and

e) investing and trading of various investment products.

Particulars of the principal subsidiaries of the Company as at 31 December 2018 are set out in note 44 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the Year, a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing, the environmental policies and performance and the relationships with key stakeholders of the Group are set out in the section of "Chief Executive Officer's Review", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" on pages 6 to 7, pages 8 to 14 and pages 16 to 26 respectively of this annual report.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by business segment for the Year is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year and the financial position of the Company and the Group as at 31 December 2018 are set out in the financial statements on pages 74 to 178.

No interim dividend was paid during the Year (interim dividend for the nine months ended 31 December 2017: nil).

The Board has resolved not to recommend the payment of a final dividend for the Year (for the nine months ended 31 December 2017: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published result and of the assets and liabilities of the Group for the past five financial year, which was extracted from the audited financial statements and reclassified as appropriate, is set out on pages 179 to 180 of this annual report. This summary does not form part of the financial statements.

LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Details of movements of the leasehold improvements and equipment of the Company and the Group during the Year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 32 to the financial statements.

BORROWINGS AND INTEREST CAPITALISED

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the borrowings are set out in note 29 to the financial statements.

SHARE AWARD SCHEME

A Restricted Share Award Scheme ("Share Award Scheme") was adopted by the Company on 19 August 2010. The purpose of the Share Award Scheme is to recognize and motivate the contribution of certain employees and/or consultants and to provide incentives and help the Group in retaining its existing employees or consultants and recruiting additional employees or consultants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

Pursuant to the rules of Share Award Scheme, the Board may, from time to time, at its absolute discretion select the employees and consultants (excluding any excluded participant) as they deem appropriate for participation in the Share Award Scheme and determines the number of awarded shares to be granted. Existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected participants. The awarded shares of the Company will be vested only after satisfactory completion of time-based targets or time-and-performance-based targets.

The Share Award Scheme is subject to the administration of the Board in accordance with the rules of Share Award Scheme. The aggregate number of awarded shares granted by the Board throughout the duration of the Share Award Scheme should not in excess of 10% of the issued share capital of the Company as at the date of its adoption. Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years from the date of its adoption. However, the Board has the right to renew for the Share Award Scheme up to three times and each time for another 5-year terms. Further details of the Share Award Scheme were set out in the announcement of Company dated 19 August 2010.

The Trustee has purchased 7,120,000 issued Shares of the Company (the "Shares") from the market as at 31 December 2018. Accordingly, a total of 9,282,002 Awarded Shares now held by the trustee under the Restricted Shares Award Scheme Trust which is available for allocation and no Awarded Share has been granted as at 31 December 2018. The Share Award Scheme should be retained until expiry of trust period or until informed by the Company.

Save as disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the Year, the Company repurchased a total of 25,000,000 Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration (before expenses) of HK$18,634,094 pursuant to the general mandate to repurchases Shares approved by the Shareholders at the last annual general meeting. All the repurchased Shares were subsequently cancelled. Particulars of the repurchase during the Year are as follows:

Month	Number of Shares repurchased	Purchase price per share Highest (HK$)	Purchase price per share Lowest (HK$)	Aggregate consideration (before expenses) (HK$)
September 2018	9,230,000	0.770	0.740	6,917,311
October 2018	12,590,000	0.790	0.690	9,557,083
November 2018	3,180,000	0.701	0.600	2,159,700
Total	25,000,000			18,634,094

The Directors believe that the repurchase of Shares are in the best interests of the Company and its Shareholders and would lead to an enhancement of the earnings per share. Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any listed securities of the Company during the Year.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Company and the Group during the Year are set out in the consolidated statement of changes in equity, and in note 43 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for cash distribution and/or distribution in specie to Shareholders, comprising the aggregate of contributed surplus and retained profits of the Company, amounted to HK$443.2 million. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to Shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the company's assets would thereby be less than its liabilities.

DIVIDEND POLICY

The declaration of dividends by the Company is also subject to any restrictions under the Company Act 1981 of Bermuda, the Listing Rules, bye-laws of the Company and any applicable laws, rules and regulations. Distribution will usually be considered annually after the annual accounts of the Company are approved by the shareholders but interim distribution may be made from time to time to shareholders as appear to the Board to be justified by the position of the Company.

The declaration of future dividends will be subject to the decision by the Board and will depend on, among other things, the operation and financial performance, liquidity conditions, capital requirements and future funding needs, contractual restrictions, availability of reserves and the prevailing economic climate or any other factors that our Directors may consider relevant.

Directors' Report

CHARITABLE DONATIONS

During the Year, the total charitable donations made by the Group is HK$300,000 (for the nine months ended 31 December 2017: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, services provided to the Group's five largest customers accounted for 26% of the total turnover for the Year and services provided to the largest customer included therein amounted to 8%.

Services provided from the Group's five largest suppliers accounted for 28% of the total cost of services provided for the Year and services provided from the largest supplier included therein amounted to 8%.

None of the Directors or any of their associates or any Shareholder (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had, at any time during the Year, a beneficial interest in any of the five largest customers and suppliers of the Group.

DIRECTORS

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

Executive Directors

Mr. HAN Xiaosheng
Mr. ZHANG Bo
Mr. ZHANG Xifang
Mr. FENG Henian *(Re-designated to Executive Director on 28 March 2018)*
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing

Non-executive Directors

Mr. Bernard POULIOT
Mr. LIU Bing
Mr. ZHAO Yingwei *(Appointed on 28 March 2018)*
Mr. ZHAO Xiaoxia

Independent Non-executive Directors

Mr. Roy LO Wa Kei
Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

In accordance with Bye-laws 87 of the Company and pursuant to code provision A.4.2 of Appendix 14 of the Listing Rules, Mr. ZHANG Xifang, Mr. FENG Henian, Mr. ZHAO Xiaoxia, Mr. KONG Aiguo and Mr. HE Xuehui will retire by rotation at the forthcoming annual general meeting. They are being eligible and will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of its independent non-executive Director an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") and considers that all the independent non-executive Directors are independent in accordance with the terms of the independence guidelines set out in rule 3.13 of the Listing Rules.

DIRECTORS' REMUNERATION

Details of the emoluments of the Directors for the Year are set out in note 14 to the financial statements.

EMOLUMENT POLICY

The emolument policy of the Group, in general, is determined with reference to the financial position and operating results of the Company and the prevailing market condition and trends. On this basis, the emolument of the Directors is determined with reference to their individual performances, involvement in the Group's affairs, the Company's performance and profitability. For the executive Directors, their remuneration is reviewed by the Remuneration Committee of the Company. As for the independent non-executive Directors, remuneration is determined by the Board, upon the recommendation from the Remuneration Committee of the Company. A resolution will be proposed at the forthcoming annual general meeting to obtain Shareholders' authorisation for the Board to fix Directors' remuneration.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are presented on pages 35 to 40 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. HAN Xiaosheng, Mr. ZHANG Xifang and Mr. LIU Hongwei has entered into a service agreement with the Company to act as executive Director for a term of three years commencing 3 February 2017, all renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. Each of them has agreed and acknowledged that he is not entitled to any director's fee or bonus as remuneration for his services during the continuance of his directorship under his service agreement.

Mr. ZHANG Bo has entered into a service agreement with the Company to act as executive Director for a term of three years commencing 3 February 2017, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He is entitled to receive a monthly salary of HK$235,000.

Mr. FENG Henian has entered into a service agreement with the Company to act as executive Director for a term of three years commencing 28 March 2018, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He has agreed and acknowledged that he is not entitled to any director's fee or bonus as remuneration for his services during the continuance of his directorship under his service agreement.

Mr. Kenneth LAM Kin Hing has entered into a service agreement with the Company to act as executive Director for a term of three years commencing 1 October 2017, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He is entitled to receive a monthly salary of HK$400,000.

Mr. POULIOT entered into a letter of appointment as a non-executive Director with the Company for a term of one year commencing 1 October 2018 renewable following the expiration of the term, and is subject to retirement by rotation and re-election in accordance with the bye-laws of the Company. He is entitled to receive a monthly director's fee of HK$16,000.

Each of Mr. LIU Bing and Mr. ZHAO Xiaoxia has entered into a letter of appointment with the Company to act as non-executive Director for a term of one year commencing 3 February 2019, all renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. Each of them has agreed and acknowledged that he is not entitled to any director's fee or bonus as remuneration for his services during the continuance of his directorship under his letter of appointment.

Mr. ZHAO Yingwei has entered into a letter of appointment with the Company to act as non-executive Director for a term of one year commencing 28 March 2018, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He has agreed and acknowledged that he is not entitled to any director's fee or bonus as remuneration for his services during the continuance of his directorship under his letter of appointment.

Each of Mr. Roy LO Wa Kei, Mr. KONG Aiguo, Mr. HE Xuehui and Mr. HUANG Yajun has entered into a letter of appointment with the Company to act as independent non-executive Director for a term of one year commencing 3 February 2019, all renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. Each of them is entitled to receive a fixed annual director's fee of HK$250,000 and will not receive any variable remuneration from the Group.

Mr. LIU Jipeng has entered into a letter of appointment with the Company to act as independent non-executive Director for a term of one year commencing 18 December 2018, renewable following the expiration of the term and is subject to the retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company. He is entitled to receive a fixed annual director's fee of HK$250,000 and will not receive any variable remuneration from the Group.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under "Continuing Connected Transaction" in this directors' report and in note 37 to the financial statements, no Director had a material interest in any transactions, arrangements or contract of significance to the business of the Group subsisted at the end of the Year or at any time during the Year to which the Company or any of its subsidiaries was a party.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS

As at 31 December 2018, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules were as follows:

(i) Long Position in the Shares

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding in the Shares in issue (Note 1)
Mr. Kenneth LAM Kin Hing	Beneficial owner	113,022,833	1.82%
Mr. Bernard POULIOT	Beneficial owner	38,952,666	0.62%

(ii) Long positions in the shares of associated corporations of the Company

(a) Oceanwide Holdings Co., Ltd. (泛海控股股份有限公司) ("Oceanwide Holdings")*

Name of Director	Capacity	Number of shares in Oceanwide Holdings	Approximate percentage of shareholding in Oceanwide Holdings (Note 2)
Mr. HAN Xiaosheng	Beneficial owner	3,500,000	0.06%
Mr. ZHANG Bo	Beneficial owner	510,000	0.009%
Mr. ZHANG Xifang	Beneficial owner	276,000	0.005%
Mr. LIU Hongwei	Beneficial owner	30,000	0.0005%
Mr. LIU Bing	Beneficial owner	90,000	0.001%
Mr. ZHAO Yingwei	Beneficial owner	200,000	0.003%
Mr. ZHAO Xiaoxia	Beneficial owner	183,500	0.003%

(b) China Oceanwide Holdings Limited ("China Oceanwide")

Name of Director	Capacity	Number of shares in China Oceanwide	Approximate percentage of shareholding in China Oceanwide (Note 2)
LIU Jipeng	Beneficial owner	9,212,000	0.05%

(iii) Interest in the debentures of the associated corporation of the Company

Name of Director	Name of associated corporation	Nature of interest	Amount of debentures
Mr. Kenneth LAM Kin Hing	Oceanwide Holdings International Development III Co., Ltd.	Personal Interest	USD5,000,000

Notes:

1. The approximate percentage shown was the number of Shares the relevant director of the Company was interested in expressed as a percentage of the number of issued Shares as at 31 December 2018.

2. The approximate percentage shown was the number of shares the relevant Director was interested in expressed as a percentage of the total number of issued shares of the relevant entity as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors or their respective associates had or were deemed under the SFO 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 SFO) which were required to be recorded in the register kept by the Company under section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2018, so far as were known to the Directors, the following persons (other than the Directors) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the shares in issue of the Company, were as follows:

Long Position in the Shares

Name of holder of Shares/ underlying Shares	**Capacity**	**Number of Shares and underlying Shares held**	**Approximate percentage of total interests in the Shares in issue** (Note 11)
Mr. LU Zhiqiang ("Mr. Lu")	Interest of controlled corporations	4,495,254,732 (Note 1)	72.53%
Ms. HUANG Qiongzi	Interest of controlled corporations	4,495,254,732 (Note 1)	72.53%
Tohigh Holdings Co., Ltd.* (通海控股有限公司)	Interest of controlled corporations	4,495,254,732 (Note 2)	72.53%
Oceanwide Group Co., Ltd.* (泛海集團有限公司)	Interest of controlled corporations	4,495,254,732 (Note 3)	72.53%
China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司)	Interest of controlled corporations	4,495,254,732 (Note 4)	72.53%
Oceanwide Holdings	Interest of controlled corporations	4,495,254,732 (Note 5)	72.53%
China Oceanwide Group Limited	Interest of controlled corporations	4,495,254,732 (Note 5)	72.53%
Oceanwide Holdings International Financial Development Co., Ltd. ("Oceanwide Holdings IF")	Beneficial owner	4,495,254,732 (Note 5)	72.53%
Haitong Securities Co., Ltd.	Interests of controlled corporations	4,100,000,000 (Note 6)	66.16%
Haitong International Holdings Limited	Interest of controlled corporations	4,100,000,000 (Note 7)	66.16%
Haitong International Securities Group Limited	Interest of controlled corporations	4,100,000,000 (Note 8)	66.16%
Haitong International Investment Solutions Limited	Security interest in shares	4,100,000,000 (Note 9)	66.16%

Notes:

1. Mr. LU and Ms. HUANG Qiongzi (黃瓊姿) (the spouse of Mr. LU) together held more than one third of the voting power at general meetings of Tohigh Holdings Co., Ltd.* (通海控股有限公司). By virtue of the SFO, Mr. LU and Ms. HUANG Qiongzi (黃瓊姿) are deemed to be interested in all the Shares in which Tohigh Holdings Co., Ltd.* (通海控股有限公司) is interested.

2. Tohigh Holdings Co., Ltd.* (通海控股有限公司) held the entire issued share capital of Oceanwide Group Co., Ltd.* (泛海集團有限公司). By virtue of the SFO, Tohigh Holdings Co., Ltd.* (通海控股有限公司) is deemed to be interested in all the Shares held by Oceanwide Group Co., Ltd.* (泛海集團有限公司).

3. Oceanwide Group Co., Ltd.* (泛海集團有限公司) held 98% interest in the issued share capital of China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司). By virtue of the SFO, Oceanwide Group Co., Ltd.* (泛海集團有限公司) is deemed to be interested in all the Shares held by China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司).

4. China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) directly and indirectly held 70.68% interest in the issued share capital of Oceanwide Holdings. By virtue of the SFO, China Oceanwide Holdings Group Co., Ltd.* (中國泛海控股集團有限公司) is deemed to be interested in all the Shares held by Oceanwide Holdings.

5. Oceanwide Holdings IF is a wholly-owned subsidiary of China Oceanwide Group Limited, which in turn is a wholly-owned subsidiary of Oceanwide Holdings. By virtue of the SFO, China Oceanwide Group Limited and Oceanwide Holdings are deemed to be interested in 4,495,254,732 Shares.

6. Haitong Securities Co., Ltd held 100% interest in the issued share capital of Haitong International Holdings Limited. By virtue of the SFO, Haitong Securities Co., Ltd is deemed to be interested in all the Shares held by Haitong International Holdings Limited.

7. Haitong International Holdings Limited indirectly held 63.08% interest in the issued share capital of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Holdings Limited is deemed to be interested in all the Shares held by Haitong International Securities Group Limited.

8. Haitong International Investment Solutions Limited is an indirect subsidiaries of Haitong International Securities Group Limited. By virtue of the SFO, Haitong International Securities Group Limited is deemed to be interested in all the Shares held by Haitong International Investment Solutions Limited.

9. According to the announcement of Oceanwide Holdings dated 5 December 2018, Oceanwide Holdings IF issued to Haitong International Investment Solutions Limited the short term notes in the principal amount up to HK$1,100,000,000 pursuant to which Oceanwide Holdings IF has pledged 4,100,000,000 Shares (representing 66.16% of the issued share capital of the Company as at 31 December 2018) to Haitong International Investment Solutions Limited.

10. The following entities, namely Tisé Media Fund LP and China Alliance Properties Limited (and its associates), disclosed to the Company that they were, directly or indirectly interested or deemed to be interested in 5% or more of the Shares on 28 August 2015 pursuant to the subscription agreement entered among the Company, CMBC International Holdings Limited ("CMBCI"), and the co-investors, namely New Hope Global Holding Co., Limited, United Energy International Trading Limited, Mind Power Investments Limited, China P&I Services (Hong Kong) Limited, China Alliance Properties Limited, Good First International Holding Limited, Divine Unity Limited, Tisé Media Fund LP, Novel Well Limited, Ristora Investments Limited and Insight Multi-Strategy Funds SPC for the account of Insight Phoenix Fund III SP (together the "Co-Investors") on 28 August 2015 which CMBCI and the Co-Investors had conditionally agreed to subscribe for an aggregate of 23,054,875,391 shares of the Company at the subscription price of HK$0.565 per Subscription Share (the "First Subscription Agreement").

    As disclosed in the announcement of the Company dated 1 March 2016, the First Subscription Agreement ceased to be effective as of 28 February 2016 as certain conditions precedent under the First Subscription Agreement remained outstanding as at the long stop date. Accordingly, as at 31 December 2018, as far as the Directors were aware, CMBCI and the Co-Investors had ceased to have any interests in the Shares.

11. The approximate percentage shown was the number of Shares the relevant person was interested in expressed as a percentage of the number of issued Shares as at the 31 December 2018.

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

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year ended 31 December 2018, the following Directors had interests in the following businesses (apart from the businesses of the Company or its subsidiaries) conducted through the companies named below, their subsidiaries, associated companies or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Group conducted during the year and are required to be disclosed pursuant to Rule 8.10(2) of the Listing Rules:

Name	Investing entity	Nature of interest	Nature of business considered to compete or likely to compete with the business of the Group
Mr. ZHANG Bo	Minsheng Securities Co., Ltd.* (民生證券股份有限公司)	director	Securities business
Mr. ZHANG Xifang	Minsheng Securities Co., Ltd.* (民生證券股份有限公司)	director	Securities business
Mr. LIU Bing	Minsheng Securities Co., Ltd.* (民生證券股份有限公司)	director	Securities business
Mr. FENG Henian	Minsheng Securities Co., Ltd.* (民生證券股份有限公司)	director	Securities business

Save as disclosed above, as at 31 December 2018, none of the Directors or their respective associates was interested in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group.

The Directors are aware of their fiduciary duties and will act honestly and in good faith in the interests of the Company and will avoid any potential conflict of interests and duties.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions undertaken by the Group during the Year are included in the transactions and balance set out in note 37 to the financial statements.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the continuing connected transactions set out in note 37 to the financial statements and have confirmed that these continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Certain related party transactions as disclosed in note 37 and the transaction as disclosed in note 35 (in respect of loan to directors) to the financial statements were "continuing connected transaction" or fell within de minimis continuing connected transaction which exempted from reporting, announcement and independent shareholders' approval under the Listing Rules. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

KPMG, the Company's auditor, 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 an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DISCLOSURE PURSUANT TO RULE 13.15 OF THE LISTING RULES

		Amortised cost		Fair value	
Items	**Transactions**	**Principal amounts**	**Carrying amounts** *(Note 1)*	**Principal amounts**	**Carrying amounts** *(Note 2)*
The following short term loans were provided or extended by China Tonghai Finance Limited (the "China Tonghai Finance", an indirect wholly-owned subsidiary of the Company) to China Oceanwide:					
1	on 11 December 2018, provided a unsecured short term loan in the amount of HK$8 million with an interest rate of 9.5% per annum which will be repaid on the date which is three months from the date of agreement.	HK$8 million	HK$8 million	—	—
2	on 21 December 2018, extended a guaranteed short term loan in the amount of HK$280 million with an adjusted interest rate of 9% per annum to 21 December 2019.	HK$280 million	HK$280 million	—	—
The following short term loans and margin facility were provided or extended to China Oceanwide International Investment Company Limited (an indirect subsidiary of Tohigh Holdings Co., Ltd.* (通海控股有限公司)):					
1	on 21 December 2018, China Tonghai Finance provided a unsecured short term loan in the amount of HK$35 million with an interest rate of 8.75% per annum to China Oceanwide International Investment Company Limited which will be repaid on the date which is three months from the date of agreement.	HK$35 million	HK$35 million	—	—
2	on 11 August 2018, China Tonghai Finance extended a guaranteed short term loan in the amount of HK$550 million with an interest rate of 8.5% per annum to 11 February 2019 to China Oceanwide International Investment Company Limited.	HK$550 million	HK$557 million	—	—

Items	Transactions	Amortised cost Principal amounts	 Carrying amounts *(Note 1)*	Fair value Principal amounts	 Carrying amounts *(Note 2)*

The following short term loans and unsecured private notes were provided or extended to Oceanwide Holdings International Development III Co., Ltd. (the "Issuer/OHIDIII", a subsidiary of Oceanwide Holdings):

Items	Transactions	Amortised cost Principal amounts	Amortised cost Carrying amounts (Note 1)	Fair value Principal amounts	Fair value Carrying amounts (Note 2)
1	on 25 April 2018, China Tonghai Capital (Holdings) Limited (the "China Tonghai Capital Holdings", a wholly-owned subsidiary of the Company) subscribed unlisted senior notes issued by the Issuer in the subscription amount of US$65 million (equivalent to approximately HK$507 million) with coupon interest rate of 9.25% per annum, payable semi-annually and with a maturity date of 24 April 2019.	—	—	HK$507 million	HK$509 million
2	on 8 June 2018, China Tonghai Capital Holdings subscribed unsecured private notes issued by the Issuer in the subscription amount of US$12 million (equivalent to approximately HK$93.6 million) with coupon interest rate of 9.5% per annum and with a maturity date of 6 June 2019.	HK$94 million	HK$97 million	—	—
3	on 7 December 2018, China Tonghai Finance extended a unsecured short term loan of USD2,514,583.33 (equivalent to approximately HKD19.6 million) with an adjusted interest rate of 9.5% per annum and with a maturity date of 7 March 2019.	HK$20 million	HK$20 million	—	—
4	on 10 December 2018, China Tonghai Finance provided a unsecured short term loan in the amount of HK$20 million with an interest rate of 9.5% per annum which will be repaid on the date which is three months from the date of agreement.	HK$20 million	HK$20 million	—	—
5	on 5 December 2018, China Tonghai Capital Holdings and the Issuer entered into two supplemental agreements to amend the maturity date of the unsecured private notes in the amount of HK$80 million with coupon interest rate of 9.5% per annum to 5 January 2019, and in the amount of HK$50 million with coupon interest rate of 9.5% per annum to 8 January 2019 respectively.	HK$130 million	HK$130 million	—	—
	Total	HK$1,137 million	HK$1,147 million	HK$507 million	HK$509 million

As at 31 December 2018, all the above loans and notes were still outstanding.

Notes:

1. As at 31 December 2018, HK$1,147 million is part of the HK$2,833 million total for current portion of loans, bonds and notes measured at amortised cost in the consolidated statement of financial position.

2. As at 31 December 2018, HK$509 million is part of the HK$1,767 million total for current portion of investments measured at fair value through profit or loss in the consolidated statement of financial position.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Pursuant to the banking facility agreement offered by a licensed bank in Hong Kong as lender (the "Banking Facility Agreement) in relation to a revolving credit facility with a total loan amount of up to HK$1 billion (the "Banking Facility") and in order to secure the Company's obligations under the Banking Facility, Oceanwide Holdings IF and Oceanwide Holdings International Co., Ltd., being the immediate controlling shareholders of the Company and China Oceanwide, charged 395,254,732 shares of the Company and 3,016,279,070 shares of China Oceanwide respectively, which represents 6.38% of the total issued shares of the Company and 18.69% of total issued shares of China Oceanwide respectively in favour of the bank.

Pursuant to the terms of Banking Facility Agreement, Mr. LU and his parties acting in concert, shall at all times directly or indirectly beneficially own 60% of the issued shares of the Company. As at the date of this report, Mr. LU, through his controlled corporation, beneficially own approximately 72.53% of the issued shares of the Company. Upon the breach of this condition, the Banking Facility will immediately and automatically be cancelled and all outstanding loans, together with accrued interest, and all other amounts accrued under the Banking Facility Agreement, become immediately due and payable by the Company.

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 issued Share was held by the public as at the date of this annual report, being the latest practicable date.

CORPORATE GOVERNANCE

Details of the corporate governance practices of the Company are presented in the Corporate Governance Report which is set out on pages 55 to 64 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Year, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in the execution of his office or otherwise in relation thereto. The Company has taken out insurance policies against the liability and costs associated with defending any proceeding.

EQUITY-LINKED AGREEMENT

For the year ended 31 December 2018, the Group did not enter into any equity-linked agreement.

Directors' Report

UPDATES ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Changes of information of the Directors since the date of 2018 Interim Report which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of Change
Mr. Han Xiaosheng	— Appointed as chairman of supervisory committee and ceased to be executive director and chief executive officer of Oceanwide Holdings^ in March 2019
Mr. LIU Hongwei	— Ceased to be supervisor of Oceanwide Holdings^ in March 2019
Mr. Kenneth LAM Kin Hing	— The monthly salary (excluding discretionary bonus) increased from HK$375,000 to HK$400,000 with retrospective effect from 1 January 2019 due to annual adjustment
Mr. Bernard POULIOT	— Entered the letter of appointment with the Company for a term of one year commencing 1 October 2018
Mr. LIU Bing	— Entered the letter of appointment with the Company for a term of one year commencing 3 February 2019
	— Ceased to be chairman of supervisory committee of Oceanwide Holdings^ in March 2019
Mr. ZHAO Yingwei	— Appointed as vice-chairman of supervisory committee and ceased to be executive director of Oceanwide Holdings^ in March 2019
Mr. ZHAO Xiaoxia	— Entered the letter of appointment with the Company for a term of one year commencing 3 February 2019
	— Ceased to be director of Oceanwide Holdings^ in March 2019
Mr. Roy LO Wa Kei	— Entered the letter of appointment with the Company for a term of one year commencing 3 February 2019
Mr. KONG Aiguo	— Entered the letter of appointment with the Company for a term of one year commencing 3 February 2019
Mr. LIU Jipeng	— Entered the letter of appointment with the Company for a term of one year commencing 18 December 2018 and the annual director's fee was increased to HKD250,000
	— Ceased to be independent non-executive director of Wanda Hotel Development Company Limited, whose shares are listed on the Stock Exchange, in March 2019
Mr. HE Xuehui	— Entered the letter of appointment with the Company for a term of one year commencing 3 February 2019
Mr. HUANG Yajun	— Entered the letter of appointment with the Company for a term of one year commencing 3 February 2019

^ whose shares are listed on the Shenzhen Stock Exchange

Save as disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

AUDITORS

The financial statements for the year ended 31 March 2017 and nine-months period ended 31 December 2017 was audited by BDO Limited ("BDO"). The financial statement for the year ended 31 December 2018 was audited by KPMG.

In considering BDO has been the auditor of the Company and its certain subsidiaries for a number of years and change of auditor can comply with good corporate governance practice and enhance the independence of the auditor, BDO resigned as auditor of the Company with effect from 22 October 2018. KPMG were then appointed as auditors of the Company on 3 December 2018 following the approval by the Shareholders.

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

On behalf of the Board
China Tonghai International Financial Limited

HAN Xiaosheng
Chairman

Hong Kong, 28 March 2019

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance in order to ensure better transparency and safeguard the shareholders' interest in general. The board of directors (the "Directors" or "Board") reviews its corporate governance practices from time to time in order to build the effective self-regulatory practices and implementing sound internal control systems.

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has applied the principles and complied with the code provisions set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), titled "Corporate Governance Code and Corporate Governance Report" (the "CG Code"), throughout the year ended 31 December 2018 (the "Year") and subsequent period up to the date of this annual report, save for the deviations from code provision A.5.1 which stipulates that a Nomination Committee should be established. In view of the stage of business growth, the existing size of the board and business operation of the Group, it is considered more beneficial and effective to have the relevant function performed by the Board itself rather than through the establishment of such committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules. The code of conduct is also updated from time to time in order to keep abreast with the latest changes in the Listing Rules. It has also been extended to specific employees of the Company who are likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company.

In response to specific enquiry, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the Year.

BOARD OF DIRECTORS

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders of the Company (the "Shareholders") for the manner in which the affairs of the Company are managed, controlled and operated, and they devote sufficient time and attention to the Company's affairs. To the best of the Company's knowledge, there is no financial or family relationship among the Board members. All of them are free to exercise their independent judgment on all matters concerning the Company.

The roles of the Chairman and the Chief Executive Officer of the Company are separated. Mr. HAN Xiaosheng is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. Mr. Kenneth LAM Kin Hing is the Chief Executive Officer of the Company. The Chief Executive Officer is responsible for the overall management of the Group's business and recommendation of strategies to the Board. Matters reserved for the Board include formulation of the Group's long-term business strategy, consideration of dividend policy, approval of major investments, maintenance of an adequate system of internal controls and risk management, oversight of compliance with statutory and regulatory obligations and review of the corporate governance practices of the Group. Daily operations and administration are delegated to management teams.

Corporate Governance Report

The Board currently has fifteen members which comprise:

— six executive directors, namely Mr. HAN Xiaosheng, Mr. ZHANG Bo, Mr. ZHANG Xifang, Mr. FENG Henian, Mr. LIU Hongwei and Mr. Kenneth LAM Kin Hing;

— four non-executive directors, namely Mr. Bernard POULIOT, Mr. LIU Bing, Mr. ZHAO Yingwei and Mr. ZHAO Xiaoxia; and

— five independent non-executive directors, namely Mr. Roy LO Wa Kei, Mr. KONG Aiguo, Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun.

The brief biographical details of the above directors are set out in the section of "Biographical Details of Directors and Senior Management" of this annual report. A list containing the names of the Directors and their roles and functions can also be found in the website of the Company (www.tonghaifinancial.com) and the website of Hong Kong Exchanges and Clearing Limited (www3.hkexnews.hk).

The Company has five independent non-executive Directors which represents one third of the Board. They are highly experienced professionals and business people with a broad range of expertise and experience in areas covering accounting, finance and business management and the Board as a whole has achieved an appropriate balance of skills and experience. They bring independent judgment to bear on issues of strategy, policy and performance, accountability, resources, key appointments and standards of conduct, and enable the Board to maintain high standards of compliance with financial and other mandatory reporting requirements and provide adequate checks and balances to safeguard the interests of Shareholders and the Company. At least one of the independent non-executive Directors possesses appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules.

The Company has received, from each independent non-executive Director, a written confirmation of his independence pursuant to rule 3.13 of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent. The independent non-executive Directors had been expressly identified in all corporate communications of the Company that disclose the names of Directors.

All the non-executive Directors are appointed for a term of one year, subject to renewal and re-election as and when required under the Listing Rules and the Bye-laws.

The Board is continually updated on the Group's business and regulatory environments in which it operates and other changes affecting the Group. The Company has provided the Board with monthly updates of the Group's management information such as performance and key operational highlights to enable the Directors to discharge their duties.

The Company has arranged insurance cover for all Directors in respect of any legal action against the Directors. The insurance coverage is reviewed at least annually for ensuring that the Directors and officers are adequately protected against potential legal liabilities.

During the Year, the Board met six times in person or through telephone conference to approve the final results for the nine months ended 31 December 2017, interim results for the six months ended 30 June 2018, and to consider financial and operating performances and strategic investment decisions of the Group. Four general meetings were held which consisted of one annual general meeting and three special general meetings.

The number of Board Meetings, Audit Committee Meetings, Remuneration Committee Meeting, Executive Committee Meetings and General Meetings attended by each Director during the Year is set out in the following table:

	Number of Meetings Attended/Total Number of Meetings Held (Percentage of Attendance)				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Executive Committee**	**General Meeting**
Executive Directors					
HAN Xiaosheng	5/6 (83%)	N/A	N/A	10/12 (83%)	3/4 (75%)
ZHANG Bo (Note 1)	1/6 (16%)	N/A	N/A	11/12 (92%)	2/4 (50%)
ZHANG Xifang	4/6 (67%)	N/A	N/A	8/12 (67%)	1/4 (25%)
FENG Henian *(Re-designated to Executive Director on 28 March 2018)*	3/6 (50%)	N/A	N/A	6/9 (67%)	2/4 (50%)
LIU Hongwei	5/6 (83%)	N/A	N/A	12/12 (100%)	3/4 (75%)
Kenneth LAM Kin Hing	6/6 (100%)	N/A	N/A	12/12 (100%)	4/4 (100%)
Non-executive Directors					
Bernard POULIOT	3/6 (50%)	N/A	N/A	N/A	1/4 (25%)
LIU Bing	2/6 (33%)	N/A	N/A	N/A	0/4 (0%)
ZHAO Yingwei *(appointed on 28 March 2018)*	4/5 (80%)	N/A	N/A	N/A	0/2 (0%)
ZHAO Xiaoxia	6/6 (100%)	N/A	N/A	N/A	1/4 (25%)
Independent Non-executive Directors					
Roy LO Wa Kei (Note 2)	6/6 (100%)	3/3 (100%)	N/A	N/A	4/4 (100%)
KONG Aiguo (Note 3)	4/6 (67%)	3/3 (100%)	2/2 (100%)	N/A	1/4 (25%)
LIU Jipeng	6/6 (100%)	3/3 (100%)	2/2 (100%)	N/A	1/4 (25%)
HE Xuehui	5/6 (83%)	3/3 (100%)	2/2 (100%)	N/A	2/4 (50%)
HUANG Yajun	6/6 (100%)	3/3 (100%)	2/2 (100%)	N/A	4/4 (100%)

Notes:

1. Chairperson of the Executive Committee

2. Chairperson of the Audit Committee

3. Chairperson of the Remuneration Committee

Corporate Governance Report

Each director is aware that he should give sufficient time and attention to the affairs of the Company. Upon reviewing (a) the directorships and major commitments of each Director; and (b) the attendance rate of each Director on board meeting and committee meetings as well as general meetings, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Year.

Arrangements are in place to allow all Directors the opportunity to include matters for discussion in the agenda of each Board meeting. At least fourteen days' notice of all Board meetings is given to all Directors. The agenda and board materials are sent to all Directors at least three days in advance of every Board meeting to facilitate informed discussion and decision-making. Senior management will be invited to attend the Board meeting, when necessary, to provide information and explanation to facilitate the decision-making process.

If a Director has conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by a physical Board meeting rather than a written resolution. That Director will abstain from voting on the relevant board resolution in which he/she or any of his/her associates has a material interest and he/she shall not be counted in the quorum present at such Board meeting. Independent non-executive Directors, who, and whose close associates have no material interest in the transaction, are present at the board meeting

All Directors have recourse to external legal counsel and other professionals for independent advice at the Group's expense upon their request.

The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are followed.

The proceedings of the Board at its meetings are generally conducted by the Chairman who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to the Directors to speak, express their views and share their concerns.

The Company Secretary keeps minutes of each meeting. Draft minutes are sent to all Directors within a reasonable time for their comment and final versions of the minutes are available for inspection by all Directors at any time.

New director appointed by the Board to fill a casual vacancy is subjected to re-election by shareholders of the Company at the next general meeting pursuant to the Bye-laws of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting. Therefore, no Director has an effective term of appointment longer than three years.

At the annual general meeting of the Company held on 18 May 2018, Mr. HAN Xiaosheng, Mr. ZHANG Bo and Mr. Kenneth LAM Kin Hing were re-elected as executive Directors, Mr. LIU Bing and Mr. ZHAO Yingwei were re-elected as non-executive Directors; Mr. Roy LO Wa Kei and Mr. LIU Jipeng were re-elected as independent non-executive Directors.

In order to allow the newly appointed Directors to understand the responsibilities under the relevant regulatory requirements, the operation and business of the Company, the Company will provide an orientation package including key legal requirements, the Memorandum and Bye Laws and information of the Company to and arrange a tailor-made induction for the newly appointed directors.

BOARD COMMITTEES

The Company has established the Audit Committee, the Remuneration Committee and the Executive Committee. The terms of reference of the Audit Committee and the Remuneration Committee can be found in the website of the Company (www.tonghaifinancial.com) and the website of Hong Kong Exchanges and Clearing Limited (www3.hkexnews.hk).

Audit Committee

The Audit Committee has been established to assist the Board in reviewing the financial information of the Company, maintaining the relationship with the external auditor and overseeing the financial reporting system, risk management and internal control procedures of the Company.

It currently comprises five independent non-executive Directors, namely Mr. Roy LO Wa Kei (the chairman), Mr. KONG Aiguo, Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun. No member of the Audit Committee was a former partner of the existing external auditor of the Company.

The major role and authorities of the Audit Committee are summarised below:

i) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and review and monitor their independence and objectivity as well as the effectiveness of the audit process;

ii) to approve the remuneration and terms of engagement of external auditors, maintain appropriate relationship between the Group and the external auditors and develop policy on the engagement of the external auditors to supply non-audit services;

iii) to ensure the integrity of the interim and annual consolidated financial statements and any significant financial reporting judgments contained in them; and review the external auditors' work, including management letter and management's response; and

iv) to review the Company's financial controls, internal controls and risk management systems.

During the Year, three Audit Committee meetings were held. The Chief Operating and Risk Officer, the Chief Financial Officer, the Head of Compliance and other senior management of the Company were also invited to participate in the meetings. The Audit Committee members also met privately with the external auditor during the Year.

During the Year, the Audit Committee has discharged its responsibilities by considering and reviewing the following:

i) the financial statements for the nine months ended 31 December 2017 and for the six months ended 30 June 2018;

ii) the nature, scope and process of the external audit;

iii) the continuing connected transactions of the Group for the nine months ended 31 December 2017;

iv) the internal control and risk management systems of the Company;

v) the adequacy of resources, qualifications and experience of staff, training programmes and budget of the accounting and financial reporting function;

vi) the recommendation to the Board on the re-appointment of external auditor; and

vii) the selection and engagement of the new external auditor of the Company.

Remuneration Committee

The Remuneration Committee has been established and empowered by the Board to determine and review the remuneration packages of individual executive Directors and senior management, including salaries, bonuses, share options and benefits in kind.

It currently comprises four independent non-executive Directors, namely Mr. KONG Aiguo (the chairman), Mr. LIU Jipeng, Mr. HE Xuehui and Mr. HUANG Yajun.

The major roles and authorities of the Remuneration Committee are summarised below:

i) to review and recommend to the Board on the Group's remuneration policy and strategy;

ii) to review and approve the proposals for remuneration of the executive Directors, senior management and employees of the Group; and

iii) to review and approve the compensation arrangement relating to the dismissal or removal of directors.

During the Year, two Remuneration Committee meetings were held and they has discharged its responsibilities by considering and reviewing the following:

i) the remuneration policy of the Group;

ii) the discretionary bonus and annual salary adjustment for senior management and employees of the Group; and

iii) the fringe benefits of the executive Directors, senior management and employees of the Group.

The basis for determining the emolument payable to directors and senior management are with reference to the prevailing market condition, the financial performance of the Company, time commitment and responsibilities and comparable market statistics. Staff remuneration is determined by the Group's management by reference to the individual staff's qualifications, work experience, performance and prevailing market conditions.

Executive Committee

The Executive Committee has been established which determines group business strategy, reviews business operations and performance, examines major investments and monitors management performance. It also identifies and manages the market risk, credit risk, liquidity risk, operational risk and regulatory risk of the Group, devises the Group's risk management strategy and strengthens the Group's system of risk management. It currently comprises all the executive Directors, namely Mr. HAN Xiaosheng, Mr. ZHANG Bo, Mr. ZHANG Xifang, Mr. FENG Henian, Mr. LIU Hongwei and Mr. Kenneth LAM Kin Hing. In order to sustain the long-term business development of the Company, meetings are usually held once every month.

Several senior managements, namely the Chief Operating and Risk Officer, the Chief Financial Officer and the Head of Compliance are invited to participate actively in the meetings. Minutes of the Executive Committee Meetings have also been sent to all the members of the Board within a reasonable time for review.

Nomination Committee

The Company does not establish a Nomination Committee. The Executive Committee will be responsible to identify and nominate suitable candidates as Board members. The shortlist of suitable candidates will then be proposed to the Board for consideration and appointment.

In February 2014, the Board has adopted a Board Diversity Policy which aims to set out the approach to achieve diversity on the Board. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be based on meritocracy while taking into account of diversity. Selection of candidates will be based on a range of diversity criteria, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates are likely to bring to the Board. The Board Diversity Policy, as appropriate, will be reviewed from time to time to ensure its continuing effectiveness.

The Group has adopted the nomination policy with retrospective effect from 1 January 2019. Each proposed new appointment or re-election of a director will be assessed and/or considered against the criteria and process set out in the nomination policy.

As a whole, the Board is diverse in terms of education background, professional background and business experience. Their age, gender and length of service with the Company can be found in the section of "Biographical Details of Directors and Senior Management" of this annual report.

The Board will also be responsible for reviewing its structure, size and composition. Any new director appointed by the Board during the year shall be required to be offered for re-election by shareholders of the Company at the next general meeting if appointed to fill a casual vacancy or next annual general meeting of the Company if appointed as an addition to the Board pursuant to the Bye-laws of the Company.

Shareholders may propose a person for election as a Director at the general meeting of the Company pursuant to the Bye-laws of the Company. The procedures for such proposal can be found in the website of the Company (www.tonghaifinancial.com).

CONTINUING PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code, all Directors and company secretary should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contributions to the Board are made on a well-informed basis.

During the Year, all Directors had complied with the code provision in relation to continuous professional development. This has involved various forms of activities including attending courses, seminars and/or conference provided by external professional advisors and reading materials and updates relevant to the regulatory changes, director's duties and responsibilities.

During the Year, the Company Secretary confirmed that she has undertaken no less than 15 hours of relevant professional training.

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments of the Directors for the Year are set out in note 14 to the financial statements.

The remuneration of the members of the senior management (other than the Directors), whose particulars are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report, for the Year by band is set out below:

Remuneration Bands	Number of Senior Management
Below HK$2,000,000	4
HK$2,000,001–HK$4,000,000	5
Above HK$4,000,001	3

AUDITORS' REMUNERATION

During the Year, the Group has engaged the following audit and non-audit services provided by the external auditors:

Type of services	Fees paid/payable to external auditor (i.e. BDO Limited and KPMG) As at 31 December 2018 HK$'000
Audit fee for the Group	2,400
Taxation services for the Group	240
Others	470
TOTAL	3,110

The Audit Committee will recommend the appointment of KPMG for assurance service for the financial year ending 31 December 2019 at a fee to be agreed.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board acknowledges that they are responsible for overseeing the preparation of the consolidated financial statements which give a true and fair view of the financial position of the Company and of the Group as at 31 December 2018 and of the Group's financial performance and cash flow for the year ended 31 December 2018 in accordance with Hong Kong Financial Reporting Standards and the applicable disclosure provisions of the Listing Rules and for ensuring that appropriate accounting policies are selected and applied consistently.

KPMG, the external auditor of the Company, stated their reporting responsibilities in the Independent Auditor's Report which is set out on pages 65 to 73 of this annual report.

The financial statements are prepared on a going concern basis. The Board confirms that, to the best of their knowledge, they are not aware of any material events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges the responsibility for establishing and maintaining an adequate system of internal control and risk management. The internal control system includes a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to protect the Group's operations and its clients from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.

The Group has well established risk management mechanism. Each business department 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. The middle and back office departments, which perform their management functions independently from the business units, particularly Risk Management and Compliance, form the second line of defence for the risk management and internal control systems. Charged with the major duty of independent oversight of risks, the compliance team is responsible for managing compliance risks, whereas the Risk Management Team is tasked with management of the overall risk governance, credit risk, market risk, liquidity and funding risk, and operational risk.

During the Year, the Executive Committee continued to oversee the internal control and risk management systems of the Group on an ongoing basis, and had reviewed the particular internal controls and governance issues of the Group at each Executive Committee meeting with the assistance of the Chief Operating and Risk Officer and the Head of Compliance.

The Board will also engage external professional service providers to conduct review on the risk management and internal controls systems and make recommendations for strengthening such systems. During the Year, the Group has engaged an external professional service provider to review on the human resources policies and procedures. The review results had been reported to the Audit Committee and the Executive Committee. Areas for improvement have been identified and appropriate remedial measures will be taken by the Group in due course.

The Board, through the Audit Committee, has also reviewed the adequacy of resources, qualifications and experience of staff, training programmes and budget of the Company's accounting and financial reporting function during the Year. The review will be conducted annually in accordance with the requirements of the CG Code.

The Company is aware of its disclosure obligations under the Listing Rules and the Inside Information Provisions under the Securities and Futures Ordinance and has put in place the proper procedure to ensure that any perceived inside information would be announced to the investing public on a timely basis.

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 considered that systems and procedures of the internal control and risk management of the Group were effective and adequate.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with the shareholders, including institutional investors, is crucial. The Company manages investor relations systematically as a key part of its operations and continues to promote and enhance investor relations and communications with the investors.

The Company maintains a company website at www.tonghaifinancial.com. It is a channel of the Company to communicate with the investing public with our latest corporate development. All our corporate communications, such as press release, statutory announcement, circular, annual report and interim report etc. are available on the website whereas circular, annual report and interim report are printed and sent to all shareholders of the Company. Shareholders and investors may also email their enquiries to the Company's email address: ir@tonghaifinancial.com, which will be handled by the Company's investor relations team. The Company has established a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness.

Corporate Governance Report

The last annual general meeting of the Company was held on 18 May 2018 at Edinburgh Room, 2/F, Mandarin Oriental, Hong Kong, 5 Connaught Road Central, Hong Kong. At the meeting, the ordinary business of adopting the audited financial statements for the nine months ended 31 December 2017, the re-election of Directors, the re-appointment of auditor and the authorisation of the Directors to fix their remuneration were approved at the meeting. Ordinary resolutions providing Directors with general mandates to repurchase and allot and issue shares of the Company subject to the relevant limits under the Listing Rules were also approved. Mr. HAN Xiaosheng (the Chairman), Mr. LIU Hongwei, Mr. Kenneth LAM Kin Hing, Mr. Roy LO Wa Kei (Chairman of Audit Committee) and Mr. HUANG Yajun and representatives of BDO Limited (the then external auditor) were present and available to answer questions at the meeting.

The forthcoming annual general meeting of the Company will be scheduled to be held on Friday, 24 May 2019. Details of the meeting and the necessary information on issues will be considered in the meeting will be set out in the circular to be dispatched to the shareholders of the Company in due course.

CONSTITUTIONAL DOCUMENTS

There is no change in the constitutional documents of the Company during the Year.

SHAREHOLDERS' RIGHTS

Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company may request the Board to convene a special general meeting of the Company. The purposes of convening the meeting must be stated in the relevant requisition, signed by all the shareholders concerned in one or more documents in like form and deposited at the Company's registered office and principal place of business in Hong Kong.

Shareholder(s) can also submit a written requisition to move a resolution at a general meeting pursuant to Section 79 to 80 of the Bermuda Companies Act if they (a) represent not less than one-twentieth of the total voting rights of those shareholders having the right to vote at a general meeting; or (b) are not less than one hundred shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the general meeting and deposited at the Company's registered office and principal place of business in Hong Kong.

The written requisition must be signed by all the shareholders concerned in one or more documents in like form and deposited at the Company's registered office and principal place of business in Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. A sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules should also be accompanied.

CONCLUSION

The Company believes that good corporate governance practices raise the confidence of investors towards the Company. We are one of the founding signatories of the Hong Kong Corporate Governance Charter of The Chamber of Hong Kong Listed Companies which demonstrate the commitment of the Company to uphold good corporate governance. The Company will keep its ongoing effort to enhance the corporate governance practices in order to meet the changing circumstances.

Independent Auditor's Report

TO THE SHAREHOLDERS OF CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED
(formerly known as China Oceanwide International Financial Limited)
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Tonghai International Financial Limited ("the Company") and its subsidiaries ("the Group") set out on pages 74 to 178, 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 and 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 disclosure requirements of 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KPMG

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition — brokerage business	
Refer to note 5 to the consolidated financial statements and the accounting policies on page 119.	
The Key Audit Matter	**How the matter was addressed in our audit**
Revenue from the Group's brokerage business represented 30% 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 recognized on a trade date basis. The amount of commission income depends on trading volumes, the value of each trade and the commission rates specified in the customer service agreements and is generated from a large number of individual transactions processed through the Group's trading systems. 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 or amount 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; • for the key underlying systems used for the processing of transactions in relation to brokerage commission income, we utilized 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; • 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; and • comparing details of journal entries raised during the current year which affected revenue from the brokerage business with underlying documentation on a sample basis.

KPMG

KEY AUDIT MATTERS (CONTINUED)

Assessment of the fair value of financial instruments	
Refer to note 39 to the consolidated financial statements and the accounting policies on page 167.	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2018, the fair value of the Group's financial assets represented 47% of its total assets as at 31 December 2018 of which HK$485,067,000, HK$3,596,325,000 and HK$732,484,000 were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively. The valuation of the Group's financial instruments is based on a combination of market data and valuation models which often require judgement. Some of the inputs used in the valuation models are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the significant degree of judgement exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation of financial instruments; • assessing the fair values of all level 1 financial instruments by comparing the fair values applied by the Group with publicly available market data; • reading investment agreements for level 2 and level 3 financial instruments to understand the relevant investments terms and identify any conditions that were relevant to the valuation of financial instruments; • involving our internal valuation specialists to assist us in evaluating the valuation models used by the Group to value certain level 3 financial instruments and to perform independent valuations of certain level 3 financial instruments and compare these valuations with the Group's valuations. This included comparing the valuation derived from the Group's valuation models with our knowledge of current market practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations;

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KEY AUDIT MATTERS (CONTINUED)

Assessment of the fair value of financial instruments (Continued)	
Refer to note 39 to the consolidated financial statements and the accounting policies on page 167. (Continued)	
The Key Audit Matter	**How the matter was addressed in our audit**
	• assessing the appropriateness of the use of the net asset value reports provided by external fund administrators as the fair value of the level 3 financial instruments at reporting date. This included comparing the fair value movements against available market information. For the valuation of fund interests we obtained and agreed the latest reported net asset values from the fund managers. Our procedures also included obtaining audited financial statements of the funds where applicable and checking the historical accuracy of the net asset values; and • assessing whether the disclosures in the consolidated financial statements reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

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KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><td colspan="2">Impairment of loan receivables and unlisted financial instruments</td></tr>
<tr><td colspan="2">Refer to note 23 to the consolidated financial statements and the accounting policies on page 141.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>At 31 December 2018, loan receivables and unlisted financial instruments held at amortised cost represented 29% of the Group's total assets.

The determination of impairment allowance using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

In particular, the determination of the impairment allowance is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses are derived from estimates including the historical losses, historical overdue data and other adjustment factors.

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower or investee, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of impairment allowances as at the end of the reporting period.</td><td>Our audit procedures to assess the impairment allowance for financial assets included the following:

• understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring loan receivables and unlisted financial instruments and the measurement of impairment allowance;

• assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the methodology and appropriateness of the key parameters and assumptions in the expected credit loss model, including probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments;

• assessing the accuracy of input data of key parameters used in the expected credit loss model by comparing the input data with original documents for all loan receivables and unlisted financial instruments held at amortised cost;

• assessing reasonableness of the Group's estimates and input parameters, the consistency of judgement applied in the use of forward economic factors and the observation period for historical losses. We compared the forward economic factors used in the model to market information to assess whether they were aligned with relevant market and economic development;</td></tr>
</table>

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KEY AUDIT MATTERS (CONTINUED)

Impairment of loan receivables and unlisted financial instruments (Continued)	
Refer to note 23 to the consolidated financial statements and the accounting policies on page 141. (Continued)	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified impairment of loan receivables and unlisted financial instruments as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.	• evaluating the validity of management's assessment on a sample basis on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired. We checked on a sample basis on loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses; • recalculating the amount of impairment allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for all loan receivables and unlisted financial instruments where the credit risk of the loan receivables and unlisted financial instruments has not, or has, increased significantly since initial recognition, respectively; and • evaluating whether the disclosures on impairment of loans meet the disclosure requirements in the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND 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 disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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 our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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.

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

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

28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Fee and commission income	5	**277,429**	251,579
Interest income			
— Calculated using the effective interest method	5	**208,591**	30,951
— Other	5	**238,382**	62,626
Net investment income/(loss)	5	**(52,092)**	6,999
Total revenue		**672,310**	352,155
Other net operating income/(losses)	6	**23,261**	(403)
Cost of services provided		**(181,304)**	(136,505)
Staff costs	9	**(164,967)**	(98,006)
Depreciation and amortisation expenses	10	**(9,888)**	(6,654)
Impairment loss on financial instruments		**(89,890)**	(3,148)
Other operating expenses		**(82,306)**	(53,413)
Finance costs	8	**(59,023)**	(10,170)
Share of results of an associate		**—**	5,263
Share of results of joint ventures		**1,597**	(1,930)
Profit before income tax	10	**109,790**	47,189
Income tax expense	11	**(9,615)**	(3,904)
Profit for the twelve/nine months, attributable to equity holders of the Company		**100,175**	43,285
Earnings per share for profit attributable to equity holders of the Company for the twelve/nine months	13	**HK cent(s)**	HK cent(s)
— Basic and diluted		**1.612**	1.069

The notes on pages 81 to 178 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 12.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Profit for the twelve/nine months	**100,175**	43,285
Other comprehensive income for the twelve/nine months, including reclassification adjustments		
Item that may be reclassified subsequently to profit or loss		
— Exchange gain/(loss) on translation of financial statements of foreign operations	**(2,461)**	2,609
Items that will not be reclassified subsequently to profit or loss		
— Changes in fair value of investment measured at fair value through other comprehensive income (note 18)	**(5,294)**	(2,225)
— Capital distribution from investment measured at fair value through other comprehensive income, which represents recovery of part of the investment cost	**1,285**	—
Other comprehensive income for the twelve/nine months, including reclassification adjustments	**(6,470)**	384
Total comprehensive income for the twelve/nine months, attributable to equity holders of the Company	**93,705**	43,669

The notes on pages 81 to 178 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold improvements and equipment	15	**21,285**	13,483
Investment properties	15	**11,200**	10,200
Goodwill	16	**14,695**	14,695
Development costs	17	**2,962**	4,260
Other intangible assets	17	**2,719**	1,543
Investments measured at fair value through other comprehensive income	18	**6,321**	11,615
Interests in joint ventures	19	**41,444**	42,028
Other assets	20	**17,234**	23,619
Loans, bonds and notes measured at amortised cost	23	**85,554**	458,333
Investments measured at fair value through profit or loss	24	**230,141**	88,007
Deferred tax assets	31	**25,915**	6,612
Deposits for subscription of shares		**—**	46,910
Deposits for leasehold improvements and equipment		**1,770**	1,458
		461,240	722,763
Current assets			
Accounts receivable	21	**600,288**	812,991
Margin loans	22	**2,810,720**	2,130,082
Loans, bonds and notes measured at amortised cost	23	**2,833,192**	889,240
Prepayments, deposits and other receivables		**26,808**	27,797
Investments measured at fair value through profit or loss	24	**1,766,694**	1,505,119
Tax recoverable		**—**	1,657
Bank balances held on behalf of clients	25	**1,321,371**	1,437,223
Cash and cash equivalents	26	**357,300**	1,074,932
		9,716,373	7,879,041

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Current liabilities			
Accounts payable	27	**1,846,261**	2,177,557
Obligations under repurchase agreements	28	**34,634**	305,708
Bank and other borrowings	29	**2,308,573**	255,940
Contract liabilities	30	**8,886**	—
Accruals and other payables		**110,122**	118,480
Tax payables		**22,523**	6,696
		4,330,999	2,864,381
Net current assets		***5,385,374***	*5,014,660*
Non-current liability			
Notes payable	29	**50,000**	—
Net assets		**5,796,614**	5,737,423
EQUITY			
Equity attributable to Company's owners			
Share capital	32	**20,657**	20,740
Reserves		**5,775,957**	5,716,683
Total equity		**5,796,614**	5,737,423

On behalf of the Board

HAN Xiaosheng
Director

Kenneth LAM Kin Hing
Director

The notes on pages 81 to 178 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Notes	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000 (Restated)
Cash flows from operating activities			
Profit before income tax		**109,790**	47,189
Adjustments for:			
Amortisation of development costs and other intangible assets	10	**2,421**	1,645
Changes in net assets value attributable to other holders of a consolidated investment fund	6	**(13,738)**	5,469
Depreciation of leasehold improvements and equipment	10	**7,467**	5,009
Dividend income	5	**(16,500)**	(912)
Finance costs	8	**59,023**	10,170
Gain on revaluation of investment properties	6	**(1,000)**	(860)
Impairment loss on financial instruments		**89,890**	3,148
Interest income	5	**(446,973)**	(93,577)
Net losses on disposals of leasehold improvements and equipment	10	**153**	1
Net realised loss on bonds measured at amortised cost	5	**5,348**	—
Net realised and unrealised gain/(loss) on investments measured at fair value through profit or loss	5	**63,244**	(6,087)
Share of results of an associate		**—**	(5,263)
Share of results of joint ventures		**(1,597)**	1,930
Write-back of other payables	6	**(1,368)**	—
Operating loss before working capital changes		**(143,840)**	(32,138)
Decrease in other assets		**6,385**	3,506
Increase in deposits for subscription of shares		**—**	(46,910)
Decrease in accounts receivable, prepayments, deposits and other receivables		**218,547**	133,665
Increase in margin loans		**(680,638)**	(1,328,774)
Increase in investments measured at fair value through profit or loss		**(420,043)**	(1,579,745)
Increase in loans, bonds and notes measured at amortised cost		**(1,652,073)**	(1,345,662)
Decrease/(Increase) in bank balances held on behalf of clients		**115,852**	(51,682)
Decrease in accounts payable, contract liabilities and accruals and other payables		**(359,502)**	(37,486)
Cash used in operations		**(2,915,312)**	(4,285,226)
Capital distribution from investments measured at fair value through other comprehensive income		**1,285**	—
Dividend received		**16,500**	912
Interest received		**418,130**	86,018
Interest paid		**(25,785)**	(8,602)
Income tax paid		**(10,565)**	(346)
Net cash used in operating activities		**(2,515,747)**	(4,207,244)

	Notes	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000 (Restated)
Cash flows from investing activities			
Development costs capitalised and paid		(324)	—
Net cash inflow on consolidation of an investment fund		—	20,077
Net cash outflow on deconsolidation of an investment fund		—	(6,130)
Proceeds from disposals of leasehold improvements and equipment		29	1
Purchases of intangible assets		(1,975)	(69)
Payments for leasehold improvements and equipment		(15,773)	(6,753)
Net cash (used in)/generated from investing activities		(18,043)	7,126
Cash flows from financing activities			
Interest paid for obligations under repurchase agreements		(3,334)	(1,459)
Net proceeds from/(repayments of) bank and other borrowings		2,052,633	(220,394)
Proceeds from notes payable		50,000	—
Payments on redemption of shares by other holders of a consolidated investment fund		(13,695)	(3,918)
Proceeds from shares issued to other holders of a consolidated investment fund		24,752	4,613
Proceeds from shares issued under rights issue		—	5,133,190
Proceeds from shares issued upon exercise of warrants		—	109
Net proceeds received for obligations under repurchase agreements		—	305,708
Net repayment of obligations under repurchase agreements		(271,196)	—
Transaction costs attributable to the issue of new shares		—	(6,060)
Payment on shares repurchased		(18,634)	—
Purchase of shares held under the share award scheme		(4,514)	—
Net cash generated from financing activities		1,816,012	5,211,789
Net (decrease)/increase in cash and cash equivalents		(717,778)	1,011,671
Cash and cash equivalents at the beginning of the year		1,074,932	63,230
Effect of foreign exchange rate changes, on cash held		146	31
Cash and cash equivalents at the end of the year	26	357,300	1,074,932

The notes on pages 81 to 178 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Share capital HK$'000 (note 32)	**Share premium*** HK$'000 (note 34)	**Capital redemption reserve*** HK$'000 (note 34)	**Contributed surplus*** HK$'000 (note 34)	**Exchange reserve*** HK$'000 (note 34)	**Investment revaluation reserve*** HK$'000 (note 34)	**Property revaluation reserve*** HK$'000 (note 34)	**Shareholder's contribution*** HK$'000 (note 34)	**Shares held for Share Award Scheme*** HK$'000 (note 34)	**Warrants reserve*** HK$'000 (note 34)	**Retained profits*** HK$'000	**Total** HK$'000
At 1 April 2017	5,184	23,932	936	352,580	(2,119)	(11,616)	5,255	1,811	(905)	8	191,449	566,515
Exercise of warrants	1	114	—	—	—	—	—	—	—	(6)	—	109
Issue of shares under rights issue	15,555	5,117,635	—	—	—	—	—	—	—	—	—	5,133,190
Transaction cost attributable to the issue of new shares	—	(6,060)	—	—	—	—	—	—	—	—	—	(6,060)
Transactions with owners	15,556	5,111,689	—	—	—	—	—	—	—	(6)	—	5,127,239
Profit for the nine months	—	—	—	—	—	—	—	—	—	—	43,285	43,285
Other comprehensive income												
— Exchange gain on translation of financial statements of foreign operations	—	—	—	—	2,609	—	—	—	—	—	—	2,609
— Changes in fair value of investment measured at fair value through other comprehensive income	—	—	—	—	—	(2,225)	—	—	—	—	—	(2,225)
Total comprehensive income for the nine months	—	—	—	—	2,609	(2,225)	—	—	—	—	43,285	43,669
Lapse of warrants	—	—	—	—	—	—	—	—	—	(2)	2	—
At 31 December 2017	20,740	5,135,621	936	352,580	490	(13,841)	5,255	1,811	(905)	—	234,736	5,737,423
Impact on initial application of HKFRS 15	—	—	—	—	—	—	—	—	—	—	(2,585)	(2,585)
Impact on initial application of HKFRS 9	—	—	—	—	—	—	—	—	—	—	(8,781)	(8,781)
Adjusted balance at 1 January 2018	20,740	5,135,621	936	352,580	490	(13,841)	5,255	1,811	(905)	—	223,370	5,726,057
Cancellation of shares repurchased	(83)	(18,551)	83	—	—	—	—	—	—	—	(83)	(18,634)
Share purchased for share award scheme	—	—	—	—	—	—	—	—	(4,514)	—	—	(4,514)
Transactions with owners	(83)	(18,551)	83	—	—	—	—	—	(4,514)	—	(83)	(23,148)
Profit for the twelve months	—	—	—	—	—	—	—	—	—	—	100,175	100,175
Other comprehensive income												
— Exchange loss on translation of financial statements of foreign operations	—	—	—	—	(2,461)	—	—	—	—	—	—	(2,461)
— Changes in fair value of investment measured at fair value through other comprehensive income	—	—	—	—	—	(5,294)	—	—	—	—	—	(5,294)
— Capital distribution from investment measured at fair value through other comprehensive income, which represents recovery of part of the investment cost	—	—	—	—	—	1,285	—	—	—	—	—	1,285
Total comprehensive income for the twelve months	—	—	—	—	(2,461)	(4,009)	—	—	—	—	100,175	93,705
At 31 December 2018	20,657	5,117,070	1,019	352,580	(1,971)	(17,850)	5,255	1,811	(5,419)	—	323,462	5,796,614

* These reserve accounts comprise the reserves of HK$5,775,957,000 (31 December 2017: HK$5,716,683,000) in the consolidated statement of financial position as at 31 December 2018.

The notes on pages 81 to 178 form part of these financial statements.

1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and, its principal place of business is 18th and 19th Floors, China Building, 29 Queen's Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). At 31 December 2018, the immediate holding company is Oceanwide Holdings International Financial Development Co., Ltd, a company incorporated in the British Virgin Islands ("BVI"). Its ultimate holding company is Tohigh Holdings Co., Ltd., a company incorporated in the People's Republic of China ("PRC") and its intermediate holding company is Oceanwide Holdings Co., Ltd., a joint stock company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange.

On 28 April 2017, the board of directors (the "Board") of the Company resolved to change the financial year end date of the Company from 31 March to 31 December. The change of the financial year end of the Company is to align its financial year end date with that of holding companies of the Company's immediate holding company. Accordingly, the consolidated financial statements of the Company and its subsidiaries (together the "Group") for the current year covered a period of 12 months from 1 January 2018 to 31 December 2018 while the comparative amounts for the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and related notes covered a period of 9 months from 1 April 2017 to 31 December 2017 and are not entirely comparable. In addition, subsequent to the approval of the change of company name by the shareholders of the Company at the special general meeting held on 27 March 2018, the English name of the Company was changed from "China Oceanwide International Financial Limited" to "China Tonghai International Financial Limited" and the adoption of the Chinese name "中國通海國際金融有限公司" as the secondary name of the Company in place of the Chinese secondary name "中國泛海國際金融有限公司" with effect from 28 March 2018.

The Group is principally engaged in the following activities:

— discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing and money lending services, insurance broking and wealth management services

— corporate finance advisory and general advisory services

— fund management, discretionary portfolio management and portfolio management advisory services

— financial media services

— investing and trading of various investment products

The financial statements for the year ended 31 December 2018 were approved for issue by the Board on 28 March 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the disclosure 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 ("Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

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

2.2 Basis of preparation

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate and joint ventures.

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

— investment properties (see note 2.12);

— financial instruments classified as investments at fair value through profit or loss (see note 2.15); and

— financial instruments classified as investments at fair value through other comprehensive income (see note 2.15).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (Continued)

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 4.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the twelve/nine months are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest; and the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting of a financial asset, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Subsidiaries

Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights relating to the investee (held by the Group and others) are considered. For a right to be substantive, the Group must have the practical ability to exercise that right. Control is reassessed when facts and circumstances indicate that there are changes to one or more of the elements of control.

When the Group has a less than majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including (a) the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; (b) potential voting rights held by the Group, other vote holders or other parties; (c) rights arising from other contractual arrangements; and (d) any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities often have restricted activities and a narrow and well defined objective.

In the Company's statement of financial position, subsidiaries are carried at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.5 Associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Associates and joint ventures (Continued)

In the consolidated financial statements, the investments in associates or joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the post-acquisition change in the Group's share of net assets and any impairment losses relating to the investments. The Group's share of the post-acquisition, post-tax results of the investees, including any impairment losses on the investments in associates or joint ventures for the period, are recognised in profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income are recognised in other comprehensive income of the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are recognised only to the extent of unrelated investors' interests in the associates or joint ventures. The investor's share in the associate's or joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the associate or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in profit or loss.

Where the associate or joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to conform the associate's or joint venture's accounting policies to those of the Group when the associate's or joint venture's financial statements are used by the Group in applying the equity method.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the interest in the associate or joint venture is included in the determination of gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

In the Company's statement of financial position, investments in associates and joint ventures are carried at cost less impairment losses, if any. The results of associates and joint ventures are accounted for by the Company on the basis of dividends received and receivable during the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation

The financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. All value are rounded to the nearest thousand except when otherwise indicated.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the foreign exchange rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rate at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in exchange reserve in equity.

On disposal of a foreign operation involving loss of control over a subsidiary, joint control over a joint venture or significant influence over an associate that includes a foreign operation, the cumulative exchange differences relating to that foreign operation accumulated in exchange reserve are reclassified from equity to profit or loss as part of the gain or loss on disposal.

2.7 Revenue and other income

Revenue comprises the fair value of the consideration received or receivable for the rendering of services and the use by others of the Group's assets yielding interest and dividends. Revenue is recognised when control over a product or 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 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 accrued 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Revenue and other income (Continued)

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

(a) for financial advisory, financial media service, handling and custodian service fee income, depending on the nature of the services and the contract terms, advisory fees are recognised progressively over time using output method based on milestones achieved that depicts the Group's performance, or at a point in time when the advisory service is completed. In the comparative period, financial advisory, financial media service, handling and custodian service fee income were recognised when the services were provided;

(b) for asset management fee income, it is recognised on a time-proportion basis with reference to the net asset value of the investment funds and portfolios under management;

(c) for performance fee income, it is recognised on the performance fee valuation day of the managed accounts when there is a positive performance for the relevant period, taking into consideration the relevant calculation basis of the investments funds and portfolios under management;

(d) for commission income from brokerage business, it is recognised on a trade date basis when the relevant transactions are executed;

(e) for interest income from financial assets measured at amortised cost, it is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost 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 impairment allowance) of the asset;

(f) for placing and underwriting commission income, they are recognised at a point in time when the obligation is completed;

(g) for dividend income, it is recognised when the shareholders' right to receive payment has been established; and

(h) for realised gains and losses on financial assets measured at fair value through profit or loss, they are recognised on a trade date basis. For unrealised gains and losses on financial assets measured at fair value through profit or loss, they are recognised at the end of the reporting period on the changes in fair value.

2.8 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset during the period of time that is required to complete and prepare the asset for its intended use are capitalised as part of the cost of that asset. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2.13).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2.10 Intangible assets (other than goodwill)

Intangible assets acquired separately or in a business combination

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any impairment losses.

Internally-developed intangible assets (Research and development expenditures)

Expenditures associated with research activities are expensed in profit or loss as they occur. Expenditures that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(a) demonstration of technical feasibility of the prospective product for internal use or sale;

(b) there is intention to complete the intangible asset and use or sell it;

(c) the Group's ability to use or sell the intangible asset is demonstrated;

(d) the intangible asset will generate probable economic benefits through internal use or sale;

(e) sufficient technical, financial and other resources are available for completion; and

(f) the expenditure attributable to the intangible asset can be reliably measured.

2.10 Intangible assets (other than goodwill) (Continued)

Internally-developed intangible assets (Research and development expenditures) (Continued)

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The expenditure of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets and are recognised initially at cost. After initial recognition, they are carried at cost less accumulated amortisation and impairment losses, if any. Development expenditures not satisfying the above criteria are expensed when incurred.

Amortisation of intangible assets

Amortisation of intangible assets with finite useful lives is provided on straight-line method over the estimated useful lives. The estimated useful lives of intangible assets are as follows:

Development costs	3–5 years
Film rights	Over the license periods
Mobile phone and computer applications	5 years
Trading rights	10 years
Corporate membership	Indefinite life

Amortisation commence when the intangible assets are available for use. The asset's amortisation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets are not amortised where their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2.11 Leasehold improvements and equipment

Leasehold improvements and equipment, including leasehold land classified under finance leases, are carried at cost less any accumulated depreciation and impairment losses, if any.

Depreciation on leasehold improvements and equipment is provided to write off the cost less their estimated residual value over their estimated useful lives, using the straight-line method, as follows:

Leasehold land under finance leases	Over the lease terms
Leasehold improvements	10 years or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	5 to 10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Leasehold improvements and equipment (Continued)

The assets' estimated residual value, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss.

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

2.12 Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gain and loss arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property, calculated as the difference between the net disposal proceeds and the carrying amount of the property, is included in profit or loss in the period in which the property is derecognised.

2.13 Impairment of non-financial assets

Goodwill arising on acquisition of a subsidiary and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, and whenever there is any indication that they may be impaired. Leasehold improvements and equipment and interests in associates and joint ventures are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

Recoverable amount is the higher of fair value, reflecting market conditions 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 time value of money and the risk specific to the asset for which the future cash flow estimates have not been adjusted.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets or group of assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of non-financial assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment loss recognised for CGU, to which goodwill has been allocated, is credited initially to the carrying amount of goodwill. Any remaining impairment loss is allocated pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measureable, and value in use, if determinable.

An impairment loss recognised for goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased, there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. Reversal of impairment loss is recognised immediately in profit or loss.

2.14 Leases

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

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on straight-line basis over the lease terms unless another systematic basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets under a contract whose terms that require delivery of assets within the time frame established generally by regulation or convention in the marketplace concerned. Derecognition of financial assets occurs when, and only when, the contractual rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset to the extent of its continuing involvement.

(A) Policy applicable from 1 January 2018

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and it is not designated as at fair value through profit or loss:

(a) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest.

Financial assets measured at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading.

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. On derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is reclassified to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss. The capital distribution from financial assets measured at fair value through other comprehensive income, which represents recovery of part of the investment cost, is recognised in the investment revaluation reserve, which is not reclassified to profit or loss and is reclassified to retained profits represent a recovery of part of the cost of the investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Financial assets measured at fair value through profit or loss

If a debt security does not meet the criteria for being measured at amortised cost or fair value through other comprehensive income, changes in the fair value of the debt security and interest income are recognised in profit or loss.

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

Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Interest income on debt instruments and dividend income on investments in equity instruments at fair value through profit or loss is recognised in profit or loss. Fair value gain or loss does not include any dividend or interest earned on these financial assets.

(B) Policy applicable prior to 1 January 2018

Following the early adoption of HKFRS 9 (2009) on 31 March 2010, financial assets were classified and measured as follows:

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest method and net of any impairment loss, if the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Financial assets measured at fair value

Financial assets other than those subsequently measured at amortised cost are measured at fair value with all changes in fair value recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

Financial assets measured at fair value (Continued)

However, for investments in equity instruments that are not held for trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income. For instruments measured at fair value through other comprehensive income gains and losses are never reclassified to profit or loss and no impairments are recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss unless the dividends clearly represent a recovery of part of the cost of the investment.

Credit losses and impairment of financial assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including bank balances held on behalf of clients, accounts receivable, deposits and other receivables and loans, bonds and notes measured at amortised cost).

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

Measurement of ECLs

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Credit losses and impairment of financial assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

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.

Impairment allowances for accounts receivable under HKFRS 15 are always measured at an amount equal to lifetime ECLs. For all other financial instruments, the Group recognises an impairment 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 impairment 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 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Credit losses and impairment of financial assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

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.

Basis of calculation of interest income using effective interest rate method

Interest income from financial assets measured at amortised cost recognised in accordance with note 2.7 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 impairment 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Credit losses and impairment of financial assets (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

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.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, financial assets measured at amortised cost are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

(a) significant financial difficulty of the debtor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or

(d) granting concession to a debtor because of the debtor's financial difficulty.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

Loan subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as new loans for measurement purposes. These renegotiated loans are segregated from other parts of the loan portfolio for the purposes of collective impairment assessment, to reflect their risk profile. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial assets (Continued)

Credit losses and impairment of financial assets (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the financial period in which the impairment occurs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the financial period in which the reversal occurs.

Impairment losses for doubtful receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group considered that recovery of receivables is remote, the amount considered irrecoverable is written off against the gross carrying amount directly. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.16 Accounting for income taxes

Income taxes comprise current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, taxation authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Accounting for income taxes (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply to the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the reporting date.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Current tax and changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity, respectively.

Current tax assets and current tax liabilities are presented in net if, and only if, (a) the Group has a legally enforceable right to set off the recognised amounts; and (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent that they are incremental costs directly attributable to the equity transaction.

2.19 Retirement benefit costs and short-term employee benefits

Retirement benefits

The Group participates in several staff retirement benefit schemes for employees in Hong Kong and the PRC, comprising defined contribution retirement schemes and a Mandatory Provident Fund scheme ("MPF Scheme"). The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and the relevant group companies. The retirement benefit scheme expenses charged to profit or loss represent contributions payable by the Group to the schemes.

The subsidiaries operating in the PRC are required to participate in the defined contribution retirement schemes for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement benefit schemes at a specified percentage of the employees' relevant income and there are no other further obligations to the Group.

The Group contributes to the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance for all employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vested fully with the employees when contributed into the MPF Scheme.

Short-term employee benefits

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the reporting date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the reporting date for the expected future cost of such paid leave earned during the period by the employees and carried forward.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.20 Share-based payments

The Group operates a share award scheme for remuneration of its employees and/or consultants.

All services received in exchange for the grant of any awarded shares are measured at their fair value. These are indirectly determined by reference to the fair value of awarded shares granted. Their value is appraised at the grant date and excludes the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Share-based payments (Continued)

All services received are ultimately recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the awarded shares granted vest immediately unless the expense qualifies for recognition as asset, with a corresponding increase in "Awarded share reserve" within equity. If service or non-market performance conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of awarded shares expected to vest. Non-market performance and service conditions are included in assumptions about the number of share options and awarded shares that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of awarded shares expected to vest differs from previous estimates. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to awarded share reserve.

The shares awarded under the share award scheme are acquired from open market. The net consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from total equity. When the awarded shares are transferred to the awardees upon vesting, the related weighted average cost of the awarded shares vested are credited to "Shares held for Share Award Scheme", the related service costs of awarded shares vested are debited to the "Awarded share reserve", and any difference will be transferred to retained profits. Where the shares held for Share Award Schemes are revoked and the revoked shares are disposed of, the related gain or loss is transferred to retained profits.

2.21 Financial liabilities

The Group's financial liabilities include obligations under repurchase agreements, bank and other borrowings, trade and other payables and notes payable. Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.8 to the financial statements).

A financial liability is derecognised when, and only when, the obligation under the financial liability is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

Obligations under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented as "Obligations under repurchase agreements" in the consolidated statement of financial position. Obligations under repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. Obligations under repurchase agreements are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Financial liabilities (Continued)

Bank and other borrowings and notes payable

Bank and other borrowings and notes payable are recognised initially at fair value, net of directly attributable transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost, any difference between the initial amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the reporting date.

Accounts payable and other payables

Accounts payable and other payables include accounts payable, accruals and other payables. They are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.22 Warrants

The net proceeds received from the issue of warrants are recognised in warrants reserve within equity. Net proceeds received for warrants issued with notes are determined based on their relative fair value at the issue date. When the warrants are exercised, the amount recognised in warrants reserve will be transferred to share capital and share premium accounts. For warrants that are not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to retained profits.

2.23 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to be required to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the present obligation is disclosed as a contingent liability, unless the possibility of outflow of economic benefits is remote. Possible obligations that arise from past events, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the possibility of an outflow of economic benefits is remote.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines.

The Group has identified the following reportable segments:

(a) the brokerage and interest income segment engages in discretionary and non-discretionary dealing services for securities, futures and options, margin financing and money lending services, insurance broking and wealth management services, and interest income arising from debt instruments;

(b) the corporate finance segment engages in securities placing and underwriting services, corporate finance advisory and general advisory services;

(c) the asset management segment engages in fund management, discretionary portfolio management and portfolio management advisory services;

(d) the investments segment engages in investing and trading of various investment products; and

(e) the others segment represents financial media services and other insignificant operating segments.

Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches. No operating segments identified have been aggregated in arriving at the reportable segments of the Group.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

(a) share of results of joint ventures and associate accounted for using the equity method;

(b) revaluation on investment properties;

(c) income tax expense; and

(d) corporate income and expenses which are not directly attributable to the business activities of any operating segment

are not included in arriving at the operating results of the operating segments. Inter-segment revenue are charged on the expenses incurred by the relevant subsidiaries plus certain percentages.

Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision maker.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Related parties

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

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

(ii) has significant influence over the Group; or

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

(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 Group's parent.

Close family members 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.

2.26 Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2.7). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.15).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2.7).

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1 Adoption of new and amended HKFRSs

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:

(i) HKFRS 9, *Financial instruments*

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

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

The Group has initially applied HKFRS 9 (2014) and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

HKFRS 9 (2014), 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.

HKFRS 9 issued in November 2009, i.e. HKFRS 9 (2009), introduced new requirements for the classification and measurement of financial assets and was early adopted by the Group on 31 March 2010. HKFRS 9 was subsequently amended in November 2010, i.e. HKFRS 9 (2010), to introduce requirements for the classification and measurement of financial liabilities and for derecognition, and in December 2013, i.e. HKFRS 9 (2013), to include the new requirements for general hedge accounting. Further revised version of HKFRS 9 was issued in September 2014, i.e. HKFRS 9 (2014), which incorporate these previous versions of HKFRS 9 and also include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements of financial assets by introducing a "fair value through other comprehensive income" measurement category for certain debt instruments. Entities that have adopted a previous version by 31 January 2015 may continue to apply that version until the mandatory effective date of HKFRS 9 (2014) of 1 January 2018.

The Group has applied HKFRS 9 (2014) 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 HKFRS 9 (2009).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 9 (2014), Financial instruments (Continued)

The following table summarises the impact of transition to HKFRS 9 (2014) on retained earnings and reserves and the related tax impact at 1 January 2018:

	HK$'000
Retained earnings	
Recognition of additional expected credit losses on:	
— Loans, bonds and notes measured at amortised cost	9,419
— accounts receivable	231
Related tax	(869)
Net decrease in retained earnings at 1 January 2018	8,781

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

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

HKFRS 9 (2009) introduced new requirements for the classification and measurement of financial assets. Following the early adoption of HKFRS 9 (2009) on 31 March 2010 (See note 2.15), financial assets of the Group are classified under the following categories:

(a) financial assets measured at amortised cost;

(b) financial assets measured at fair value through other comprehensive income for equity instruments that are not held-for-trading and being irrevocably designated at initial recognition; and

(c) financial assets measured at fair value through profit or loss.

HKFRS 9 (2014) introduced that debt instruments are measured at FVOCI only if they meet both of the following conditions:

- the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial assets meet the SPPI criterion.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 9 (2014), Financial instruments (Continued)

a. *Classification of financial assets and financial liabilities (Continued)*

The following table shows the original measurement categories for each class of the Group's financial assets under HKFRS 9 (2009) as at 31 December 2017 and reconciles the carrying amounts of those financial assets determined in accordance with HKFRS 9 (2009) as at 31 December 2017 to those determined in accordance with HKFRS 9 (2014) as at 1 January 2018.

	HKFRS 9 (2009) carrying amount at 31 December 2017	Remeasurement	HKFRS 9 (2014) carrying amount at 1 January 2018
	HK$'000	HK$'000	HK$'000
Financial assets carried at amortised cost			
Cash and cash equivalents	1,074,932	—	1,074,932
Other assets	23,619	—	23,619
Deposits for subscription of shares	46,910	—	46,910
Bank balances held on behalf of clients	1,437,223	—	1,437,223
Loans, bonds and notes measured at amortised cost	1,347,573	(9,419)	1,338,154
Accounts receivable	812,991	(231)	812,760
Margin loans	2,130,082	—	2,130,082
Deposits and other receivables	10,024	—	10,024
	6,883,354	(9,650)	6,873,704
Financial assets measured at FVOCI (non-recyclable)			
Equity securities	11,615	—	11,615
	11,615	—	11,615
Financial assets carried at FVPL			
Listed debt securities	726,168	—	726,168
Listed equity securities	769,720	—	769,720
Unlisted mutual funds	9,231	—	9,231
Private equity fund	88,007	—	88,007
	1,593,126	—	1,593,126

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 9 (2014), Financial instruments (Continued)

a. Classification of financial assets and financial liabilities (Continued)

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9 (2014), see respective accounting policy notes in notes 2.15.

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 (2014).

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 (2014) replaces the "incurred loss" model in HKFRS 9 (2009) 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 HKFRS 9 (2009).

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

— financial assets measured at amortised cost (including bank balances held on behalf of clients, accounts receivable, deposits and other receivables and loans, bonds and notes measured at amortised cost).

For further details on the Group's accounting policy for accounting for credit losses, see note 2.15.

The following table reconciles the closing impairment allowance determined in accordance with HKFRS 9 (2009) as at 31 December 2017 with the opening impairment allowance determined in accordance with HKFRS 9 (2014) as at 1 January 2018.

	HK$'000
Impairment allowance at 31 December 2017 under HKFRS 9 (2009)	23,685
Additional impairment loss recognised at 1 January 2018 on:	
— Accounts receivable	231
— Loans, bonds and notes measured at amortised cost	9,419
Derecognition of margin loan's related impairment allowance at 1 January 2018	(15,474)
Impairment allowance at 1 January 2018 under HKFRS 9 (2014)	17,861

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 9 (2014), Financial instruments (Continued)

c. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 (2014) 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 (2014) are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKFRS 9 (2009) and thus may not be comparable with the current period.

— 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.

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, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

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 earnings and the related tax impact at 1 January 2018:

	HK$'000
Retained earnings	
Deferred revenue recognition for sponsorship and financial advisory fee income	2,585
Related tax	—
Net decrease in retained earnings at 1 January 2018	2,585

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

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, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or 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 good or 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 good or 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 adoption of HKFRS 15 does not have a significant impact when the Group recognises asset management fee income, performance fee income, commission income from brokerage business, interest income, placing and underwriting commission income, and dividend income (see note 2.7). However, the timing of revenue recognition for sponsorship and financial advisory fee income is affected as follows:

Sponsorship and financial advisory fee income: Sponsorship and financial advisory with customers are not standardised and they are assessed on a contract-by-contract basis. Some of these contracts are with different promises made to the customers, and they include variable consideration. For example, advising or supporting customers in an initial public offering of securities might include contingent fees that are only payable on meeting agreed milestones or end of the contract. For some of the financial advisory contracts, it is assessed that there are no benefit for the customer unless the contract is completed. These contracts therefore do not satisfy the criteria for recognising revenue over time, whereas previously the Group, recognise revenue over time. Accordingly, revenue for these contracts are recognised in profit or loss earlier under HKAS 18 than under HKFRS 15.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

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. 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.

c. Presentation of contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. 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.

As a result of the above changes in accounting policy of HKFRS 15, the Group has made adjustments to opening balances at 1 January 2018 which decreased retained earnings by HK$2,585,000. HK$4,787,000 of contract liabilities has been reclassified from "Accruals and other payables" to "Contract liabilities", and an additional adjustment to opening balance of "Contract liabilities" at 1 January 2018 by HK$2,585,000 has been made.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

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:			
Fee and commission income	277,429	278,948	(1,519)
Other operating income/(losses)	23,261	23,256	5
Profit before income tax	109,790	111,304	(1,514)
Income tax expense (Note)	(9,615)	(9,615)	—
Profit for the year, attributable to equity holders of the Company	100,175	101,689	(1,514)
Earnings per share	HK cent(s)	HK cent(s)	HK cent(s)
Basic and diluted	1.612	1.636	(0.024)
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, attributable to equity holders of the Company	93,705	95,219	(1,514)

Note: There is no income tax impact as the subsidiary does not have taxable profit.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

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 (Continued)

	Amounts reported in accordance with HKFRS 15 (A)	**Hypothetical amounts under HKAS 18 (B)**	**Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B)**
	HK$'000	HK$'000	HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Accruals and other payables	110,122	114,909	(4,787)
Contract liabilities	8,886	—	8,886
Current liabilities	4,330,999	4,326,900	4,099
Net current assets	5,385,374	5,389,473	(4,099)
Net assets	5,796,614	5,800,713	(4,099)
Line items in the reconciliation of profit before income tax to cash generated from operations for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Profit before income tax	109,790	111,304	(1,514)
Decrease in accounts payable, contract liabilities and accruals and other payables	(359,502)	(363,601)	4,099

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 Adoption of new and amended HKFRSs (Continued)

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.

3.2 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. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially 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 standard is initially applied in that financial report.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.2 Possible impact of amendments new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

HKFRS 16, Leases

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 leasehold improvements 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 36, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$120,681,000, 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$108,146,000 and HK$108,146,000 respectively, 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions in applying the Group's accounting policies

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) 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.

(ii) Impairment loss of non-financial assets

At each reporting date, goodwill are tested for impairment. The Group also reviews internal and external sources of information to identify indications that any of the leasehold improvements and equipment, other intangible assets (including development costs), interests in joint ventures and associates may be impaired or an impairment loss previously recognised no longer exists or may have decreased. The sources utilised to identify indications of impairment are often subjective in nature and the directors of the Group are required to use judgement in applying such information to its business. Their interpretation of such information has a direct impact on whether an impairment assessment is performed as at any given reporting date.

Determining whether an asset or a CGU is impaired requires an estimation of their recoverable amount. Depending on the assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable amount, the Group may perform such assessment utilising internal resources or may engage external advisers in making this assessment. Regardless of the resources utilised, the Group is required to make assumptions in this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable amount of these assets.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions in applying the Group's accounting policies (Continued)

(iii) Fair value of investments in unlisted debt and equity instruments and fund investments

The investments in unlisted debt and equity instruments and fund investments that are accounted for as "Investments measured at fair value through other comprehensive income" and "Investments measured at fair value through profit or loss" are stated at fair value. The fair value of these investments is determined by using valuation techniques. Specific valuation techniques used to value these investments included value as reported by the fund administrators or other techniques, such as discounted cash flow analysis. The assumptions and discount rates used to prepare the cash flow analysis involve significant estimates and judgements and hence the fair value of these investments is subject to uncertainty. As at 31 December 2018, the carrying amount of the Group's investments in unlisted debt and equity instruments and fund investments was approximately HK$728,796,000 (31 December 2017: Nil), and HK$477,455,000 (31 December 2017: HK$11,615,000) and HK$236,348,000 (31 December 2017: HK$97,238,000), respectively.

(iv) Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position at their fair value of HK$11,200,000 (31 December 2017: HK$10,200,000) as at 31 December 2018. The fair value was based on valuation conducted by independent firm of professional valuers using direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property. Favourable or unfavourable changes to these adjustments would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated profit or loss.

(b) Critical judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, the directors are required to make judgements, apart from those involving estimates. The judgements that have been made and can significantly affect the amounts recognised in the financial statements are discussed below:

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Critical judgement in applying the Group's accounting policies (Continued)

(ii) Determination of control over an investment fund

The Group invested in certain investment funds with primary objectives for capital appreciation, investment income and selling in the near future for profit. Pursuant to subscription agreement or equivalent documents, the beneficial interests in these investment funds held by the Group are in the form of participating shares or interests which primarily provide the Group with the share of returns from the investment funds.

These investment funds are managed by respective investment manager who has the power and authority to manage the investment funds and make investment decisions. Among those investment funds held by the Group where the Group acted as investment manager, the Group regularly assesses and determines whether:

— the Group is acting as an agent or a principal to these investment funds;

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

— the investment held together with its remuneration from managing these investment funds create significant exposure to variability of returns in these investment funds.

When the Group assesses that the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that indicates the Group is a principal, the Group had consolidated these investment funds. Third-party interests in consolidated investment funds are reflected as a liability and included in "Accruals and other payables" since they can be redeemed by the holders for cash and the realisation of which cannot be predicted with accuracy since these are subject to the actions of these holders. Changes in net assets attributable to other holders of consolidated investment fund are included in "Other operating income and gains less losses" in the consolidated statement of profit or loss and other comprehensive income. The carrying amount included in "Accruals and other payables" as at 31 December 2018 is HK$50,666,000 (31 December 2017: HK$53,608,000).

When the variable returns of these investment funds to the Group are not significant or the Group is subject to substantive removal rights held by other parties who may remove the Group as an investment manager, the Group did not consolidate these investment funds and classified them as "Financial assets measured at fair value through profit or loss" in accordance with the Group's accounting policies. Further details in respect of those investment funds in which the Group had an interest are disclosed in note 24 to these financial statements.

5. REVENUE

(a) Revenue analysis

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
		(Restated)
Brokerage business		
Fee and commission income**:		
— Commission on dealings in securities		
— Hong Kong securities	59,925	57,434
— Other than Hong Kong securities	6,643	3,836
— Commission on dealings in futures and options contracts	119,471	98,384
— Handling, custodian and other service fee income	14,829	12,064
	200,868	171,718
Interest income business		
Interest income from loans to margin clients	178,061	56,249
Interest income calculated using the effective interest method:		
— Interest income from structured loans	173,859	18,711
— Interest income from cash clients receivable	1,832	796
— Interest income from trust bank deposits	11,328	4,459
— Interest income from initial public offering loans	673	941
— Interest income from house money bank deposits, bank and others	20,899	6,044
Interest income from bonds measured at fair value through profit or loss and others	60,321	6,377
	446,973	93,577
Corporate finance business		
Fee and commission income**:		
— Placing and underwriting commission income	11,438	2,885
— Financial and compliance advisory services fee income	29,231	46,219
	40,669	49,104
Asset management business		
Fee and commission income**:		
— Management fee income	18,864	11,096
— Performance fee income	5,279	10,502
	24,143	21,598
Investments and others business		
Fee and commission income**:		
— Financial media service fee income	11,749	9,159
Net investment income/(loss):		
— Net realised loss on bonds measured at amortised cost	(5,348)	—
— Net realised and unrealised gain/(loss) on investments measured at fair value through profit or loss	(63,244)	6,087
— Dividend income from investments measured at fair value through profit or loss	16,416	793
— Dividend income from investments measured at fair value through other comprehensive income	84	119
	(40,343)	16,158
	672,310	352,155

5. REVENUE (CONTINUED)

(a) Revenue analysis (Continued)

* The Group has initially applied HKFRS 15 using cumulative effect method. Under this method, the comparative information of these revenue from contracts with customers within the scope of HKFRS 15 is not restated for the effect of application of HKFRS 15, and was prepared in accordance with HKAS 18.

(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 to its contracts with customers and did not disclose information about the remaining performance obligations under the contracts that had an original expected duration of one year or less.

6. OTHER NET OPERATING INCOME/(LOSSES)

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Changes in net asset value attributable to other holders of a consolidated investment fund (note 26)	**13,738**	(5,469)
Exchange gains, net	**3,045**	2,611
Gain on revaluation of investment properties	**1,000**	860
Write-back of other payables	**1,368**	—
Sundry income	**4,110**	1,595
	23,261	(403)

7. SEGMENT INFORMATION

The executive directors have identified the Group's five service lines as operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Following the change in the composition of the reportable segments, the corresponding segmental information for the nine months from 1 April 2017 to 31 December 2017 has been restated to conform with the current year's presentation.

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated due to the application of HKFRS 15 and was prepared in accordance with HKAS 18.

	Brokerage and interest income HK$'000	Corporate finance HK$'000	Asset management HK$'000	Investments HK$'000	Others HK$'000	Total HK$'000
Twelve months ended 31 December 2018						
Revenue						
Fee and commission income	200,868	40,669	24,143	—	11,749	277,429
Interest income	446,973	—	—	—	—	446,973
Net investment loss	—	—	—	(52,092)	—	(52,092)
Segment revenue from external customers	647,841	40,669	24,143	(52,092)	11,749	672,310
Inter-segment revenue	3,652	3,525	7,789	—	4,196	19,162
Reportable segment revenue	651,493	44,194	31,932	(52,092)	15,945	691,472
Fee and commission income by timing of revenue recognition:						
Point in time	200,868	14,890	5,279	—	2,468	223,505
Over time	—	25,779	18,864	—	9,281	53,924
Fee and commission income	200,868	40,669	24,143	—	11,749	277,429
Reportable segment result	161,237	7,988	4,026	(59,260)	596	114,587
Depreciation and amortisation	7,689	374	103	927	795	9,888
Changes in net assets value attributable to other holders of a consolidated investment fund	—	—	—	13,738	—	13,738
Finance costs	57,955	—	—	1,068	—	59,023
Impairment loss/(reversal of impairment loss) on financial instruments	90,308	(507)	—	—	89	89,890
Additions to non-current assets*	10,868	551	65	—	784	12,268

7. SEGMENT INFORMATION (CONTINUED)

	Brokerage and interest income HK$'000	Corporate finance HK$'000	Asset management HK$'000	Investments HK$'000	Others HK$'000	Total HK$'000
Nine months from 1 April 2017 to 31 December 2017						
Revenue						
Fee and commission income	171,718	49,104	21,598	—	9,159	251,579
Interest income	93,577	—	—	—	—	93,577
Net investment income	—	—	—	6,999	—	6,999
Segment revenue from external customers	265,295	49,104	21,598	6,999	9,159	352,155
Inter-segment revenue	6,000	7,740	1,026	—	6,250	21,016
Reportable segment revenue	271,295	56,844	22,624	6,999	15,409	373,171
Reportable segment result	20,282	29,271	2,657	5,226	857	58,293
Depreciation and amortisation	5,825	200	105	—	245	6,375
Changes in net assets value attributable to other holders of a consolidated investment fund	—	—	—	5,469	—	5,469
Finance costs	8,711	—	—	1,459	—	10,170
Impairment loss on financial instruments	3,130	18	—	—	—	3,148
Share of results of an associate	—	—	—	5,263	—	5,263
Additions to non-current assets*	1,873	2,005	54	—	1,796	5,728

7. SEGMENT INFORMATION (CONTINUED)

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the consolidated financial statements as follows:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Reportable segment revenue	691,472	373,171
Elimination of inter-segment revenue	(19,162)	(21,016)
Consolidated revenue	672,310	352,155
Reportable segment result	114,587	58,293
Gain on revaluation of investment properties	1,000	860
Other operating income	1,655	750
Share of results of joint ventures	1,597	(1,930)
Unallocated corporate expenses	(9,049)	(10,784)
Consolidated profit before income tax	109,790	47,189

	Reportable segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Twelve months ended 31 December 2018			
Other material items			
Additions to non-current assets*	12,268	7,262	19,530

	Reportable segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Nine months from 1 April 2017 to 31 December 2017			
Other material items			
Depreciation and amortisation	6,375	279	6,654
Additions to non-current assets*	5,728	1,094	6,822

7. SEGMENT INFORMATION (CONTINUED)

Included in unallocated corporate expenses are the following items:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Payment to certain employees under a phantom share scheme and compensation to three executive directors of the Company	837	9,208
Expenses incurred in connection with the proposed rights issue, which has been terminated on 10 September 2018	3,690	—

In accordance with the service agreements of three executive directors, each of them are entitled a lump sum equivalent to their 12 months' salaries and HK$4.0 million compensation upon a change of control of the Company.

Under the phantom share scheme adopted in August 2016, certain employees are entitled an awarded cash payment.

Geographical information

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

The Group's customers include the following with whom transactions have exceeded 10% of the Groups' revenue:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Customer A**	—	38,333

* Non-current assets exclude investments measured at fair value through other comprehensive income, other assets, loans, bonds and notes at amortised cost, investments measured at fair value through profit or loss, deferred tax assets and deposits for subscription of shares.

** Revenue from this customer is attributable to brokerage and interest income and corporate finance segments.

8. FINANCE COSTS

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Finance charges on obligations under repurchase agreements	**3,456**	1,459
Interest on bank and other borrowings and notes payable	**55,567**	8,711
	59,023	10,170

9. STAFF COSTS

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Directors' emoluments (note 14)		
— Fees, salaries, allowances and benefits in kind	**11,501**	9,602
— Retirement benefits scheme contributions	**33**	28
	11,534	9,630
Other staff		
— Salaries, allowances and bonuses	**147,682**	84,646
— Retirement benefits scheme contributions	**4,498**	2,902
— Other staff benefits	**1,253**	828
	153,433	88,376
	164,967	98,006

10. PROFIT BEFORE INCOME TAX

	Notes	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Profit before income tax is arrived at after charging:			
Depreciation and amortisation			
— Development costs and other intangible assets	17	**2,421**	1,645
— Leasehold improvements and equipment	15	**7,467**	5,009
		9,888	6,654
Other items			
— Auditors' remuneration		**2,290**	1,957
— Minimum lease payments under operating leases in respect of land and buildings		**39,677**	24,184
— Net losses on disposals of leasehold improvements and equipment		**153**	1
— Direct operating expenses related to investment properties		**24**	20

11. INCOME TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporations are taxed 8.25%, and assessable profits above HK$2 million are taxed at 16.5%. The profits of corporation not qualifying the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the twelve months ended 31 December 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. For the nine months from 1 April 2017 to 31 December 2017, Hong Kong profits tax was provided at a flat rate of 16.5% on the estimated assessable profits.

11. INCOME TAX EXPENSE (CONTINUED)

Tax on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Current tax — Hong Kong profits tax		
— For the twelve/nine months	**28,469**	7,943
— Over provision in prior year	**(420)**	—
	28,049	7,943
Deferred tax (note 31)	**(18,434)**	(4,039)
Total income tax expenses	**9,615**	3,904

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Profit before income tax	**109,790**	47,189
Notional tax at Hong Kong profits tax rate of 8.25% on the first HK$2 million profit	**165**	—
Notional tax at Hong Kong profits tax rate of 16.5% on remaining profit	**17,785**	7,786
Effect of different tax rates of subsidiaries operating in other jurisdictions	**73**	64
Tax effect of non-deductible expenses	**2,795**	3,050
Tax effect of non-taxable income	**(5,798)**	(1,317)
Tax effect of unused tax losses not recognised as deferred tax assets	**448**	211
Tax effect of prior years' unrecognised tax losses utilised this year	**(178)**	(2,554)
Tax effect of prior years' unrecognised tax losses recognised as deferred tax assets	**(4,528)**	(4,125)
Tax effect of temporary differences previously not recognised as deferred tax assets	**(727)**	789
Over provision in prior year	**(420)**	—
Income tax expense	**9,615**	3,904

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

12. DIVIDENDS

The board resolved not to declare the payment of dividend for the financial year ended 31 December 2018 (31 December 2017: Nil).

13. EARNINGS PER SHARE

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

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
For purpose of basic and diluted earnings per share	**100,175**	43,285

Weighted average number of ordinary shares in issue less shares held for Share Award Scheme

	Twelve months ended 31 December 2018	Nine months from 1 April 2017 to 31 December 2017
For purpose of basic earnings per share	**6,214,004,697**	4,047,821,652
Effect of warrants	**—**	3,922
For purpose of diluted earnings per share	**6,214,004,697**	4,047,825,574

Earnings per share for profit attributable to equity holders of the Company for the year

	Twelve months ended 31 December 2018 (HK cents)	Nine months from 1 April 2017 to 31 December 2018 (HK cents)
Basic and diluted	**1.612**	1.069

14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company are as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Twelve months ended 31 December 2018				
Executive Directors				
Mr. HAN Xiaosheng	—	—	—	—
Mr. ZHANG Bo	—	2,820	18	2,838
Mr. ZHANG Xifang	—	—	—	—
Mr. FENG Henian (note (v))	—	—	—	—
Mr. LIU Hongwei	—	—	—	—
Mr. Kenneth LAM Kin Hing	—	7,190	15	7,205
Non-executive Directors				
Mr. Bernard POULIOT (note (ii))	492	—	—	492
Mr. LIU Bing	—	—	—	—
Mr. ZHAO Yingwei (note (vi))	—	—	—	—
Mr. ZHAO Xiaoxia	—	—	—	—
Mr. FENG Henian (note (v))	—	—	—	—
Independent Non-executive Directors				
Mr. Roy LO Wa Kei	200	—	—	200
Mr. KONG Aiguo	200	—	—	200
Mr. LIU Jipeng (note (iii))	199	—	—	199
Mr. HE Xuehui	200	—	—	200
Mr. HUANG Yajun	200	—	—	200
	1,491	10,010	33	11,534

14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

Directors' emoluments (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Nine months from 1 April 2017 to 31 December 2017				
Executive Directors				
Mr. HAN Xiaosheng	—	—	—	—
Mr. ZHANG Bo	—	569	5	574
Mr. ZHANG Xifang	—	—	—	—
Mr. LIU Hongwei	—	—	—	—
Mr. Kenneth LAM Kin Hing	—	3,831	14	3,845
Mr. Richard David WINTER (note (i))	—	1,707	9	1,716
Mr. Bernard POULIOT (note (ii))	—	2,659	—	2,659
Non-executive Directors				
Mr. Bernard POULIOT (note (ii))	123	57	—	180
Mr. LIU Bing	—	—	—	—
Mr. FENG Henian	—	—	—	—
Mr. ZHAO Xiaoxia	—	—	—	—
Independent Non-executive Directors				
Mr. Roy LO Wa Kei	144	—	—	144
Mr. KONG Aiguo	144	—	—	144
Mr. LIU Jipeng (note (iii))	—	—	—	—
Mr. HE Xuehui	144	—	—	144
Mr. HUANG Yajun	144	—	—	144
Mr. Robert CHAN Tze Leung (note (iv))	80	—	—	80
	779	8,823	28	9,630

Notes:

(i) resigned as an executive director with effect from 20 September 2017

(ii) re-designated from an executive director to a non-executive director with effect from 1 October 2017

(iii) appointed as an independent non-executive director with effect from 18 December 2017

(iv) retired as an independent non-executive director with effect from 19 September 2017

(v) re-designated from a non-executive director to an executive director with effect from 28 March 2018

(vi) appointed as non-executive director with effect from 28 March 2018

14. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

Directors' emoluments (Continued)

There was no arrangement under which a director waived or agreed to waive any emoluments in respect of the twelve months ended 31 December 2018 and the nine months from 1 April 2017 to 31 Decemeber 2017. No emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Emoluments of five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the twelve months ended 31 December 2018 included one (nine months from 1 April 2017 to 31 December 2017: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (nine months from 1 April 2017 to 31 December 2017: three) individuals during the twelve months ended 31 December 2018 are as follows:

	Twelve months ended 31 December 2018	Nine months from 1 April 2017 to 31 December 2017
Salaries and allowances	**19,764**	8,640
Retirement benefits scheme contributions	**72**	41
	19,836	8,681

The emoluments of these remaining four (nine months from 1 April 2017 to 31 December 2017: three) highest paid individuals fell within the following bands:

	Number of individuals	
	Twelve months ended 31 December 2018	Nine months from 1 April 2017 to 31 December 2017
HK$2,000,001 — HK$2,500,000	**—**	1
HK$2,500,001 — HK$3,000,000	**—**	1
HK$3,500,001 — HK$4,000,000	**—**	1
HK$4,000,001 — HK$4,500,000	**2**	—
HK$5,000,001 — HK$5,500,000	**1**	—
HK$6,000,001 — HK$6,500,000	**1**	—
	4	3

During the twelve months ended 31 December 2018 and the nine months from 1 April 2017 to 31 December 2017, no emolument was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

15. LEASEHOLD IMPROVEMENTS AND EQUIPMENT AND INVESTMENT PROPERTIES

	Leasehold improvements and equipment				
	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Subtotal HK$'000	Investment properties HK$'000	Total HK$'000
At 1 April 2017					
Cost	12,007	55,388	67,395	—	67,395
Valuation	—	—	—	9,340	9,340
Accumulated depreciation	(8,730)	(45,480)	(54,210)	—	(54,210)
Net carrying amount	3,277	9,908	13,185	9,340	22,525
Nine months from 1 April 2017 to 31 December 2017					
Opening net carrying amount	3,277	9,908	13,185	9,340	22,525
Additions	2,592	2,703	5,295	—	5,295
Disposals	—	(2)	(2)	—	(2)
Depreciation	(2,145)	(2,864)	(5,009)	—	(5,009)
Fair value change	—	—	—	860	860
Translation differences	—	14	14	—	14
Closing net carrying amount	3,724	9,759	13,483	10,200	23,683
At 31 December 2017					
Cost	13,793	56,756	70,549	—	70,549
Valuation	—	—	—	10,200	10,200
Accumulated depreciation	(10,069)	(46,997)	(57,066)	—	(57,066)
Net carrying amount	3,724	9,759	13,483	10,200	23,683
Twelve months ended 31 December 2018					
Opening net carrying amount	**3,724**	**9,759**	**13,483**	**10,200**	**23,683**
Additions	**8,151**	**7,310**	**15,461**	**—**	**15,461**
Disposals	**—**	**(182)**	**(182)**	**—**	**(182)**
Depreciation	**(3,271)**	**(4,196)**	**(7,467)**	**—**	**(7,467)**
Fair value change	**—**	**—**	**—**	**1,000**	**1,000**
Translation differences	**—**	**(10)**	**(10)**	**—**	**(10)**
Closing net carrying amount	**8,604**	**12,681**	**21,285**	**11,200**	**32,485**
At 31 December 2018					
Cost	**18,624**	**42,009**	**60,633**	**—**	**60,633**
Valuation	**—**	**—**	**—**	**11,200**	**11,200**
Accumulated depreciation	**(10,020)**	**(29,328)**	**(39,348)**	**—**	**(39,348)**
Net carrying amount	**8,604**	**12,681**	**21,285**	**11,200**	**32,485**

16. GOODWILL

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
At the beginning and the end of the year		
Gross carrying amount	**14,738**	14,738
Accumulated impairment	**(43)**	(43)
Net carrying amount	**14,695**	14,695

The net carrying amount of goodwill of HK$14,695,000 (31 December 2017: HK$14,695,000) relates to the CGU which is principally engaged in the dealing services for securities, futures and options contracts and the securities placing and underwriting services. For the purpose of the annual impairment testing, the recoverable amount was determined based on value-in-use, using a discounted cash flows projection, covering a detailed five-year budget plan with a discount rate of 12% (31 December 2017: 13%). The fair value measurement of the CGU is categorised within level 3 of the fair value hierarchy.

The key assumptions used in the budget plan are:

(a) revenue will grow by 10% per annum up to financial year 2023; and

(b) gross margin will be maintained at its current level throughout the five-year budget plan.

The Group management's key assumptions have been determined based on past performance and its expectations for the market's development. The discount rate used reflects specific risks relating to the relevant businesses. Based on the above key assumptions and detailed five-year budget plan, the Group's management concluded there was no impairment to goodwill as the carrying amount of the CGU did not exceed its recoverable amount.

The Group's management is currently not aware of any reasonably possible change in the above key assumptions on which the recoverable amount is based would cause the carrying amount of the CGU to exceed its recoverable amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

17. DEVELOPMENT COSTS AND OTHER INTANGIBLE ASSETS

	Development costs HK$'000	Other intangible assets: Film rights HK$'000	Mobile phone and computer applications HK$'000	Corporate membership HK$'000	Trading rights HK$'000	Subtotal HK$'000	Total HK$'000
Nine months from 1 April 2017 to 31 December 2017							
Opening net carrying amount	5,356	1,511	512	—	—	2,023	7,379
Additions	—	69	—	—	—	69	69
Amortisation	(1,096)	(439)	(110)	—	—	(549)	(1,645)
Closing net carrying amount	4,260	1,141	402	—	—	1,543	5,803
At 31 December 2017							
Cost	11,108	1,774	730	—	12,400	14,904	26,012
Accumulated amortisation	(6,848)	(633)	(328)	—	(12,400)	(13,361)	(20,209)
Net carrying amount	4,260	1,141	402	—	—	1,543	5,803
Twelve months ended 31 December 2018							
Opening net carrying amount	**4,260**	**1,141**	**402**	**—**	**—**	**1,543**	**5,803**
Additions	**324**	**—**	**1,695**	**280**	**—**	**1,975**	**2,299**
Amortisation	**(1,622)**	**(597)**	**(202)**	**—**	**—**	**(799)**	**(2,421)**
Closing net carrying amount	**2,962**	**544**	**1,895**	**280**	**—**	**2,719**	**5,681**
At 31 December 2018							
Cost	**11,432**	**1,774**	**2,425**	**280**	**12,400**	**16,879**	**28,311**
Accumulated amortisation	**(8,470)**	**(1,230)**	**(530)**	**—**	**(12,400)**	**(14,160)**	**(22,630)**
Net carrying amount	**2,962**	**544**	**1,895**	**280**	**—**	**2,719**	**5,681**

Development costs represent the in-house developed securities, futures and options settlement systems; and an online trading platform. Trading rights represent the eligibility rights acquired to trade on or through the Stock Exchange and Hong Kong Futures Exchange Limited. Mobile phone and computer applications represent the customer service platform purchased from independent application solution providers. All amortisation is included in "depreciation and amortisation expenses" in the consolidated statement of profit or loss and other comprehensive income.

18. INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	McMillen Advantage Capital Limited ("MAC") (note (a))	Capital Partners Securities Co., Ltd. ("CPS") (note (b))	Capital Financial Holdings, Ltd. ("CFH") (note (b))	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2017	1,640	12,200	—	13,840
Fair value changes recognised in other comprehensive income	602	(2,827)	—	(2,225)
At 31 December 2017 and 1 January 2018	**2,242**	**9,373**	**—**	**11,615**
Transfer	**—**	**(9,373)**	**9,373**	**—**
Fair value changes recognised in other comprehensive income	**(561)**	**—**	**(4,733)**	**(5,294)**
At 31 December 2018	**1,681**	**—**	**4,640**	**6,321**

Notes:

(a) MAC is a limited liability company incorporated in Hong Kong, which is controlled by a director of a subsidiary of the Company. The Group had not accounted for MAC as an associate despite its ownership interest because the Group does not have any power to participate in its financial and operating policy decisions nor any right to appoint a director of MAC.

(b) Upon share transfer on 1 October 2018, CFH, a newly established Company held 100% of CPS and therefore the Group held shares of CFH. There is no gain or loss on the transfer.

(c) The above investments are unlisted equity securities which are not held for trading. Instead, they are held for medium or long-term strategic purpose. The Group has designated these investments in equity securities as at fair value through other comprehensive income as the directors believe that this provides a more meaningful presentation for medium or long-term strategic investments, than reflecting changes in fair value immediately in profit or loss.

(d) Fair value of the unlisted equity securities has been determined by using the discounted cash flow valuation technique. The valuation involves assumptions and estimates, including discount rate of 13% (31 December 2017: 16%) and the expected future cash flows from the unlisted equity securities. The directors believe that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position and the related changes in fair value, which is recorded in the consolidated statement of profit or loss and other comprehensive income, is reasonable, and that is the most appropriate value at the reporting date.

(e) Dividend of HK$84,000 related to investment in CPS was recognised in profit or loss during the twelve months ended 31 December 2018 (note 5(a)).

19. INTERESTS IN JOINT VENTURES

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Share of net assets	**41,444**	42,028

Particulars of the joint ventures, which are accounted for using the equity method in the consolidated financial statements, as at 31 December 2018 are as follows:

Name	Country of incorporation and operation	Particulars of paid-up capital	Percentage of interest held by the Group*	Principal activity
Suzhou Gaohua Venture Investment Management Ltd. ("SGVIM")	PRC	Renminbi ("RMB") 7,000,000	73*	Financial advisory consultancy
Suzhou QUAM-SND Venture Capital Enterprise ("SQVCE")	PRC	RMB71,000	73*	Financial advisory consultancy

SGVIM and SQVCE were established by the Group with another investor to expand the Group in RMB-dedicated private equity ventures. Both entities are unlisted corporate entity whose quoted market price is not available. These entities were classified as joint ventures of the Group because the Group does not have control over the significant financial and operating policies of the above entities despite its 73%* ownership interest, as unanimous consent with the minority equity holders is required for any major financial and operating decisions.

The following table illustrates the financial information of the Group's joint ventures, extracted from their unaudited management accounts and reconciliation to the carrying amount recognised in the consolidated statement of financial position:

	Twelve months ended 31 December 2018		Nine months from 1 April 2017 to 31 December 2017	
	SGVIM HK$'000	SQVCE HK$'000	SGVIM HK$'000	SQVCE HK$'000
Revenue, excluding interest income	**5**	**—**	17	—
Interest income	**—**	**10**	—	2
Other gains less losses	**—**	**2,195**	—	(2,627)
Other operating expenses	**(12)**	**(5)**	(33)	(7)
Profit/(Loss) from continuing operations and total comprehensive income for the twelve/nine months	**(7)**	**2,200**	(16)	(2,632)

19. INTERESTS IN JOINT VENTURES (CONTINUED)

	31 December 2018		31 December 2017	
	SGVIM	**SQVCE**	SGVIM	SQVCE
	HK$'000	**HK$'000**	HK$'000	HK$'000
Cash and cash equivalents	**235**	**51,689**	245	51,129
Other current assets	**—**	**5,579**	3	5,875
Current assets	**235**	**57,268**	248	57,004
Non-current assets	**792**	**—**	841	—
Current liabilities	**—**	**(1,414)**	—	(411)
Non-current liabilities	**—**	**—**	—	—
Net assets	**1,027**	**55,854**	1,089	56,593
Percentage of interests held by the Group*	**73%**	**73%**	73%	73%
Carrying amount recognised in the consolidated statement of financial position	**750**	**40,694**	795	41,233

No dividend was received from the joint ventures during the twelve months ended 31 December 2018 and the nine months from 1 April 2017 to 31 December 2017. The above joint ventures also did not have any financial liabilities other than accrued expenses, accounts payable and other payables as at 31 December 2018 and 31 December 2017 and did not incur any interest and income tax expense for the twelve months ended 31 December 2018 and the nine months from 1 April 2017 to 31 December 2017.

* rounded to the nearest one percent

20. OTHER ASSETS

Other assets mainly comprise rental deposits and deposits with the Stock Exchange and clearing houses.

21. ACCOUNTS RECEIVABLE

	Notes	As at 31 December 2018 HK$'000	As at 1 January 2018 HK$'000	As at 31 December 2017 HK$'000
Accounts receivable from dealings in securities, futures and options contracts				
— Brokers and clearing houses	(a)	568,126	771,640	771,640
— Cash clients	(a)	13,245	12,684	12,684
— Clients for subscription of securities	(a)	27	15,425	15,425
Less: Impairment allowance	(c)	(5,770)	(4,230)	(4,230)
		575,628	795,519	795,519
Accounts receivable from asset management, advisory and other services				
— Clients	(a)	30,466	21,410	21,410
Less: Impairment allowance	(c)	(5,806)	(4,169)	(3,938)
		24,660	17,241	17,472
Net accounts receivable	(b), (d)	600,288	812,760	812,991

Notes:

(a) Amounts due from brokers, clearing houses and cash clients for the dealings in securities are required to be settled on the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) and the amounts due from clients for subscription of securities are required to be settled upon the allotment of the securities subscribed. Amounts due from brokers and clearing houses for the dealings in futures and options contracts are repayable on demand except for the required margin deposits for the trading of futures and options contracts. There are no credit terms granted to clients for its asset management, advisory and other services. The amounts due from cash clients after the settlement dates bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread) and the amounts due from clients for subscription of securities as at 31 December 2018 bear interest at a fixed rate of 2.5% (31 December 2017: 2.0%) per annum.

(b) Included in accounts receivable is the following amounts with related parties:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Fellow subsidiaries	2,897	2,345
A company in which the ultimate controlling shareholder of the Company had indirect significant influence	3,300	—
	6,197	2,345

21. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(c) Movement in the impairment allowance of accounts receivable is as follows:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Balance at 31 December 2017 under HKFRS 9 (2009)	8,168	6,548
Impact on initial application of HKFRS 9 (2014) (note 3.1)	231	—
Balance at beginning of the year	8,399	6,548
Amount written off	—	(4)
Impairment losses recognised	3,177	1,624
At the end of the year	11,576	8,168

Upon the adoption of HKFRS 9 (2014), an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on accounts receivable (see note 3.1).

The following significant changes in the gross carrying amounts of accounts receivable contributed to the increase in the impairment allowance during 2018:

— origination of new accounts receivable net of those settled resulted in an increase in impairment allowance of HK$3,177,000.

(d) Ageing analysis of accounts receivable based on due date and net of provision is as follows:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Repayable on demand	1,524	619
0–30 days	590,751	803,761
31–90 days	3,982	4,858
Over 90 days	4,031	3,753
Net accounts receivable	600,288	812,991

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

21. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(e) Comparative information under HKFRS 9 (2009)

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2.15). As at 31 December 2017, the ageing analysis of accounts receivable that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December 2017 HK$'000
Neither past due nor impaired	619
0–30 days past due	802,951
31–60 days past due	4,236
61–90 days past due	622
91–180 days past due	2,888
181–360 days past due	97
Over 360 days past due	768
	812,181

Accounts receivable that were neither past due nor impaired related to a large number of diversified clients for whom there was no recent history of default.

Accounts receivable that were past due but not impaired related to a large number of diversified clients that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

22. MARGIN LOANS

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Loans to margin clients		
— Measured at amortised cost	**—**	2,145,556
— Less: provision for impairment	**—**	(15,474)
	—	2,130,082
— Measured at fair value through profit or loss	**2,810,720**	—

22. MARGIN LOANS (CONTINUED)

Note:

Margin clients are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a comprehensive analysis including but not limited to loan-to-market and loan-to-marginable value ratios ("lending ratios"). concentration risk, illiquid collaterals and overall availability of funds. The Group exercises continuous monitoring of outstanding margin loans to see if the lending ratios have exceeded the pre-determined levels as a credit risk have to make good the shortfall. As at 31 December 2018, the market value of securities pledged by margin clients to the Group as collateral was HK$10,722,507,000 (31 December 2017: HK$11,593,398,000) and the Group is permitted to sell these collaterals if the client defaults in payments. The loans to margin clients are repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

23. LOANS, BONDS AND NOTES MEASURED AT AMORTISED COST

	Notes	As at 31 December 2018 HK$'000	As at 1 January 2018 HK$'000	As at 31 December 2017 HK$'000
Loans				
— Secured	(a)	749,407	1,125,425	1,125,425
— Guaranteed	(a)	1,793,309	89,649	89,649
— Unsecured	(a)	83,066	15,043	15,043
Corporate bonds				
— Guaranteed	(b)	109,640	117,499	117,499
Corporate notes				
— Secured	(c)	49,590	—	—
— Unsecured	(d)	229,893	—	—
		3,014,905	1,347,616	1,347,616
Less: Impairment allowance	(f)	(96,159)	(9,462)	(43)
		2,918,746	1,338,154	1,347,573
Non-current		85,554	458,318	458,333
Current		2,833,192	879,836	889,240
		2,918,746	1,338,154	1,347,573

Notes:

(a) The loans bear interest at fixed rate ranging from 5%-9.5% (31 December 2017: 5%-12%) per annum. HK$919,152,000 (31 December 2017: HK$280,460,000) of the carrying amounts of the loans are from fellow subsidiaries, and HK$100,257,000 (31 December 2017: HK$99,362,000) of the carrying amounts of the loans are from a company in which the ultimate controlling shareholder of the Company has significant influence.

23. LOANS, BONDS AND NOTES MEASURED AT AMORTISED COST (CONTINUED)

Notes: (Continued)

(b) The guaranteed corporate bonds carry interest at 6.25% (31 December 2017: 6.25%) per annum and have been overdue since December 2018.

(c) The secured corporate notes carry interest at 6.25% and 8.25% (31 December 2017: Nil) per annum for each of the first and second anniversary of the issue date and due in June 2020.

(d) The unsecured corporate notes are issued by a fellow subsidiary and carry interest at 9.5% (31 December 2017: Nil) per annum and due in March and June 2019.

(e) As at 31 December 2018, the collaterals held by the Group for the secured loans and corporate notes mainly include shares of other listed companies, notes issued by the Company and assets of private companies.

(f) Movement in the provision for impairment of loans, bonds and notes measured at amortised cost

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Balance at 31 December 2017 under HKFRS 9 (2009)	**43**	43
Impact on initial application of HKFRS 9 (2014) (note 3.1)	**9,419**	—
Balance at beginning of the year	**9,462**	43
Amount written off	**(43)**	—
Impairment losses recognised	**86,740**	—
At the end of the year	**96,159**	43

Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on loans, bonds and notes measured at amortised cost (see note 3.1).

The following significant changes in the gross carrying amounts of loans, bonds and notes measured at amortised cost contributed to the increase in the impairment allowance during 2018:

— origination of new financial assets measured at amortised cost net of those settled and remeasured resulted in an increase in impairment allowance of HK$14,815,000;

— increase in days past due over 30 days resulted in an increase in impairment allowance of HK$71,925,000; and

— a write-off of loans with a gross carrying amount of HK$43,000 resulted in a decrease in impairment allowance of HK$43,000.

(g) During the year ended 31 December 2018, HK$5,348,000 was recognised as realised loss arising from disposal of bonds measured at amortised cost.

24. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Listed debt securities	(d)	**65,226**	726,168
Listed equity securities	(f)	**485,331**	769,720
Unlisted debt securities	(e)	**728,796**	—
Unlisted equity securities	(a)	**471,134**	—
Unlisted mutual fund	(b)	**7,457**	9,231
Private equity fund	(c)	**228,891**	88,007
Derivatives		**10,000**	—
		1,996,835	1,593,126
Non-current		**230,141**	88,007
Current		**1,766,694**	1,505,119
		1,996,835	1,593,126

Notes:

(a) The Group had entered into agreements for subscription of shares in two private entities in December 2017. Under the agreements, the Group subscribed 3,529,411 ordinary shares and 4,000,000 ordinary shares of the respective entities for a total consideration of approximately US$60,000,000 and had paid deposits of US$6,000,000 as at 31 December 2017. Upon the completion of these shares subscriptions in January 2018, the Group's interests in each of these entities are less than 1%. As at 31 December 2018, the fair value of investment in these two private entities was HK$469,884,000 (31 December 2017: Nil).

(b) Pursuant to the subscription agreement, the Group's interest in the above mutual fund is in the form of redeemable shares, which is puttable at the holder's option and entitles the Group to a proportionate stake in the fund's net assets. The mutual fund is managed by an investment manager who is empowered to manage its daily operations and apply various investment strategies to accomplish its investment objectives.

The Group served as an investment manager for this mutual fund and generated management and performance fee income from managing assets on behalf of investors. As the variable returns that the Group is exposed to are not significant, the Group did not consolidate the above mutual fund in which it holds an interest.

Total net asset value of the above mutual fund of which the Group is the investment manager as at 31 December 2018 is HK$116,852,000 (31 December 2017: HK$469,738,000). The Group's maximum exposure to loss from its interest in the mutual fund is limited to the carrying amount presented above. Change in fair value of the mutual fund is included in the consolidated statement of profit or loss and other comprehensive income in "Net realised and unrealised gain/(loss) on investments measured at fair value through profit or loss" within "Revenue" and the amount attributable to this mutual fund of which the Group is the investment manager represented a loss of HK$1,774,000 (nine months from 1 April 2017 to 31 December 2017: gain of HK$1,948,000).

(c) The Group had committed to invest US$20 million in Oceanwide Pioneer Limited Partnership (the "Fund"), representing 25%* (31 December 2017: 45%*) of the aggregated capital committed by all partners in the Fund as at 31 December 2018. Following the acceptance of the subscription agreement by the general partner, the Group was admitted as a limited partner.

The Fund is a close-ended private equity fund structured as a Cayman Islands exempted limited partnership with an investment objective to achieve long-term capital appreciation through equity and equity-related investments in selected good-quality enterprises and projects as pioneers in the relevant industries. Under the subscription agreement, the limited partners do not have the power to participate in the financial and operating policy decisions of the Fund, whilst the general partner has the rights and power to administer the affairs of the Fund and include all powers statutory and otherwise, which may be possessed under the laws of Cayman Islands. Though the Group had served as an investment manager and generated management fee income from managing assets on behalf of investors, as the Group as an investment manager can be terminated without cause by the general partner, and the Group did not have any control or significant influence over the general partner, the Group did not consolidate or account for the Fund as an associate despite its equity interest of 25%* (31 December 2017: 45%*).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

24. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Notes: (Continued)

(c) (Continued)

The Fund is controlled by the general partner, which is indirectly owned by the ultimate controlling shareholder of the Group.

Total net asset value of the above private equity fund of which the Group is the investment manager as at 31 December 2018 is HK$908,745,000 (31 December 2017: HK$193,422,000). The Group's maximum exposure to loss from its interest in the private equity fund is limited to the carrying amount presented above. Change in fair value of the private equity fund is included in the consolidated statement of profit or loss and other comprehensive income in "Net realised and unrealised gain/(loss) on investments measured at fair value through profit or loss" within "Revenue" and the amount attributable to the private equity fund of which the Group is the investment manager represented a gain of HK$74,488,000 (nine months from 1 April 2017 to 31 December 2017: loss of HK$2,001,000).

* rounded to the nearest one percent

(d) Listed debt securities of Nil (31 December 2017: HK$715,762,000) held were issued by a fellow subsidiary.

(e) Unlisted debt securities of HK$712,657,000 (31 December 2017: Nil) held were issued by a fellow subsidiary.

(f) The Group invested around HK$390,000,000 in the H shares of a Mainland broker firm listed in Hong Kong during the twelve months ended 31 December 2018. As at 31 December 2018, the fair value of this investment was HK$300,000,000. Details of the transaction were set out in the Company's announcement dated on 4 June 2018.

25. BANK BALANCES HELD ON BEHALF OF CLIENTS

From the Group's ordinary business of securities, futures and options dealing, it receives and holds money deposited by clients in the course of conducting its regulated activities. These client's monies are maintained in one or more segregated bank accounts and bank time deposits. The Group has recognised the corresponding accounts payable to respective clients. As at 31 December 2018, HK$310,767,000 (31 December 2017: Nil) of trust bank balances held on behalf of clients were placed with a bank in which the ultimate controlling shareholder of the Company is also a director of its parent company.

26. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Cash and cash equivalents

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Demand deposits and cash on hand	(a)	**357,300**	516,295
Time deposits	(b)	**—**	558,637
	(c)	**357,300**	1,074,932

Notes:

(a) Demand deposits earn interest at floating rates based on daily bank deposit rates.

(b) As at 31 December 2017, time deposits were placed with the banks and earn interest at fixed rates ranging from 0.2% to 1.43% per annum and had an initial maturity period of less than 3 months.

(c) Included in cash and cash equivalents of the Group is RMB of HK$14,201,000 (31 December 2017: HK$7,280,000) placed with banks in Mainland China. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks that are authorised to conduct foreign exchange business.

(d) As at 31 December 2018, HK$35,934,000 (31 December 2017: HK$400,032,000) of cash and cash equivalents were placed with a bank in which the ultimate controlling shareholder of the Company is also a director of its parent company.

26. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

Reconciliation of liabilities arising from financing activities

	Third party interests in consolidated investment fund HK$'000 Note 4(b)(ii)	Obligations under repurchase agreements HK$'000 Note 28	Bank and other borrowings HK$'000 Note 29	Notes payable HK$'000 Note 29	Total HK$'000
At 1 January 2018	53,608	305,708	255,940	—	615,256
Changes from financing cash flows					
— Interest paid for obligations under repurchase agreements	—	(3,334)	—	—	(3,334)
— Payments on redemption of shares by other holders of a consolidated investment fund	(13,695)	—	—	—	(13,695)
— Proceeds from shares issued to other holders of a consolidated investment fund	24,752	—	—	—	24,752
— Net repayment of obligations under repurchase agreements	—	(271,196)	—	—	(271,196)
— Proceeds from notes payable	—	—	—	50,000	50,000
— Net proceeds from bank and other borrowings	—	—	2,052,633	—	2,052,633
	11,057	(274,530)	2,052,633	50,000	1,839,160
Non cash changes					
— Changes in net asset value attributable to other holders of a consolidated investment fund (Note 6)	(13,738)	—	—	—	(13,738)
— Finance charges on obligations under repurchase agreements (Note 8)	—	3,456	—	—	3,456
— Exchange adjustment	(261)	—	—	—	(261)
	(13,999)	3,456	—	—	(10,543)
At 31 December 2018	50,666	34,634	2,308,573	50,000	2,443,873

26. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

Reconciliation of liabilities arising from financing activities (Continued)

	Third party interests in consolidated investment fund HK$'000 Note 4(b)(ii)	Obligations under repurchase agreements HK$'000 Note 28	Bank and other borrowings HK$'000 Note 29	Total HK$'000
At 1 April 2017	—	—	476,334	476,334
Changes from financing cash flows				
— Interest paid for obligations under repurchase agreements	—	(1,459)	—	(1,459)
— Payments on redemption of shares by other holders of a consolidated investment fund	(3,918)	—	—	(3,918)
— Proceeds from shares issued to other holders of a consolidated investment fund	4,613	—	—	4,613
— Net proceeds received for obligations under repurchase agreements	—	305,708	—	305,708
— Net repayments of bank and other borrowings	—	—	(220,394)	(220,394)
	695	304,249	(220,394)	84,550
Non cash changes				
— Changes in net asset value attributable to other holders of a consolidated investment fund (Note 6)	5,469	—	—	5,469
— Derecognised on deconsolidation of an investment fund	(48,351)	—	—	(48,351)
— Finance charges on obligations under repurchase agreements (Note 8)	—	1,459	—	1,459
— Recognised on consolidation of an investment fund	95,770	—	—	95,770
— Exchange adjustment	25	—	—	25
	52,913	1,459	—	54,372
At 31 December 2017	53,608	305,708	255,940	615,256

27. ACCOUNTS PAYABLE

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Accounts payable from dealings in securities, futures and options contracts			
— Brokers and clearing house	(a)	**30,905**	48,975
— Cash clients	(a)	**706,408**	663,527
— Margin clients	(b)	**1,107,775**	1,462,000
Accounts payable from asset management, financial information and other services		**1,173**	3,055
	(c, d)	**1,846,261**	2,177,557

Notes:

(a) Accounts payable to brokers, clearing house and cash clients are repayable on demand up to the settlement dates of their respective transactions (normally two or three business days after the respective trade dates).

(b) Accounts payable to margin clients are repayable on demand except for the required margin deposits received from clients for their trading of futures and options contracts.

(c) No ageing analysis in respect of accounts payable is disclosed as, in the opinion of the Board, the ageing analysis does not give additional value in view of the business nature.

(d) Included in accounts payable were the following amounts with related parties:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Company in which the ultimate controlling shareholder of the Company is also a director of its parent company	**—**	137
Director of the Company	**—**	5,167
Close family members of directors of the Company	**700**	6,929
	700	12,233

28. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Analysed by collateral type		
— Corporate bonds	**—**	71,159
— Debt securities	**34,634**	—
— Equity securities	**—**	234,549
	34,634	305,708

The Group sold securities under repurchase agreements at purchase prices of approximately US$5,400,000 (31 December 2017: US$39,102,000) and the Group agreed to repurchase the securities on the scheduled repurchase dates for considerations equal to the respective purchase price and an amount representing the product of the relevant purchase price and a spread. As the Group retained substantially the risks and rewards of ownership of the transferred securities, these transactions were accounted for as financing arrangements to the Group with the transferred securities as collaterals. The Group continued to recognise the transferred securities and recognised the consideration received on transfer as financial liabilities. The following present the transferred securities at the reporting date:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Bonds measured at amortised cost		
— Corporate bonds	**—**	101,638
Investments measured at fair value through profit or loss		
— Listed debt securities	**41,731**	—
— Listed equity securities	**—**	384,309
	41,731	485,947

In addition, the repurchase agreements contain clauses which give the buyers a right to require the Group to repurchase the transferred securities before the scheduled repurchase dates. Accordingly, the amounts are classified under current liabilities.

29. BANK AND OTHER BORROWINGS AND NOTES PAYABLE

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Current			
Bank loans			
— Secured	(a), (b)	**2,163,573**	255,940
— Unsecured	(c)	**145,000**	—
		2,308,573	255,940
Non-current			
Notes payable			
— Unsecured	(d)	**50,000**	—
		2,358,573	255,940

Notes:

(a) Bank loans of HK$1,164,341,000 (31 December 2017: HK$255,940,000) were guaranteed by the Company and secured by securities collateral pledged to the Group by margin clients with total market value of HK$3,037,439,000 (31 December 2017: HK$856,149,000), and bear interest at floating rates ranging from 3.50% to 4.07% (31 December 2017: 2.47% to 3.85%) per annum. Specific written authorisations have been obtained by the Group from the margin clients for such use over the clients' securities.

(b) Bank loans of HK$999,232,000 (31 December 2017: Nil) were borrowed from a company in which the ultimate controlling shareholder of the Company is also a director of its parent company, and were secured by corporate bonds held by the Group as at 31 December 2018, certain Company's listed shares held by the immediate controlling shareholder of the Company and certain fellow subsidiary's listed shares held by its immediate controlling shareholder. These bank loans were also guaranteed by the ultimate controlling shareholder and a wholly-owned subsidiary of the Company and bear interest at floating rates of 5.54% per annum.

(c) As at 31 December 2018, bank loans of HK$80,000,000 were unsecured and guaranteed by the Company and bank loans of HK$65,000,000 were unsecured and unguaranteed. These bank loans bear interest at floating rates ranging from 2.22% to 4.82%.

(d) The notes was issued in June 2018, and will be matured on the date following 2 years after issuance. The notes bear interest at 6%.

30. CONTRACT LIABILITIES

	As at 31 December 2018 HK$'000	As at 1 January 2018 HK$'000	As at 31 December 2017 HK$'000
Contract liabilities	**8,886**	**7,372**	—

30. CONTRACT LIABILITIES (CONTINUED)

Movements in contract liabilities

	2018 HK$'000
Balance at 1 January	7,372
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 year	(7,372)
Increase in contract liabilities as a result of advance consideration received from corporate finance contracts	4,099
Increase in contract liabilities as a result of advance consideration received from other contracts	4,787
Balance at 31 December	8,886

31. DEFERRED TAX

(a) Deferred tax assets and (liabilities) recognised

	Accelerated tax depreciation allowances HK$'000	Impairment of receivables HK$'000	Tax losses HK$'000	Changes in fair value of investments measured at fair value through profit or loss HK$'000	Phantom Share Scheme HK$'000	Others HK$'000	Total HK$'000
At 1 April 2017	(988)	929	2,349	—	283	—	2,573
(Debited)/Credited to profit or loss (note 11)	(384)	286	3,318	—	772	47	4,039
At 31 December 2017	(1,372)	1,215	5,667	—	1,055	47	6,612
Impact on initial application of HKFRS 9	—	869	—	—	—	—	869
Adjusted balance at 1 January 2018	(1,372)	2,084	5,667	—	1,055	47	7,481
(Debited)/Credited to profit or loss (note 11)	(313)	3,320	2,463	14,066	(1,055)	(47)	18,434
At 31 December 2018	(1,685)	5,404	8,130	14,066	—	—	25,915

(b) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$54,093,000 (31 December 2017: HK$78,339,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

31. DEFERRED TAX (CONTINUED)

(c) Deferred tax liabilities not recognised

As at 31 December 2018, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$793,000 (31 December 2017: HK$997,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that these profits will not be distributed in the foreseeable future.

32. SHARE CAPITAL

	Number of ordinary shares of HK one third of one cent each	**HK$'000**
Authorised		
At 1 April 2017, 31 December 2017, 1 January 2018 and 31 December 2018	30,000,000,000	100,000
Issued and fully paid		
At 1 April 2017	1,555,294,705	5,184
Exercise of warrants (note (a))	217,600	1
Issue of shares under rights issue (note (b))	4,666,536,915	15,555
At 31 December 2017 and 1 January 2018	6,222,049,220	20,740
Cancellation of share repurchased (note (c))	(25,000,000)	(83)
At 31 December 2018	6,197,049,220	20,657

Notes:

(a) Holders of the warrants had exercised their rights to convert 217,600 warrants at the exercise price of HK$0.5 each into 217,600 ordinary shares of HK one third of one cent each of the Company during the nine months from 1 April 2017 to 31 December 2017.

(b) In August 2017, 4,666,536,915 ordinary shares of HK one third of one cent each were issued by way of rights issue at a subscription price of HK$1.10 per share.

(c) During twelve months ended 31 December 2018, the Company repurchased a total number of 25,000,000 of its own shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK$18,634,000, all of which were then cancelled. The consideration paid was charged against share premium and retained profits, and the nominal value of the shares repurchased of HK$83,000, was transferred to capital redemption reserve.

All issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

(Expressed in Hong Kong dollars unless otherwise indicated)

33. SHARE AWARD SCHEME

A restricted share award scheme ("Share Award Scheme") was adopted by the Company on 19 August 2010. The purpose of the Share Award Scheme is to recognise and motivate the contribution of certain employees and/or consultants and to provide incentives and help the Group in retaining its existing employees or consultants and recruiting additional employees or consultants and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

Pursuant to the rules of Share Award Scheme, the Board may, from time to time, at its absolute discretion select the employees and consultants as they deem appropriate for participation in the Share Award Scheme and determines the number of awarded shares to be granted. Existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected participants. The awarded shares of the Company will be vested only after satisfactory completion of time-based targets or time-and-performance-based targets.

The Share Award Scheme is subject to the administration of the Board in accordance with the rules of Share Award Scheme. The aggregate number of awarded shares granted by the Board throughout the duration of the Share Award Scheme should not in excess of 10% of the issued share capital of the Company as at the date of its adoption. The maximum number of awarded shares which may be granted to a selected participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the date of its adoption. Any grant of the awarded shares to any directors or senior management of the Company must first be approved by the remuneration committee of the Company.

Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years from the date of its adoption. However, the Board has the right to renew the Share Award Scheme up to three times and each time for another 5-year terms.

Movement in the number of shares held for Share Award Scheme and the awarded shares of the Company are as follows:

	Number of shares held for Share Award Scheme	**Number of awarded shares**
At 1 January 2018	**2,162,002**	**—**
Purchase	**7,120,000**	**—**
At 31 December 2018	**9,282,002**	**—**

	Number of shares held for Share Award Scheme	Number of awarded shares
At 1 April 2017	2,162,002	—
Purchase	—	—
At 31 December 2017	2,162,002	—

33. SHARE AWARD SCHEME (CONTINUED)

Pursuant to the Share Award Scheme, if there occurs an event of change in control of the Company, all the awarded shares shall immediately vest on the date when such change of control event becomes or is declared unconditional and such date shall be deemed the vesting date. Upon the change of the controlling shareholders as disclosed in the Company's announcement dated 26 January 2017, any unvested awarded shares at that date were vested.

As at 31 December 2018, 2,162,002 (2017: 2,162,002) forfeited shares and 7,120,000 (2017: Nil) newly purchased shares were held by the trustee under the Share Award Scheme and would be re-granted to eligible employees in future.

In the twelve months ended 31 December 2018 and the nine months from 1 April 2017 to 31 December 2017, no share awards expense was recognised as no awarded shares were vested during the twelve/nine months.

34. NATURE AND PURPOSE OF RESERVES

(a) Share premium and contributed surplus

Under the Bermuda Companies Act 1981, when the Company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to the share premium account.

The Group's contributed surplus as at 31 December 2018 and 31 December 2017 comprises (a) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange thereof of HK$2,225,000 and (b) amounts of HK$350,355,000 transferred from share capital and share premium account less amounts distributed as dividends in prior years.

(b) Capital redemption reserve

The capital redemption reserve represents the nominal amount of the shares repurchased.

(c) Exchange reserve

The exchange reserves mainly comprise the foreign exchange differences arising from the translation of the financial statements of foreign operations, joint ventures and associates and the share of reserves of joint ventures and associates.

(d) Investment revaluation reserve (non-recycling)

The investment revaluation reserve (non-recycling) comprises the cumulative net change in the fair value of equity securities designated at FVOCI under HKFRS 9 held at the end of the reporting period (see note 2.15).

34. NATURE AND PURPOSE OF RESERVES (CONTINUED)

(e) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold improvements and equipment which becomes an investment property because its use has changed as evidenced by end of owner-occupation in note 2.11.

The property revaluation reserve of the Company is distributable to the extent of HK$5,255,000 (31 December 2017: HK$5,255,000)

(f) Shareholder's contribution

The shareholder's contribution reserve represents contribution paid by shareholders.

(g) Shares held for Share Award Scheme

The Shares held for Share Award Scheme have been set up and are dealt with in accordance with the accounting policies adopted for issue of share award respectively in note 2.20.

(h) Warrants reserve

The warrants reserve has been set up and is dealt with in accordance with the accounting policies adopted for issue of warrants in note 2.22.

35 LOANS TO DIRECTORS

Name/Relationship with directors	Notes	At 31 December 2018 Debit/ (Credit) HK$'000	Maximum outstanding during the year HK$'000	At 1 January 2018 Debit/ (Credit) HK$'000	Margin finance facilities approved HK$'000	Securities held
Mr. Kenneth LAM Kin Hing	(a), (b)	26,013	26,314	(5,167)	60,000	Marketable securities
Mr. Bernard POULIOT	(a)	14,493	22,781	8,761	33,001	Marketable securities

Notes:

(a) The loans granted under margin finance facilities to two directors of the Company are secured by marketable securities collateral, bear interest at Hong Kong Dollar Prime Rate plus a spread and repayable on demand.

(b) The amounts due to a director of the Company as at 1 January 2018 was unsecured, interest-free and repayable on demand.

(c) The margin loans are measured at fair value through profit or loss and thus, no impairment allowance has been made in respect of these loans.

36. COMMITMENTS

Operating lease commitments

At the reporting date, the total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, are payable as follows:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Within one year	**33,710**	28,549
In the second to fifth years, inclusive	**86,971**	96,968
After fifth year	**—**	9,456
	120,681	134,973

The Group leases a number of properties under operating leases. The leases run for an initial period of one to five years (31 December 2017: one to six years), with an option to renew the leases and renegotiate the terms at the expiry dates or at dates as mutually agreed between the Group and respective lessors. None of the leases include contingent rentals.

Capital commitments

At the reporting date, the Group had the following capital commitments which were contracted, but not provided for:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Capital contributions payable to a private equity fund	**18**	66,292
Subscription of shares (Note)	**—**	422,188
Leasehold improvements and equipment	**1,406**	1,288
	1,424	489,768

Note: The Group had entered into agreements for subscription of shares in two private entities for a total consideration of approximately US$60,000,000 in December 2017. As at 31 December 2017, the Group had paid deposits of US$6,000,000. Upon the completion of these shares subscriptions in January 2018, the investments had been classified under "Investments measured at fair value through profit or loss.

37. RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties and connected persons during the current and previous years:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Part I. Continuing connected transactions with China Oceanwide Group, Oceanwide Holdings Group and Tohigh Group		
(A) Service transactions		
Income from service transactions provided to:		
China Oceanwide Group		
— Arrangement fee income (notes (c), (g))	100	—
— Commission fee income (notes (c), (g))	100	—
— Financing advisory fee income (notes (c), (g))	100	—
— Interest income (notes (c), (d), (g))	21,872	460
Oceanwide Holdings Group		
— Commission fee income (notes (c), (g))	6,671	—
— Interest income (notes (c), (e), (g))	59,918	6,377
— Placing fee income (notes (c), (g))	—	2,340
Tohigh Group		
— Interest income (notes (c), (f), (g))	38,116	—
— Arrangement fee income (notes (c), (g))	100	—
	126,977	9,177
Expenses for service transactions provided by:		
China Oceanwide Group		
— Referral fee expense (notes (c), (g))	—	469
Oceanwide Holdings Group		
— Research fee expense (notes (c), (g))	1,810	—
	1,810	469
	128,787	9,646
(B) Investment and lending transactions		
Maximum daily amount/outstanding balance from investment and lending transactions provided to:		
China Oceanwide Group		
— Financial assistance (note (c))	294,099	280,460
Oceanwide Holdings Group		
— Financial assistance (note (c))	994,566	936,168
— Underwriting (note (c))	196,210	—
Tohigh Group		
— Financial assistance (note (c))	591,624	—
	2,076,499	1,216,628

37. RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Part II. Continuing connected transactions from brokerage and interest income business		
(A) Connected dealings services to connected persons:		
Directors of the Company		
— Commission income from securities and futures dealings (notes (a), (g))	135	353
— Interest income from margin financing (notes (a), (g))	1,480	123
Close family members of directors of the Company		
— Commission income from securities and futures dealings (notes (a), (g))	21	39
— Interest income from margin financing (notes (a), (g))	1	1
Directors of subsidiaries and their close family members and company owned by a director of subsidiary		
— Commission income from securities and futures dealings (note (a))	166	256
— Interest income from margin financing (note (a))	255	194
	2,058	966
(B) Connected margin loans to connected persons:		
Connected persons		
— Maximum daily outstanding balance of connected margin loans (note (a))	51,565	23,600
Part III. Continuing connected transactions from asset management business		
Related company — Company indirectly owned by Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company		
— Assets management fee income (notes (b), (g))	9,518	1,920
Fellow subsidiary		
— Advisory fee expenses (notes (b), (g))	4,682	960
Part IV. Other related party transactions		
Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company		
— Commission income from securities and futures dealings	—	63
— Interest income (note (h))	276	377
Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, had indirect significant influence		
— Interest income (note (j))	5,692	2,088
— Advisory fee income	3,300	—
Associate		
— Assets management and performance fee income	—	348
Fellow subsidiaries		
— Advisory fee income	—	100
— Commission income	—	117
Related company owned by a director of a subsidiary of the Company		
— Commission income	216	—
	9,484	3,093

37. RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Part IV. Other related party transactions (Continued)		
Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company		
— Referral fee expense	—	1,450
— Interest expense (note (i))	26,411	—
— Research fee expense	1,560	—
— Legal and professional fee expense	250	—
Fellow subsidiaries		
— Rental expenses	326	—
Directors of the Company		
— Interest expenses (note (k))	—	39
— Motor vehicle expenses	252	189
	28,799	1,678
Related company — Company in which Mr. LU Zhiqiang, the ultimate controlling shareholder of the Company, is also a director of its parent company		
— Accruals and other payables	26,412	—
— Prepayments, deposits and other receivables	4	—
Fellow subsidiaries		
— Prepayments, deposits and other receivables	12,085	5,648

37. RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

Notes:

(a) The income from connected transactions with directors of the Company and the subsidiaries and their close family members was based on the pricing stated in the letters stipulating the applicable service fees and interest rate for dealing services. Details of the annual caps of the connected dealings services and connected margin loans were set out in the Company's circulars dated 26 April 2016. These transactions have been approved in the special general meeting held on 19 May 2016.

(b) The connected transactions from asset management business (including asset management fee income and advisory fee expenses) were based on the relevant management and advisory agreements. Details of the annual caps of the management fee income and advisory fee expenses were set out in the Company's announcement dated 20 September 2017.

(c) The income and expense arising from connected transactions with China Oceanwide Group*, Oceanwide Holdings Group* and Tohigh Group* were charged based on the respective framework services agreement. Details of the annual caps of these income and expense and the maximum daily outstanding balances were set out in the Company's circulars dated 31 October 2017. These transactions have been approved in the special general meeting held on 20 November 2017.

* China Oceanwide Group includes China Oceanwide Holdings Limited and its subsidiaries. Oceanwide Holdings Group includes Oceanwide Holdings Co., Ltd and its subsidiaries, which excludes China Oceanwide Group and the Group. Tohigh Group includes Tohigh Holdings Co., Ltd and its subsidiaries, which excludes China Oceanwide Group, Oceanwide Holdings Group and the Group. The definitions of China Oceanwide Group, Oceanwide Holdings Group and Tohigh Group were set out in the Company's circulars dated 31 October 2017.

(d) Interest income of HK$21,872,000 (nine months from 1 April 2017 to 31 December 2017: HK$460,000) received/receivable from China Oceanwide Group was in connection with loans advanced to China Oceanwide Group during the year. The principal amount of loan receivable from China Oceanwide Group as at 31 December 2018 amounted to HK$288,000,000 (31 December 2017: HK$280,000,000) and was included as "Loans" under "Loans, bonds and notes measured at amortised costs" (note 23). The loan receivable is unsecured, interest-bearing at 6% to 9.5% per annum and repayable in 2019.

(e) Interest income of HK$59,918,000 (nine months from 1 April 2017 to 31 December 2017: HK$6,377,000) received/receivable from Oceanwide Holdings Group was in connection with the senior notes and corporate notes issued to and held by the Group and loans advanced to Oceanwide Holdings Group during the year. The principal amount of senior notes as at 31 December 2018 amounted to US$91,000,000 (31 December 2017: US$91,500,000) and was included as "Unlisted debt securities" under "Investments measured at fair value through profit or loss" (31 December 2017: "Listed debt securities" under "Investments measured at fair value through profit or loss") (note 24). The senior notes are unsecured, interest-bearing at 9.25% per annum and repayable in April 2019. The principal amount of corporate notes as at 31 December 2018 amounted to HKD223,977,000 (31 December 2017: Nil) and was included as "Corporate notes" under "Loans, bonds and notes measured at amortised costs" (note 23). The loan receivable is unsecured, interest-bearing at 9.5% per annum and repayable in 2019. The principal amount of loan receivable as at 31 December 2018 amounted to HKD39,693,000 (31 December 2017: Nil) and was included as "Loans" under "Loans, bonds and notes measured at amortised costs" (note 23). The loan receivable is unsecured, interest-bearing at 8.5% to 9.5% per annum and repayable in March 2019.

(f) Interest income of HK$38,116,000 (nine months from 1 April 2017 to 31 December 2017: Nil) received/receivable from Tohigh Group was in connection with loans advanced to Tohigh Group during the year. The principal amount of loan receivable from Tohigh Group as at 31 December 2018 amounted to HK$585,000,000 (31 December 2017: Nil) and was included as "Loans" under "Loans, bonds and notes measured at amortised costs" (note 23). The loan receivable is unsecured, interest-bearing at 6.5% to 8.75% per annum and repayable in 2019.

(g) The transactions are also related party transactions under HKAS 24 (Revised) — Related Party Disclosures.

37. RELATED PARTY TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS (CONTINUED)

Notes: (Continued)

(h) Interest income of HK$276,000 (nine months from 1 April 2017 to 31 December 2017: HK$377,000) received/receivable from a related company was in connection with demand and time deposits maintained with it during the year. The carrying amount of deposits with this entity as at 31 December 2018 amounted to HK$35,934,000 (31 December 2017: HK$400,032,000) and was included under "Cash and cash equivalents" (note 26). The deposits are unsecured, interest-bearing at relevant deposit rates and are repayable on demand or in January 2019.

(i) Interest expense of HK$26,411,000 (nine months from 1 April 2017 to 31 December 2017: Nil) paid/payable to a related company was in connection with the loans granted by it during the year. The carrying amount of loan with this entity as at 31 December 2018 amounted to HK$999,232,000 (31 December 2017: Nil) and was included under "Bank and other borrowings" (note 29).

(j) Interest income of HK$5,692,000 (nine months from 1 April 2017 to 31 December 2017: HK$2,088,000) received/receivable from a related company was in connection with the loan advanced to this entity during the period. The carrying amount of loan receivable from this entity as at 31 December 2018 amounted to HK$100,257,000 (31 December 2017: HK$99,362,000) and was included under "loans, bonds and notes measured at amortised cost" (note 23). The loan is secured, interest-bearing at 6% per annum and repayable in February 2019.

(k) Interest expense of HK$39,000 paid to directors of the Company during the nine months from 1 April 2017 to 31 December 2017, was in connection with notes held by them during the year. The principal amount of notes held by directors of the Company were fully repaid on 5 April 2017.

Except as disclosed above, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, were entered into or subsisted at any time during financial year.

Compensation of key management personnel

Included in staff costs (note 9) are key management personnel compensation and comprises the following categories:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Short-term employee benefits	**43,782**	9,602
Post-employment benefits	**214**	28
	43,996	9,630

Note: Key management personnel consists of directors of the Company and senior management in 2018. For comparative period, key management personnel consists of directors of the Company only.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debt and equity investments, statutory and other deposits, loan receivables, accounts and other receivables, accounts and other payables, obligations under repurchase agreements and bank and other borrowings and notes payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these risk exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(a) Foreign currency risk

Foreign currency risk is the risk of losses due to adverse changes in foreign exchange rates mainly relating to receivables from or payables to clients and foreign brokers and foreign currency denominated investments as well as deposits with banks and borrowings from other financial institutions. To mitigate the foreign currency risk, treasury and settlement divisions work closely to manage and monitor the foreign exchange exposure arising from broking in foreign shares and commodities. The policies to manage foreign currency risk have been followed by the Group since prior periods and are considered to be effective.

The following table summarises the Group's major financial assets and liabilities denominated in currencies other than the functional currency of the entities to which they relate, as at 31 December 2018 and 31 December 2017.

	Expressed in HK$'000								
	Thai Baht ("THB")	United States dollars ("US$")	Japanese Yen ("JPY")	Singapore dollars ("SGD")	Renminbi ("RMB")	British Pound ("GBP")	Euros ("EUR")	Others	Total
At 31 December 2018									
Investments measured at fair value through other comprehensive income	—	1,681	4,640	—	—	—	—	—	6,321
Other assets	—	—	—	—	549	—	—	—	549
Loans, bonds and notes measured at amortised cost	—	132,092	—	—	—	—	—	—	132,092
Investments measured at fair value through profit or loss	—	1,669,183	—	—	—	—	—	—	1,669,183
Accounts receivable	2	197,925	41,450	11	19,055	8,740	11,391	1,156	279,730
Prepayments, deposits and other receivables	—	16,070	—	—	326	—	—	—	16,396
Bank balances held on behalf of clients	2,598	199,101	2	65	138,803	20,401	2,773	5,075	368,818
Cash and cash equivalents	182	149,563	38	169	14,201	89	48	164	164,454
Accounts payable	(2,598)	(366,038)	(41,704)	(65)	(180,232)	(29,209)	(14,103)	(5,712)	(639,661)
Obligations under repurchase agreements	—	(34,634)	—	—	—	—	—	—	(34,634)
Accruals and other payables	—	(1,390)	—	(9)	(1,957)	—	(1)	—	(3,357)
Overall net exposure	184	1,963,553	4,426	171	(9,255)	21	108	683	1,959,891

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

(a) Foreign currency risk (Continued)

	Expressed in HK$'000								
	Thai Baht ("THB")	United States dollars ("US$")	Japanese Yen ("JPY")	Singapore dollars ("SGD")	Renminbi ("RMB")	British Pound ("GBP")	Euros ("EUR")	Others	Total
At 31 December 2017									
Investments measured at fair value through other comprehensive income	—	2,242	9,373	—	—	—	—	—	11,615
Other assets	—	—	—	—	852	—	—	—	852
Deposits for subscription of shares	—	46,910	—	—	—	—	—	—	46,910
Loans, bonds and notes measured at amortised cost	—	117,499	—	—	—	—	—	—	117,499
Investments measured at fair value through profit or loss	—	1,107,858	—	—	—	—	—	1	1,107,859
Accounts receivable	—	322,142	11,778	40	4,437	14,891	60,435	2,775	416,498
Prepayments, deposits and other receivables	—	8,923	—	—	11	—	—	—	8,934
Bank balances held on behalf of clients	12,635	314,827	21	56	127,811	3,098	40	2,297	460,785
Cash and cash equivalents	68	293,594	12	205	2,846	31	8	1,303	298,067
Accounts payable	(12,635)	(550,825)	(11,768)	(56)	(128,587)	(17,969)	(60,391)	(5,012)	(787,243)
Obligations under repurchase agreements	—	(305,708)	—	—	—	—	—	—	(305,708)
Bank and other borrowings	—	—	—	—	—	—	—	(999)	(999)
Accruals and other payables	—	(238)	—	(6)	(168)	—	(1)	—	(413)
Overall net exposure	68	1,357,224	9,416	239	7,202	51	91	365	1,374,656

The following table indicates the approximate changes in the Group's profit or loss for the twelve months ended 31 December 2018 and equity in response to reasonably possible changes in foreign exchange rates to which the Group has significant exposure as at the reporting date. A positive number below indicates an increase in profit or a decrease in loss for the twelve months ended 31 December 2018 (and an increase in equity). For a decrease in profit or an increase in loss for the twelve months ended 31 December 2018 (and decrease in equity), the balances below would be negative. As US$ is pegged to HK$, the Group does not expect any significant changes in US$/HK$ exchange rates. No sensitivity analysis in respect of the Group's financial assets and liabilities denominated in US$ is disclosed as in the opinion of the directors, such sensitivity analysis does not give additional value in view of insignificant change in the US$/HK$ exchange rates as at the reporting date.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

(a) Foreign currency risk (Continued)

	Increase in foreign exchange rates		Effect on profit or loss		Effect on equity	
	As at 31 December 2018 %	As at 31 December 2017 %	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000
THB	**5**	20	**9**	431	**9**	431
JPY	**5**	5	**(11)**	2	**221**	471
SGD	**5**	5	**9**	12	**9**	12
RMB	**5**	5	**(463)**	1,384	**(463)**	1,384
GBP	**5**	5	**1**	28	**1**	28
EUR	**5**	5	**5**	4	**5**	4

Decrease in the above foreign exchange rates at each reporting date would have the equal but opposite effect to the amounts shown above, on the basis that all other variables were held constant.

The sensitivity analysis has been determined by assuming that the changes in foreign exchange rates had occurred at the reporting date and that all other variables were held constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of the reporting period does not reflect the exposure during the twelve months ended 31 December 2018.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

(b) Price risk

The Group is exposed to equity price risk through its investments in listed debt and equity securities which are classified as financial assets measured at fair value through profit or loss. The directors manage this risk exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise if necessary. The policies to manage price risk have been followed by the Group since prior periods and are considered to be effective. The Group is not exposed to commodity price risk.

As at 31 December 2018, if debt and equity prices had increased/(decreased) by 10% (31 December 2017: 10%) and all other variables were held constant, profit for the year would increase/(decrease) by approximately HK$55,030,000 (nine months from 1 April 2017 to 31 December 2017: profit for the nine months would increase/(decrease) by approximately HK$149,589,000) and the equity other than retained profits would remain unchanged (31 December 2017: unchanged).

The sensitivity analysis has been determined by assuming that the price change had occurred at the reporting date and has been applied to the Group's investments at that date. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(c) Interest rate risk

The Group is exposed to interest rate risk primarily through the impact of interest rate changes on cash and cash equivalents, bank balances held on behalf of clients, margin loans and cash client receivables, obligation under repurchase agreements and bank and other borrowings carrying interests at variable rates.

The following table illustrates the sensitivity of the profit/(loss) for the year to a change in interest rates of +1% and −1% (31 December 2017: +1% and −1%). The calculations are based on the Group's bank balances, margin loans and cash client receivables, obligations under repurchase agreements and bank and other borrowings held at each reporting date. All other variables are held constant. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
If interest rates were 1% (31 December 2017: 1%) higher		
Increase in profit for the year	**15,540**	26,861
If interest rates were 1% (31 December 2017: 1%) lower		
Decrease in profit for the year	**(15,540)**	(26,861)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group's credit risk is primarily attributable to accounts receivable and loans, bonds and notes measured at amortised cost arising when the debtors, including brokers and clients from money lending services, fail to perform their obligations as at the reporting date. The Group's exposure to credit risk arising from cash and cash equivalents and bank balances held on behalf of clients is limited because the counterparties are banks and financial institution with a credit rating, for which the Group considers to have low credit risk.

In order to minimise the credit risk, loan ratios for corporate loans are based on a combination of factors, including indicative acceptable lending rates from the bankers, the quality of the assets and the company represented by the securities, the liquidity of the securities, and the concentration level of securities held. The credit committee meets regularly and prescribes from time to time the lending limits on individual stocks and/ or the credit limits for each individual client, taking into account the loan and stock concentration exposures. The credit control department monitors and making margin calls to clients when limits have been exceeded and when concentration risks posed a strategic risk. It also runs stress tests on loan portfolios to determine the impact on the Group's financial position and exposure. In this regard, the directors considers that the Group's credit risk is effectively controlled and significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparties and clients rather than the geographical area or industry in which these parties operate and therefore significant concentrations of credit risk arise primarily when the Group has significant exposure to individual counterparties or clients. The Group's credit risk exposure on accounts receivable is spread over a number of counterparties and clients. The Group's credit risk for loan receivables is concentrated as the amounts are due from 12 clients (31 December 2017: 7 clients).

The Group does not hold any collateral or other credit enhancement to cover its credit risk associated with its financial assets except for margin loans and certain loans. Further quantitative data in respect of the collaterals and the Group's exposure to credit risk arising from accounts receivable and loans is disclosed in notes 21 and 23 to the financial statements, respectively.

The credit policies have been followed by the Group since prior periods and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

The following table shows reconciliations from the opening to the closing balance of the impairment allowance by class of financial instrument. Comparative amounts for 2017 represent the impairment allowance for credit losses and reflect the measurement basis under HKFRS 9 (2009).

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Accounts receivable from dealing in securities, futures and option contracts					
Balance at 1 January	283	16	3,931	4,230	4,230
Transfer to Stage 3	(7)	(16)	23	—	—
New financial assets originated or purchased	1,550	164	—	1,714	—
Financial assets that have been derecognised	—	—	(174)	(174)	—
Balance at 31 December	1,826	164	3,780	5,770	4,230
Loans, bonds and notes measured at amortised cost					
Balance at 1 January	9,419	—	43	9,462	43
Transfer to Stage 3	(3,057)	—	3,057	—	—
Net remeasurement of loss allowance	114	—	71,925	72,039	—
New financial assets originated or purchased	19,378	—	—	19,378	—
Financial assets that have been derecognised	(4,677)	—	—	(4,677)	—
Write-off	—	—	(43)	(43)	—
Balance at 31 December	21,177	—	74,982	96,159	43

Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from the timing differences between settlement with clearing houses or brokers and clients. The Group's operating units are also subject to various liquidity requirements as prescribed by the authorities and financial market regulators. The Group has put in place monitoring systems to ensure it maintains adequate liquid capital to fund its business commitments and to comply with the relevant rules including the Securities and Futures (Financial Resources) Rules. As a further safeguard, the Group has maintained banking facilities to meet contingencies in its operations. The Company will also consider raising fund to meet the business operations growth which require intensive capital buffer.

The liquidity policies have been followed by the Group since prior periods and are considered to be effective in managing liquidity risks.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2018 and 2017. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on which the Group can be required to pay. "Obligations under repurchase agreements" with a repayment on demand clause are included in the earliest time band regardless of the probability of the counterparties choose to exercise their rights within one year after the reporting date. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or within 1 year HK$'000	More than 1 year but less than 5 years HK$'000
At 31 December 2018				
Accounts payable	**1,846,261**	**1,846,261**	**1,846,261**	**—**
Obligations under repurchase agreements	**34,634**	**34,779**	**34,779**	**—**
Bank and other borrowings	**2,308,573**	**2,338,484**	**2,338,484**	**—**
Notes payable	**50,000**	**54,348**	**—**	**54,348**
Accruals and other payables	**110,122**	**110,122**	**110,122**	**—**
Tax payable	**22,523**	**22,523**	**22,523**	**—**
	4,372,113	**4,406,517**	**4,352,169**	**54,348**
At 31 December 2017				
Accounts payable	2,177,557	2,177,557	2,177,557	—
Obligations under repurchase agreements	305,708	305,708	305,708	—
Bank and other borrowings	255,940	255,940	255,940	—
Accruals and other payables (Note)	113,693	113,693	113,693	—
Tax payable	6,696	6,696	6,696	—
	2,859,594	2,859,594	2,859,594	—

Note: As at 31 December 2017, the balance of HK$4,787,000 which did not meet the definition of financial liabilities were excluded in this disclosure.

39. FAIR VALUE MEASUREMENT

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets

39. FAIR VALUE MEASUREMENT (CONTINUED)

Fair value hierarchy (Continued)

- 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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses its own internal expertise or engages third party qualified valuers to perform the valuation. Valuation is prepared at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

(a) Fair value of financial instruments measured at fair value

The following table presents financial instruments measured at fair value on a recurring basis in the consolidated statement of financial position according to the fair value hierarchy:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2018				
Investments measured at fair value through profit or loss				
— Listed debt securities (note (i))	—	65,226	—	65,226
— Unlisted debt securities (note (ii), (vi))	—	712,658	16,138	728,796
— Listed equity securities (note (i))	485,067	264	—	485,331
— Unlisted equity securities (note (iii))	—	—	471,134	471,134
— Unlisted mutual fund (note (v))	—	7,457	—	7,457
— Private equity fund (note (iv))	—	—	228,891	228,891
— Derivatives (note (viii))	—	—	10,000	10,000
Margin loans (note (vii))	—	2,810,720	—	2,810,720
Investments measured at fair value through other comprehensive income				
— Unlisted equity securities (note (ix))	—	—	6,321	6,321
	485,067	3,596,325	732,484	4,813,876
Financial liabilities measured at fair value through profit or loss				
— Accruals and other payables (note (x))	—	50,666	—	50,666

39. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2017 (restated)				
Investments measured at fair value through profit or loss				
— Listed debt securities (note (i))	10,386	715,782	—	726,168
— Listed equity securities (note (i))	385,406	384,314	—	769,720
— Unlisted mutual fund (note (v))	—	9,231	—	9,231
— Private equity fund (note (iv))	—	—	88,007	88,007
Investments measured at fair value through other comprehensive income				
— Unlisted equity securities (note (ix))	—	—	11,615	11,615
	395,792	1,109,327	99,622	1,604,741
Financial liabilities measured at fair value through profit or loss				
— Accruals and other payables (note (x))	—	53,608	—	53,608

There have been no transfers between levels 1, 2 or transfers into or out of level 3 in the current and previous year. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer.

Notes:

(i) The fair value of the listed debt and equity securities has been determined by reference to their quoted bid prices at the reporting date and has been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

(ii) The fair value of the unlisted debt securities in level 2 was estimated based on discounted cash flow analysis with discount rate determined by reference to the listed bonds with similar credit terms and rating.

(iii) The fair value of the unlisted equity securities has been determined with reference to the price of recent investment valuation technique under market approach.

(iv) The fair value of the private equity fund has been determined with reference to the unadjusted net asset value of the fund.

(v) The fair value of the unlisted mutual fund has been determined with reference to the fair value of the underlying assets and liabilities at the reporting date.

(vi) The fair value of the unlisted debt securities in level 3 was based on black-scholes model using discounted cash flows with market observable inputs, such as quoted market price, dividend yield, volatility, foreign exchange rate, and significant unobservable input, i.e. discount rate of 18% as key parameters.

(vii) The fair value of the margin loans has been determined with reference to the market value of the collaterals at the reporting date.

(viii) The fair value of the derivatives was based on black-scholes model with market observable inputs, such as quoted market price, dividend yield, volatility, foreign exchange rate, and significant unobservable input, i.e. risk free rate of 2.218%, as key parameters.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

39. FAIR VALUE MEASUREMENT (CONTINUED)

(a) Fair value of financial instruments measured at fair value (Continued)

Notes: (Continued)

(ix) The fair value of the unlisted equity securities has been determined by using the discounted cash flow valuation technique. The discounted cash flow valuations are based on the following significant unobservable inputs:

Significant unobservable inputs	As at 31 December 2018	As at 31 December 2017
Discount for lack of marketability	25%	25%
Discount for lack of control	10%	10%
Weighted average cost of capital	13%	16%
Long-term revenue growth rate	3%	3%

Generally, a change in the discount for lack of marketability and control and weighted average cost of capital is accompanied by a directionally opposite change to the fair value measurement whilst a change in the long-term revenue growth rate is accompanied by a directionally similar change to the fair value measurement.

(x) The financial liabilities represent net asset value attributable to third party interest of a fund. The fair value has been determined by reference to the net asset value of the fund. The underlying investments held by the fund are all listed with unadjusted quoted prices in active markets, with immaterial assets and liabilities with unobservable prices.

(xi) The movement of the financial instruments at fair value based on significant unobservable inputs (i.e. Level 3) is as follows:

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000
Investments measured at fair value through profit or loss		
At the beginning of the year	88,007	—
Purchases	557,975	168,022
Fair value changes recognised in profit or loss	82,976	(2,001)
Disposals	(2,795)	(78,014)
At the end of the year	726,163	88,007
Investments measured at fair value through other comprehensive income		
At the beginning of the year	11,615	13,840
Fair value changes recognised in other comprehensive income	(5,294)	(2,225)
At the end of the year	6,321	11,615
Total unrealised gain/(loss) recognised in profit or loss for assets held at the end of the reporting period	82,976	(2,001)

39. FAIR VALUE MEASUREMENT (CONTINUED)

(b) Fair value of investment properties measured at fair value

Investment properties represented commercial office premises in Hong Kong and are categorised within level 2 of fair value hierarchy. There have been no transfers between levels 1, 2 or transfers into or out of level 3 in the twelve months ended 31 December 2018 and the nine months from 1 April 2017 to 31 December 2017. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer. The fair value of the investment properties as at 31 December 2018 and 2017 has been arrived at on the basis of valuation carried out by independent valuers, who holds recognised and relevant professional qualifications and has recent experience in the location and category of the investment properties being valued. The fair value has been determined using market comparable approach by reference to transaction price of comparable properties on a price per saleable area basis using market data which is publicly available.

40. 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 "accounts receivable", "margin loans" and "accounts payable" as presented in the consolidated statement of financial position, respectively. It intends to settle on a net basis as accounts payable from or accounts payable 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						
Accounts receivable and margin loans	3,567,567	(156,559)	3,411,008	—	—	3,411,008

	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						
Accounts payable	2,002,820	(156,559)	1,846,261	—	—	1,846,261

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

	As at 31 December 2017					
	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$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Assets						
Accounts receivable and margin loans	3,232,535	(289,462)	2,943,073	—	—	2,943,073

	As at 31 December 2017					
	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$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
Liabilities						
Accounts payable	2,467,019	(289,462)	2,177,557	—	—	2,177,557

41. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting date may be categorised as follows. See notes 2.15 and 2.21 to the financial statements for explanations about how the category of financial instruments affects their subsequent measurement.

	31 December 2018 HK$'000	31 December 2017 HK$'000
Financial assets		
Investments measured at fair value through other comprehensive income	6,321	11,615
Investments measured at fair value through profit or loss	1,996,835	1,593,126
Margin loans measured at fair value through profit or loss	2,810,720	—
Financial assets measured at amortised cost		
— Other assets	17,234	23,619
— Deposits for subscription of shares	—	46,910
— Accounts receivable	600,288	812,991
— Loans, bonds and notes measured at amortised cost	2,918,746	1,347,573
— Margin loans	—	2,130,082
— Deposits and other receivables	19,867	10,024
— Bank balances held on behalf of clients	1,321,371	1,437,223
— Cash and cash equivalents	357,300	1,074,932
	5,234,806	6,883,354
	10,048,682	8,488,095
Financial liabilities		
Financial liabilities measured at amortised cost		
— Accounts payable	1,846,261	2,177,557
— Obligations under repurchase agreements	34,634	305,708
— Bank and other borrowings	2,308,573	255,940
— Notes payable	50,000	—
— Accruals and other payables (note)	59,456	60,085
Financial liabilities measured at fair value through profit or loss		
— Accruals and other payables	50,666	53,608
	4,349,590	2,852,898

Note: As at 31 December 2017, the balance of HK$4,787,000 which did not meet the definition of financial liabilities were excluded in this disclosure.

42. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is 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 make 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 Company are regulated by the Securities and Futures Commission or Professional Insurance Brokers Association. These subsidiaries are required to maintain certain minimum liquid capital; and net asset value and paid-up capital according to the Securities and Futures Ordinance and the Insurance Companies Ordinance, respectively. Management monitors these subsidiaries' liquid capital or net asset value and paid-up capital to ensure they meet the minimum requirement in accordance with the Securities and Futures (Financial Resources) Rules or the Insurance Companies Ordinance. These externally imposed capital requirements have been complied with by the relevant group entities for the twelve months ended 31 December 2018 and the nine months from 1 April 2017 to 31 December 2017.

The Group monitors its capital using a gearing ratio, which is total debts divided by total equity. For this purpose, total debts include obligations under repurchase agreements, bank and other borrowings and notes payable as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratio as at the reporting date is as follows:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Total debt	**2,393,207**	561,648
Net assets	**5,796,614**	5,737,423
Gearing ratio	**41%**	10%

Gearing ratio of the Group increased from 10% as at 31 December 2017 to 41% as at 31 December 2018 as the Group has been expanding its business through bank and other borrowings.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
ASSETS AND LIABILITIES		
Non-current assets		
Intangible assets	280	—
Leasehold improvements and equipment	4,956	670
Investments in subsidiaries	180,734	143,613
Investments measured at fair value through other comprehensive income	6,321	11,615
Deferred tax assets	4,658	4,125
Deposits for leasehold improvements and equipment	913	886
	197,862	160,909
Current assets		
Loans measured at amortised cost	100,257	100,362
Prepayments, deposits and other receivables	3,230	3,874
Investments measured at fair value through profit or loss	41,731	394,577
Amounts due from subsidiaries	6,379,516	4,178,416
Cash and cash equivalents	18,626	706,784
	6,543,360	5,384,013
Current liabilities		
Obligations under repurchase agreements	34,634	—
Bank and other Borrowings	1,064,232	—
Accruals and other payables	31,225	30,167
Amounts due to subsidiaries	588	17,689
	1,130,679	47,856
Net current assets	*5,412,681*	*5,336,157*
Non-current liabilities		
Notes payable	50,000	—
Net assets	5,560,543	5,497,066
EQUITY		
Share capital	20,657	20,740
Reserves (note)	5,539,886	5,476,326
Total equity	5,560,543	5,497,066

On behalf of the Board

HAN Xiaosheng
Director

Kenneth LAM Kin Hing
Director

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Investment revaluation reserve HK$'000	Shareholder's contribution HK$'000	Shares held for Share Award Scheme HK$'000	Warrants reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2017	23,932	936	401,693	(11,584)	1,811	(905)	8	(65,369)	350,522
Exercise of warrants	114	—	—	—	—	—	(6)	—	108
Issue of shares under rights issue	5,117,635	—	—	—	—	—	—	—	5,117,635
Transaction cost attributable to the issue of new shares	(6,060)	—	—	—	—	—	—	—	(6,060)
Transactions with owners	5,111,689	—	—	—	—	—	(6)	—	5,111,683
Profit for the nine months	—	—	—	—	—	—	—	16,346	16,346
Other comprehensive income									
— Changes in fair value of investments measured at fair value through other comprehensive income	—	—	—	(2,225)	—	—	—	—	(2,225)
Total comprehensive income for the nine months	—	—	—	(2,225)	—	—	—	16,346	14,121
Lapse of warrants	—	—	—	—	—	—	(2)	2	—
At 31 December 2017	5,135,621	936	401,693	(13,809)	1,811	(905)	—	(49,021)	5,476,326

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Investment revaluation reserve HK$'000	Shareholder's contribution HK$'000	Shares held for Share Award Scheme HK$'000	Warrants reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2018	5,135,621	936	401,693	(13,809)	1,811	(905)	—	(49,021)	5,476,326
Impact on initial application of HKFRS 9	—	—	—	—	—	—	—	(1,082)	(1,082)
Adjusted balance at 1 January 2018 (Note)	5,135,621	936	401,693	(13,809)	1,811	(905)	—	(50,103)	5,475,244
Cancellation of shares repurchased	(18,551)	83	—	—	—	—	—	(83)	(18,551)
Shares purchased for share award scheme	—	—	—	—	—	(4,514)	—	—	(4,514)
Transactions with owners	(18,551)	83	—	—	—	(4,514)	—	(83)	(23,065)
Profit for the twelve months	—	—	—	—	—	—	—	91,716	91,716
Other comprehensive income									
— Changes in fair value of investments measured at fair value through other comprehensive income	—	—	—	(5,294)	—	—	—	—	(5,294)
— Capital distribution from investments measured at fair value through other comprehensive income, which represents recovery of part of the investment cost	—	—	—	1,285	—	—	—	—	1,285
Total comprehensive income for the twelve months	—	—	—	(4,009)	—	—	—	91,716	87,707
At 31 December 2018	5,117,070	1,019	401,693	(17,818)	1,811	(5,419)	—	41,530	5,539,886

Note: The Company has initially applied HKFRS 9 (2014) at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

44. PARTICULARS OF THE SUBSIDIARIES OF THE GROUP

Particulars of the principal subsidiaries as at 31 December 2018 are as follows:

Name	**Former name**	**Place of incorporation**	**Particulars of issued capital**	**Percentage of interests** Held by the Company	Held by the subsidiaries	**Principal activities and place of operations**
China Tonghai Asset Management Limited	Oceanwide Asset Management Limited	Hong Kong	Ordinary shares of HK$20,000,000	100	—	Investment adviser and asset management/Hong Kong
China Tonghai Asset Management (BVI) Ltd.	Oceanwide Asset Management (BVI) Ltd.	BVI	5,000 ordinary shares of US$1 each	—	100	Provision of fund management services/Hong Kong
China Tonghai Capital (Holdings) Limited	Oceanwide Financial (Holdings) Limited	Hong Kong	Ordinary shares of HK$78,260,002	100	—	Investment holding and import/export trading liaison/Hong Kong
China Tonghai Capital Limited	Oceanwide Capital Limited	Hong Kong	Ordinary shares of HK$84,000,000	—	100	Corporate finance and investment adviser/Hong Kong
China Tonghai Finance Limited	Oceanwide Finance Limited	Hong Kong	Ordinary shares of HK$54,200,000	—	100	Finance and money lending/ Hong Kong
China Tonghai Private Equity Limited	Oceanwide Financial Private Equity Limited	Hong Kong	Ordinary shares of HK$1,500,000	100	—	Investment holding/Hong Kong
China Tonghai Securities Limited	Oceanwide Securities Company Limited	Hong Kong	Ordinary shares of HK$2,170,000,000	—	100	Securities dealing and futures and options broking/Hong Kong
China Tonghai Ventures (BVI) Limited	Oceanwide Ventures (BVI) Limited	BVI	1 ordinary share of US$1	—	100	Fund investments/Hong Kong
China Tonghai Ventures (HK) Limited	Oceanwide Financial Ventures (HK) Limited	Hong Kong	Ordinary share of HK$6,000,000	—	100	Investment holding/Hong Kong
China Tonghai Communications Limited	Oceanwide Financial Media (Holdings) Limited and China Tonghai Financial Media (Holdings) Limited	Hong Kong	Ordinary shares of HK$76,520,664	100	—	Investment holding/Hong Kong
China Tonghai Financial Media Limited	Oceanwide Financial Media Limited	Hong Kong	Ordinary shares of HK$6,000,000	—	100	Website management and other related services/Hong Kong
Oceanwide Greater China UCITS Fund	Quam Greater China UCITS Fund	Luxembourg	N/A	—	75	Investment in securities/Hong Kong

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

44. PARTICULARS OF THE SUBSIDIARIES OF THE GROUP (CONTINUED)

The above table lists the material subsidiaries of the Company which, in the opinion of the directors, principally contribute the results for the year or hold a substantial portion of assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

45. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

Five-Year Financial Summary

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

	Twelve months ended 31 December 2018 HK$'000	Nine months from 1 April 2017 to 31 December 2017 HK$'000	**Twelve months ended 31 March** 2017 HK$'000	2016 HK$'000	2015 HK$'000
RESULTS					
Revenue	**672,310**	352,155	350,346	533,444	430,495
	672,310	352,155	350,346	533,444	430,495
Other net operating income/ (losses)	**23,261**	(403)	3,394	10,729	4,424
Cost of services provided	**(181,304)**	(136,505)	(167,932)	(244,155)	(167,248)
Staff costs	**(164,967)**	(98,006)	(155,237)	(151,413)	(134,146)
Depreciation and amortisation expenses	**(9,888)**	(6,654)	(9,013)	(7,132)	(6,967)
Impairment loss on financial instruments	**(89,890)**	(3,148)	(5,302)	(1,956)	(1,941)
Other operating expenses	**(82,306)**	(53,413)	(61,277)	(83,611)	(56,024)
Finance costs	**(59,023)**	(10,170)	(16,149)	(20,334)	(25,131)
Loss on disposal of an associate	**—**	—	—	—	(177)
Share of results of associates	**—**	5,263	383	—	—
Share of results of joint ventures	**1,597**	(1,930)	1,695	1,156	(2,946)
Profit/(loss) before income tax	**109,790**	47,189	(59,092)	36,728	40,339
Income tax (expenses)/credit	**(9,615)**	(3,904)	1,145	(12,040)	(4,302)
Profit/(loss) for the year attributable to the owners of the Company	**100,175**	43,285	(57,947)	24,688	36,037

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000	**As at 31 March** 2017 HK$'000	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES					
Total assets	**10,177,613**	8,601,804	3,403,502	3,247,156	3,529,587
Total liabilities	**(4,380,999)**	(2,864,381)	(2,836,987)	(2,639,115)	(3,102,729)
	5,796,614	5,737,423	566,515	608,041	426,858

Five-Year Financial Summary

Notes to the five year summary:

1. As a result of the adoption of HKFRS 15, Revenue from contracts with customers, with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

2. The Group adopted HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.

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