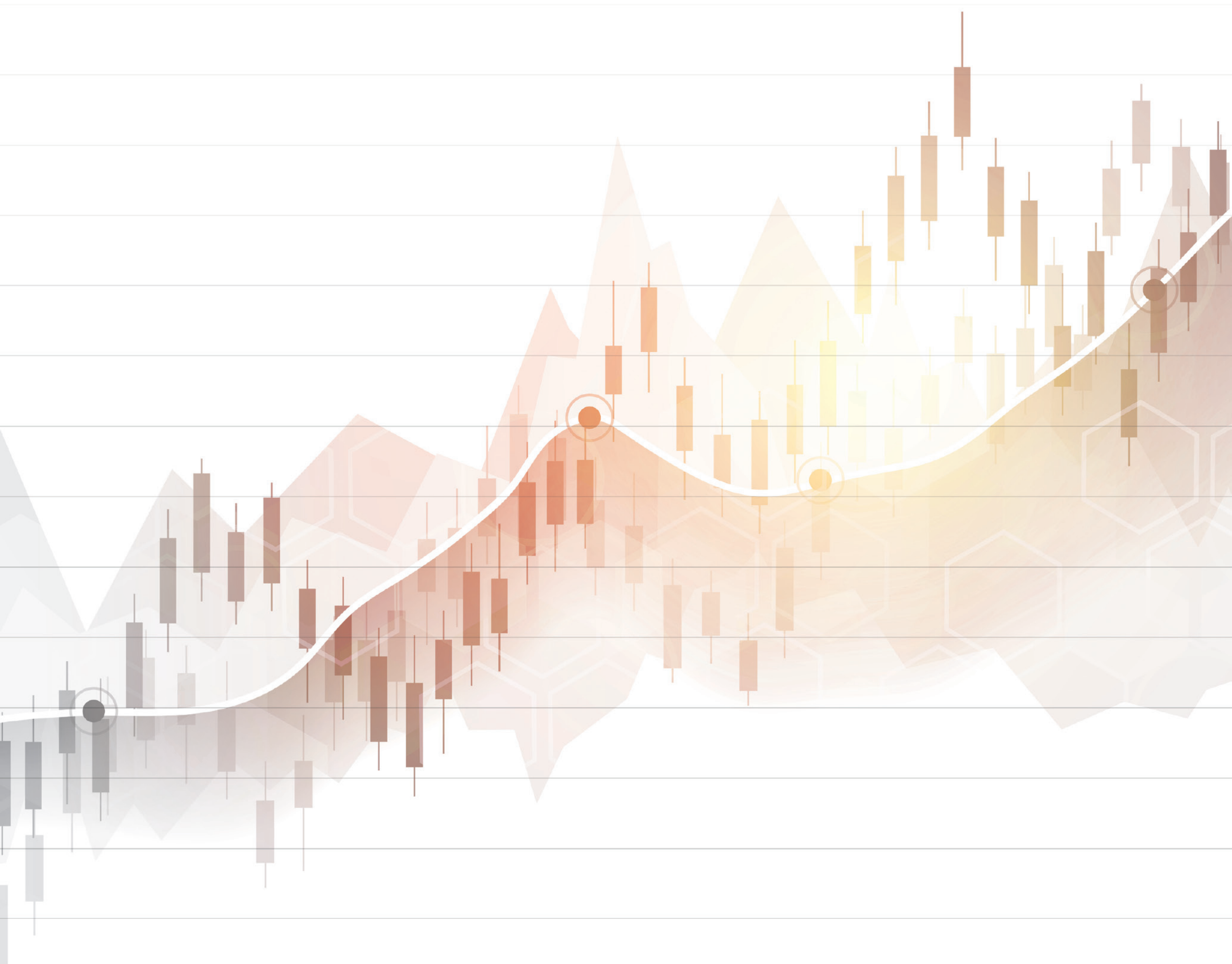
PineStone 鼎石

Pinestone Capital Limited
鼎石資本有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
(Stock Code 股份代號 : 804)

2019 ANNUAL REPORT 年報



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Corporate Information

Board of Directors (The "Board")

Executive Directors

Mr. Cheung Yan Leung Henry *(Chairman)*
Mr. Cheung Jonathan

Independent Non-Executive Directors

Mr. Yeung King Wah
Mr. Lai Tze Leung George
Mr. So Stephen Hon Cheung

Audit Committee

Mr. Yeung King Wah *(Chairman)*
Mr. Lai Tze Leung George
Mr. So Stephen Hon Cheung

Nomination Committee

Mr. Cheung Yan Leung Henry *(Chairman)*
Mr. Yeung King Wah
Mr. Lai Tze Leung George
Mr. So Stephen Hon Cheung

Remuneration Committee

Mr. Yeung King Wah *(Chairman)*
Mr. Lai Tze Leung George
Mr. So Stephen Hon Cheung
Mr. Cheung Jonathan

Compliance Officer

Mr. Cheung Jonathan

Company Secretary

Mr. Au Kin Kee Kinson *ACS ACIS*

Authorised Representatives

Mr. Cheung Yan Leung Henry
Mr. Cheung Jonathan

Trading Stock Code

804

Registered Office

Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Headquarter and Principal Place of Business in Hong Kong

Unit 1506, 15th Floor, Wheelock House
20 Pedder Street, Central
Hong Kong

Hong Kong Branch Share Registrar & Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banker

Chong Hing Bank Limited
Chong Hing Bank Centre
24 Des Voeux Road Central
Hong Kong

Auditor

BDO Limited
Certified Public Accountants
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

Company's Website

www.pinestone.com.hk

Chairman's Statement

Dear Shareholders,

Review

For the year ended 31 December 2019, the Group's revenue amounted to approximately HK$25.9 million, representing an increase of approximately 38% compared to 2018. The Group recorded a solid growth and a profit before tax of HK$9.6 million amidst the unprecedented turmoil and unrest both locally and globally.

Outlook

In 2019, Hong Kong economy faced difficult headwind from domestic social unrest and Sino-US trade war uncertainty. The economy encountered uncertainties and issues that were unprecedented, investors sentiment has thus been deterred and affected, general business activities have inevitably slowed down. Faced with unprecedented instability, the Group has continued to manage our positions diligently and cautiously, and managed to achieve a solid growth in revenue and profit in financial year 2019 despite the unfavorable macro environment. The world is faced with the pandemic challenge in 2020; the slowdown in economic activity and the resulted disruption in social and business activities will undoubtedly cast negative effects on the global economy. Looking forward, the global economy is expected to face much instability and uncertainty. The Group will closely monitor the political and business environment and manage our risk exposure with extreme caution and prudence. In addition to a cautious approach, the Group will continue to explore strategic opportunities to improve our product platform, broaden our business reach, cultivate corporate alliances collaborations to strengthen our market position, improve and diversify our financial position and risk exposure to better positioned the Group for further and sustainable long term growth in the future.

On behalf of the Directors, I would like to specially thank our dedicated management and staff members for working diligently under the looming concerns of the pandemic. I would also like to take this opportunity to express my sincere gratitude to the Group's Shareholders, business partners, clients, for their continuous support.

On behalf of the Directors,

Cheung Yan Leung Henry
Chairman & Executive Director

Hong Kong, 30 March 2020

Corporate Milestone

1. In March 2012, Mr. Cheung Jonathan acquired Pinestone Securities Limited ("PSL") with the intention of addressing a gap in the market and catering to investors who are interested in investing in the shares of small to medium-sized companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. In September 2012, PSL successfully obtained a licence under the Securities and Futures Ordinance (the "SFO") to conduct Type 1 regulated activity. In November, 2012, PSL was granted a Stock Exchange Trading Right and was approved as an Exchange Participant with effect from 3 December 2012.

3. In February 2013, Pinestone Capital Group Limited ("PCGL") successfully obtained Money Lenders Licence to begin our money lending business in the form of securities-backed lending service.

4. In May 2013, Mr. Cheung Yan Leung Henry, father of Mr. Cheung Jonathan, injected additional funds in our Group to fund its further expansion.

5. In 2014, the Group's business recorded significant growth. Revenues increased by 100% from HK$16.5 million in 2013 to 2014's HK$33.0 million. Net profit increased by approximately 126% from HK$9.4 million in 2013 to HK$21.2 million in 2014.

6. On June 12, 2015, the share of the Company was successfully listed on GEM of the Stock Exchange by placing 120 million shares at HK$0.50 each.

7. On 22 December 2015, the Company issued 5% coupon bonds in principal amount of HK$10,000,000 with a maturity period of 2-year as to reinforce the Company's security-backed lending service and its general working capital.

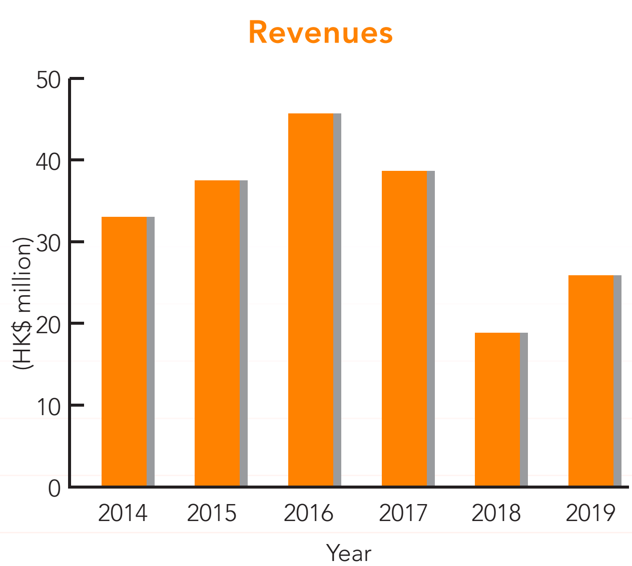
8. On 2 June, 2016, the Company issued a total of 110,000,000 ordinary shares at HK$0.55 each by the way of placing to raise fund by approximately HK$60.5 million as to strengthen the Company's financial position.

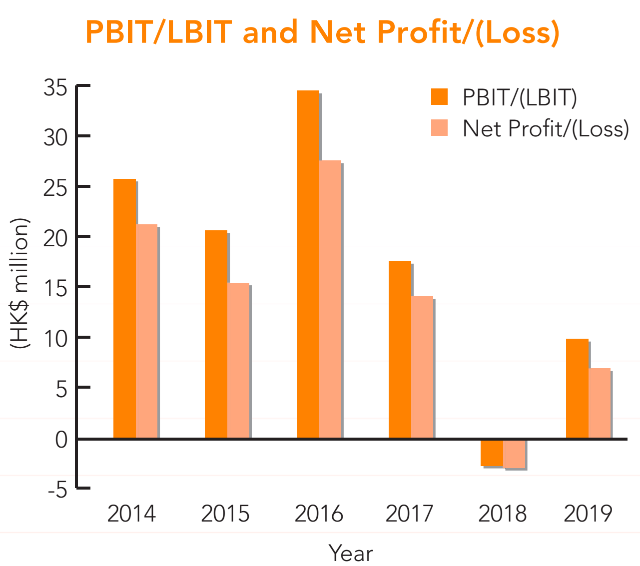
9. On 8 June, 2017, the Company successfully transferred its shares to the Main Board of the Stock Exchange.

10. On 21 December, 2017, the Company redeemed the HK$10,000,000 coupon bonds in full.

11. In 2018, the Company was marked its sixth years' anniversary.

12. In 2019, the Company turnaround from its net loss in 2018 and reported a net profit of approximately HK$7.2 million.





Management Discussion and Analysis

Background

Established in 2015, Pinestone Capital Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is a renowned Hong Kong based financial institution providing a wide range of bespoke financial services including (i) securities brokerage, (ii) securities-backed lending and (iii) placing and underwriting businesses. On 12 June 2015, the Company was listed on GEM of the Stock Exchange (the "Listing") by way of placing (the "Placing"). On 8 June 2017, the Company was successfully transferred to list on the Main Board of the Stock Exchange. During the years, we recognised commission income from our securities brokerage services, interest income from our securities-backed lending services as well as income from placing and underwriting services since its debut.

Financial Highlights

Year ended 31 December (HK$'000)	2017	2017 vs 2018 Percentage	2018	2018 vs 2019 Percentage	2019
Revenue	38,689	-51%	18,849	38%	**25,917**
Profit/(Loss) Before Income Tax	17,560	-116%	(2,791)	445%	**9,622**
Net Profit/(Loss)	14,061	-121%	(3,005)	341%	**7,231**
Earnings/(Loss) per share (H.K. cents)	0.29	-121%	(0.06)	350%	**0.15**
Total Assets	297,959	-7%	278,234	-9%	**253,944**
Total Equity	274,334	-1%	271,329	-11%	**241,325**
Key Performance Indices					
Net Profit Margin (%)	36.3		(15.9)		**27.9**
Return on Equity (%)	5.1		(1.1)		**3.0**
Return on Total Assets (%)	4.7		(1.1)		**2.8**
Current Ratio (Times)	12.5		41.0		**22.6**
Gearing Ratio (Times)#	0.0		0.0		**0.01**

Long-term debts (including non-current lease liabilities) over total equity

For the year ended 31 December 2019, the Group's revenue amounted to approximately HK$25.9 million, representing an increase of approximately 38% compared to approximately HK$18.8 million in 2018. The increase was mainly driven by the surge of interest income from securities-backed lending services to approximately HK$25.3 million in 2019, representing an increase of HK$7.8 million or 45% from approximately HK$17.5 million in 2018.

Profit before income tax was HK$9.6 million, compared to a loss before income tax of HK$2.8 million in 2018. Net profit for the year ended 31 December 2019 was HK$7.2 million, compared to a net loss of HK$3.0 million in 2018. Turnaround from net loss to net profit was mainly attributable to an increase in interest income from securities-backed lending service and no impairment loss (net) on receivables was recognised for the year.

Basic earnings per share was HK0.15 cents for the year ended 31 December 2019, compared to basic loss per share of HK0.06 cents for the year ended 31 December 2018.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019.

Market Review

Hong Kong has been experiencing social unrest since June 2019, which led to unprecedented uncertainties and deteriorated economic conditions. Although the Hang Seng Index still managed a gain of approximately 9% year-on-year to close at 28,189 points in 2019, there was an increase in volatility in the performance of the Hong Kong market due to the on-going Sino-US trade war and social unrest. In early 2020, the signing of phase one trade deal between China and US had brought some relief to investor concerns, but this was shortlived as the outbreak and rapid spread of the novel coronavirus and the failure of OPEC and Russia to reach an agreement regarding oil output capacity had detrimental effects on investor sentiments, hence led to a sell off in global markets. These events will undoubtedly have damaging effects on both the market and the global economy in the foreseeable future. With the economic uncertainties affected by a number of factors, it is believed that the Hong Kong stock market will remain volatile in 2020. In view of the challenging business environment, the Company will remain vigilant and strive to continue to create positive values for its shareholders.

Management Discussion and Analysis

Business Review

Securities Brokerage Services

The performance of our securities brokerage for the year ended 31 December 2019 marked a decrease of approximately 50% in total transaction value to HK$211.6 million in 2019, compared to HK$421.3 million in 2018. Commission income from securities brokerage services for the year ended 31 December 2019 decreased to HK$0.4 million, compared to HK$0.9 million for the year ended 31 December 2018.

Securities-backed lending Services

In 2019, securities-backed lending services remained as our core-profit generator for the Group. Interest income from securities-backed lending services for the year ended 31 December 2019 surged to HK$25.3 million, representing an increase of 45% compared to approximately HK$17.5 million in 2018.

(A) *Margin Financing*

The increase in interest income from securities-backed lending services was primarily due to an improvement in performance of our margin financing activities. Interest income from margin financing services increased to approximately HK$23.1 million, representing an increase of about 33% from approximately HK$17.4 million in 2018. In 2018, the Group had waived charging interest to certain customers who were entered into repayment agreements. The interest charges on these customers had resumed back to normal in 2019.

(B) *Money Lending*

The Group's money lending service had also performed well in 2019. The Group recognised interest income of approximately HK$2.2 million from money lending service in 2019, representing an increase as compared to HK$81,000 in 2018.

Placing and Underwriting Services

Our placing and underwriting services are generally offered to listed companies, placing agents and/or the investors of listed companies. The business of this service depends on the demand or requests from the customers. The Group generated income of HK$108,000 from placing and underwriting services in 2019, whereas no income from placing and underwriting services was derived in 2018.

Major Customers

During the year, the Group's five largest customers accounted for approximately 50% (2018: 60%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 13% (2018: 20%) of the total revenue. None of the Directors or any of its close associates, or any shareholder (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Total Assets

Unit (HK$'million)/Year	**2019**	2018
Total Assets (HK$'million)	**253.9**	278.2
Trust Bank Balances (HK$'million)	**6.1**	5.3
Cash and Bank Balances (HK$'million)	**29.2**	22.5
Trade Receivables (HK$'million)	**174.6**	224.1
Loans Receivable (HK$'million)	**34.2**	18.5

Management Discussion and Analysis

Total assets of the Group decreased by 9% from approximately HK$278.2 million as at 31 December 2018 to approximately HK$253.9 million as at 31 December 2019. The decrease was mainly attributable to a decrease of trade receivables of approximately 22% from approximately HK$224.1 million in 2018 to HK$174.6 million in 2019, which had partially offset the amount of increases in loans receivable and cash and bank balances. Loans receivable almost doubled from approximately HK$18.5 million in 2018 to HK$34.2 million in 2019. Cash and bank balances increased by almost 30% from HK$22.5 million in 2018 to HK$29.2 million in 2019.

Net Profit for the Year

The Group's consolidated net profit for the year was approximately HK$7.2 million when compared to a net loss of HK$3.0 million in 2018. The increase was mostly attributable to an increase in interest income from securities-backed lending services of approximately HK$7.8 million or a surge of about 45% in 2019 compared to that of 2018 and no impairment loss (net) on receivables was recognised in 2019. The Group recorded a net profit of HK$7.2 million, compared with HK$4.7 million (excluding impairment provision on receivables and related tax effect), representing an increase of 53% in adjusted net profit when compared with 2018.

Financial Review

Revenue

Total revenue in 2019 was HK$25.9 million, representing an increase of approximately 38% from HK$18.8 million in 2018. The increase was mostly attributable to an increase of approximately HK$7.8 million in interest income from securities-backed lending services. Commission income from securities brokerage services declined to HK$0.4 million in 2019, compared to HK$0.9 million in 2018. Interest income from securities-backed lending services increased to HK$25.3 million in 2019, representing a surge of 45% from HK$17.5 million in 2018. For the placing and underwriting services, the Group generated income of HK$108,000 in 2019, whereas no income from placing and underwriting services was derived in 2018.

Employee Benefit Expenses

Employee benefit expenses accounted for approximately 40% out of the total expenses in 2019, which is a major expense item for the Group. Employee benefit expenses include staff salaries, allowances, benefits, directors' emoluments and contribution to defined contribution retirement scheme. Compared to 2018, employees benefit expenses recorded a modestly increase of 7% from approximately HK$6.1 million in 2018 to approximately HK$6.5 million in 2019. The increase was mostly attributable to general increases for staff salaries and directors' emoluments. The increment partially net off the decreased discretionary bonus to Directors.

Other Operating Expenses

Unit: (HK$'million)/Year	**2019**	2018
Other operating expenses	**7.6**	6.2
Impairment losses on trade and loans receivables, net	**0.0**	9.2
Total other operating expenses	**7.6**	15.4

Other operating expenses in 2019 amounted to HK$7.6 million, compared to HK$6.2 million in 2018 (excluding charge for impairment losses on trade and loans receivables) which accounted for about 54% (2018: 50%) of the total expenses (which only included employee benefit expenses and other operating expenses). The rise was mostly attributable to the increase in compliance, professional and administrative expenses incurred during the year. Taking into account no impairment loss (net) on receivables was recognised in 2019 (2018: HK$9.2 million), total other operating expenses in 2019 was HK$7.6 million, representing a drop of approximately 51% from HK$15.4 million in 2018.

Management Discussion and Analysis

Income Tax Expense

The income tax expense for 2019 was approximately HK$2.4 million (2018: HK$0.2 million) and such increase was consistent with an increase in assessable profits under Hong Kong Profits Tax.

Profit for the Year

For the year ended 31 December 2019, the Group recorded profit before tax of approximately HK$9.6 million and a net profit of approximately HK$7.2 million. These figures compared to a loss before tax of approximately HK$2.8 million and a net loss of HK$3.0 million in 2018. The increase was mostly attributable to an increase of HK$5.7 million of interest income from margin financing services and an increase of approximately HK$2.2 million of interest income from money lending services on a year-on-year basis. Our standard risk management procedures have functioned properly. No impairment loss (net) was recognised in 2019, whereas impairment losses of HK$9.2 million was recognised in 2018.

Dividend

Directors did not recommend the payment of final dividend for the year ended 31 December 2019 (2018: nil). In September 2019, the Company paid an interim dividend of HK0.1 cent per ordinary share, amounting to approximately HK$4.9 million in aggregate (2018: nil). Total dividend payout by the Company for the year ended 31 December 2019 were HK0.1 cent per share (2018: nil).

Capital Structure

As at 31 December 2019, the Group did not have any bank borrowings. As at 31 December 2019, other payables and accruals plus lease liabilities was HK$4.4 million compared to HK$0.9 million in 2018. The Group maintained a healthy cash position with total cash and bank balances amounted to HK$29.2 million as at 31 December 2019 (2018: HK$22.5 million). As at 31 December 2019, the Group has non-current lease liabilities of HK$1.7 million (2018: HK$0.2 million) and does not have capital commitments. The Group's long term debt to equity ratio is roughly 1% in 2019 as compared to 0% in 2018.

During 2019, the Group's operations, capital expenditure and other capital requirements were funded by cash generated from operations and working capital.

The Directors are of the view that at the date hereof, the Group's financial resources are sufficient to support its business and operations. Notwithstanding this, the Group may consider other financing activities when appropriate business opportunities arise under favourable market conditions.

Liquidity and Financial Resources

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Current assets	**245,867**	274,497
Trade receivables	**174,626**	224,115
Cash and bank balances	**29,212**	22,547
Current liabilities	**10,874**	6,687
Trade payables	**8,193**	5,969
Lease liabilities	**3,770**	–
Obligation under finance lease	**–**	269
Current Ratio (times)	**22.6**	41.0
Gearing Ratio (times)#	**0.01**	0.00
Interest Coverage (times)*	**54.8**	N.A.

* N.A. – The company reported a net loss

\# Long-term debts (including non-current lease liabilities) over total equity

Management Discussion and Analysis

Foreign Currency Exposure

The Company's functional and presentation currency is Hong Kong dollar ("HK$"). During the years ended 31 December 2019 and 2018, the Group's transactions were denominated in HK$. The Group had no material exposure to foreign currency risk. The Group has not used any derivatives to hedge against its exposure to foreign exchange risks.

Contingent Liabilities

As at 31 December 2019 and 31 December 2018, the Group did not have any material contingent liabilities.

Significant Investments

The Group did not acquire or hold any significant investment during the year 2019 (2018: nil).

Pledge of Assets

As at 31 December 2019, the Group did not pledge any of its assets (31 December 2018: nil).

Capital Commitments

As at 31 December 2019, the Group did not have any significant capital commitments (31 December 2018: nil).

Employees and Remuneration Policy

The remuneration of the executive directors is subject to review by the Remuneration Committee and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Company. The Group's remuneration policies are in line with prevailing market practice. The Group's employees are remunerated according to their performance, working experience and market conditions. As at 31 December 2019, the Group had 13 employees, compared to 14 employees in 2018. Apart from basic salaries, other staff benefits include discretionary bonus, provident funds and medical scheme.

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 11 of the consolidated financial statements.

Outlook

In 2019, Hong Kong economy faced difficult headwind from domestic social unrest and Sino-US trade war uncertainty. The economy encountered uncertainties and issues that were unprecedented, investors sentiment has thus been deterred and affected, general business activities have inevitably slowed down. Faced with unprecedented instability, the Group has continued to manage our positions diligently and cautiously, and managed to achieve a solid growth in revenue and profit in financial year 2019 despite the unfavorable macro environment. The world is faced with the pandemic challenge in 2020; the slowdown in economic activity and the resulted disruption in social and business activities will undoubtedly cast negative effects on the global economy. Looking forward, the global economy is expected to face much instability and uncertainty. The Group will closely monitor the political and business environment and manage our risk exposure with extreme caution and prudence. In addition to a cautious approach, the Group will continue to explore strategic opportunities to improve our product platform, broaden our business reach, cultivate corporate alliances collaborations to strengthen our market position, improve and diversify our financial position and risk exposure to better positioned the Group for further and sustainable long term growth in the future.

Corporate Governance Report

Good corporate governance practices improve the transparency of the Company, optimize the Company's performance, and help to enhance stakeholders' confidence and support. The board of directors (the "Board") of the Company is committed to achieve good corporate governance practices and procedures. During the year under review, the Company has complied with the code provisions prescribed in the establishment and implementation of the Corporate Governance Code ("CG Code"), set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") to ensure that the decision making processes and business operations are operated and regulated in a proper manner. The Company will continuously review its corporate governance practices as to enhance its corporate governance standards, comply with the increasingly complicated regulatory requirements, and meet with the rising expectations of the shareholders and respective investors.

Chairman and Chief Executive

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be assigned for the same person. In the Company, Mr. Cheung Yan Leung Henry has acted as chairman and Mr. Cheung Jonathan has acted as chief executive officer of the Company. Mr. Cheung Yan Leung Henry is the father of Mr. Cheung Jonathan and both are assigned as executive Directors as well. Decisions are made collectively by the executive Directors and occasionally are discussed with the management before execution. The Board believes that this arrangement enables the Company to make decisions, operate and implement follow up actions quickly. This arrangement can help achieve the Company's objectives efficiently and effectively in response to the changing environment. The Board also believes that the Company already has a strong corporate governance structure in place to ensure an effective management and operation of the Company.

The Board

The Board currently consists of five members including two executive Directors (being the chairman of the Board and the chief executive officer of the Company) and three independent non-executive Directors. The Composition of the Board ensures a balance of skills and experience appropriate to the requirements of the development of business and exercising fiduciary duties for the Company. The independent non-executive Directors, all of whom are independent of the Group's businesses, are highly experienced professionals with substantial experience in areas such as management, accounting and finance. All members of the Board represents rich and diversified background and industry expertise to oversee, advise and safeguard the interests of various stakeholders of the Company. Their brief biographical particulars and their relationship among the Board are set out on page 16 of this annual report. Pursuant to the requirement of the Listing Rules, the Company had reviewed and received written confirmation from each independent non-executive Director of his independence for an annual review. The Company considers that all independent non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules.

Pursuant to Article 108 of the Articles and Association of the Company, at each annual general meeting of the Company, one-third of the directors (for the time being, or, if their number is not a multiple of three, the number nearest to but not exceeding one-third) shall retire from office by rotation, provided that the chairman of the Board of the Company shall not, while holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. At the forthcoming annual general meeting of the Company, Mr. Cheung Jonathan and Mr. Yeung King Wah will retire by rotation and, being eligible, will offer themselves for re-election.

Executive Directors

Executive Directors are responsible for the operating of the Group and executing the strategies adopted by the Board. They ensure that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Corporate Governance Report

Independent Non-Executive Directors

During the year, each of the independent non-executive Directors of the Company has signed a letter for renewal of appointment for a term of three years ending on 21 May 2021 with the Company, unless terminated earlier by either side by giving not less than one month's prior written notice and subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association of the Company. The commencement dates of the re-appointment for each of the independent non-executive Directors are as follows:

Independent Non-Executive Directors' Commencement Date

Name	Annual Directors' Fees HK$'000	Ending Date of re-appointment
Mr. Yeung King Wah	120	21 May 2021
Mr. Lai Tze Leung George	120	21 May 2021
Mr. So Stephen Hon Cheung	120	21 May 2021

Mr. Yeung King Wah and Mr. So Stephen Hon Cheung, two of the independent non-executive Directors, possess the appropriate professional qualifications, or accounting or related financial management expertise as required under Rules 3.10(1), 3.10(2) and 3.10A of Listing Rules Appendix 14. All independent non-executive Directors bring their wealth of experience to the Board and serve the important function of advising the management on strategy development to ensure that the Board maintains high standards in financial and other mandatory reporting as well as providing adequate checks for safeguarding the interests of the shareholders and the Company as a whole. Except as otherwise disclosed in this annual report, none of the independent non-executive Directors has any business or financial interests with the Company and all independent non-executive Directors confirmed their independence to the Group as at 31 December 2019 in accordance with Rule 3.13 of the Listing Rules.

Board Diversity Policy

Pursuant to the CG Code provision A.3, the Board has adopted a board diversity policy with diversity of skills. The Company recognises and embraces the benefits of having a diverse Board. All Board appointments are made on merits and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Audit Committee

The Company has established an audit committee (the "Audit Committee") with specific written terms of reference formulated in accordance with the requirements of the Rule 3.21 of Listing Rules Appendix 14. The Audit Committee currently consists of all the three Independent non-Executive Directors ("INEDs"), namely Mr. Yeung King Wah, Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung. Mr. Yeung King Wah is the chairman of our Audit Committee. The primary duties of our Audit Committee are mainly (i) to make recommendations to the Board on the appointment and removal of external auditors; (ii) to review and supervise the financial statements and provide advices in respect of financial reporting; (iii) to oversee internal control procedures and corporate governance of our Company; (iv) to supervise internal control systems of our Group; and (v) to monitor any continuing connected transactions.

During the year 2019, the Audit Committee held 3 meetings to review and assess our risk management and internal control management functions of the Group. It has also reviewed, assessed and comment on our interim and consolidated final results. The preparation of the consolidated results is in compliance with applicable accounting principles and practices adopted by the Company and the requirements of the Stock Exchange, and adequate disclosure had been made.

Corporate Governance Report

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") with specific written terms of reference in line with the code provisions under the CG Code, Appendix 14. The Nomination Committee consists of four members comprising three INEDs, namely Mr. Yeung King Wah, Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung, and one executive director namely Mr. Cheung Yan Leung Henry. Mr. Cheung Yan Leung Henry is the chairman of the Nomination Committee. The primary duties of our Nomination Committee are mainly (i) to review the structure, size composition and diversity of the Board on a regular basis; (ii) to identify individuals suitable to become Board members; (iii) to assess the independence of INEDs; (iv) to make recommendations to the Board on matters relating to the appointment or re-appointment of directors; and (v) to make recommendations to the Board regarding the candidates to fill vacancies of our Board. When identifying suitable director candidates, and making recommendation to the board, the Nomination Committee would take into consideration of various candidates in views of his/her background of education, experiences, expertise with the industry and his/her past directorships. During the year under review, the Nomination Committee had reviewed the structure, size, composition and diversity of the Board. The Nomination Committee will continue to review the necessity of more competent staff to join in the expansion of the Group.

Remuneration Committee

Pursuant to Appendix 14, CG Code, the Company has set up a remuneration committee (the "Remuneration Committee") with establishing authority and duties under its specific terms of reference. The Remuneration Committee consists of four members comprising 3 INEDs, namely Mr. Yeung King Wah, Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung, and one executive Director, namely Mr. Cheung Jonathan. Mr. Yeung King Wah is the Chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are mainly (i) to review and make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; (ii) to review other remuneration matters, including benefits in kinds and other compensation payable to our Directors and senior management; and (iii) to review performance based remunerations and to establish a formal transparent procedure for developing policy in relation to remuneration. During the year, the Remuneration Committee has reviewed and revised the remuneration package of the Directors of the Company.

During the year, the attendance of each member of the above committees meetings and the board meetings are recorded as below:

Directors/Board Committees*	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Cheung Yan Leung Henry	C (4/4)	–	–	C (1/1)
Mr. Cheung Jonathan	M (4/4)	–	M (1/1)	–
Mr. So Stephen Hon Cheung	M (4/4)	M (3/3)	M (1/1)	M (1/1)
Mr. Yeung King Wah	M (4/4)	C (3/3)	C (1/1)	M (1/1)
Mr. Lai Tze Leung George	M (4/4)	M (2/3)	M (1/1)	M (1/1)

(*) no. of attendance during the year

Notes:

C – Chairman of the relevant Board committee
M – Member of the relevant Board committee

Corporate Governance Report

Auditor's Remuneration

The analysis of the auditor's remuneration for the financial year under review is presented as follows:

Fee Amount	HK$'000
Audit Services	598
Non-audit Services	–
Total	598

Remuneration Policy

The remuneration of the executive directors is subject to review by the Remuneration Committee and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Company. The Group's remuneration policies are in line with prevailing market practice. The Group's employees are remunerated according to their performance, working experience and market conditions. As at 31 December 2019, the Group had 13 employees, compared to 14 in 2018. Apart from basic salaries, other staff benefits include discretionary bonus, provident funds and medical scheme.

Sufficiency of Public float

Based on the information that is publicly available and within the knowledge of the Directors of the Company, the Company has maintained sufficient public float of 25% issued shares which worth more than HK$30 million under the Listing Rules 17.38A as at the latest practicable date and prior to the issue of this report.

Environmental, Social and Governance Report ("ESG")

We have envisaged and adopted the ESG Reporting Guide in the writing of our reports. Please refer to pages 26 to 37.

Non-Competition Undertaking

Each of the controlling Shareholders has made an annual declaration to the Company that during the year 2019, it has complied with the terms of non-competition undertakings ("Non-Competition Undertakings") given in favour of the Company.

Details of the Non-Competition Undertakings are set out in the section headed "Relationship with our Controlling Shareholders" of the Prospectus.

The INEDs have also reviewed the status of compliance by each of the controlling shareholders with the undertakings stipulated in the Non-Competition Undertakings and have confirmed that, as far as the INEDs can ascertain, there is no breach of any of such undertakings.

Directors' Securities Transactions

The Company has adopted Appendix 10 Model Code for Securities Transactions by the Directors for dealing in securities of the Company (the "Required Standard of Dealing").

Following specific enquiries to all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings throughout the year 2019. The Company has not been notified of any incident of non-compliance during such period.

Corporate Governance Report

Purchase, Sale or Redemption of the Listed Shares of the Company

During the year ended 31 December 2019, the Company repurchased an aggregate of 212,510,000 of its own shares on the Stock Exchange for a total cash consideration of HK$32,302,000.

Subsequent to the end of the reporting period (i.e. 31 December 2019) and up the date of this report, the Company further repurchased 185,600,000 shares of its own shares on the Stock Exchange for a total cash consideration of HK$25,813,000. All these repurchased shares have been cancelled as at the date of this report.

Directors' Training and Professional Development

Pursuant to the Code Provision A.6.5 under Appendix 14 of the Listing Rules, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Reading materials on relevant topics are sent to the directors where appropriate. All directors and employees are encouraged to attend relevant training courses to keep abreast of the latest market and regulation changes. The participations by the directors and employees in the continuous professional development are recorded individually.

Anti-Money Laundering & Corruption

The Company applies a high ethical standard in conducting its business and has adopted industry good practices in anti-money laundering, combating finance of terrorism, anti-bribery and anti-corruption. Any form of payment, gift or offer in the form of a bribe or corrupt act under respective laws and regulations are strictly prohibited.

Risk Management and Internal Control

The Board is responsible for maintaining sound and effective internal control system. A comprehensive internal and risk management system is essential to meet the objectives and safeguard the interests of the shareholders, continuous development and assets of the Company. The Group's principal businesses are exposed to two major types of business risk, namely financial and non-financial risks. Financial risks include liquidity risk, credit risk, market risk and operational risk, whereas non-financial risks mainly cover legal and compliance risks. The Company has developed its systems of internal control and risk management for its needs and to mitigate the risks that it is exposed to. The Directors have periodically assessed and reviewed the effectiveness of the Group's internal control system, including, in particular, credit, financial, operational and compliance controls and risk management functions to assure that it is adequate to protect the interests of all stakeholders. In view of business risk, a formal policy has been established which provides clear guidance on the practical considerations for setting "know-your-client" procedures, credit lines, trading limits, concentration limits and procedures on following up breaches of concentration limits, with regard to the quality, liquidity and volatility of securities collateral, credit worthiness of clients. A credit committee has been built to monitor and implement a robust control framework of collateral assessment, credit risk analysis and stress tests to promptly identify and mitigate risks exposure. Each department is also required to keep the directors informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis. Any deficiency of individual client's pledged securities or assets, it may prompt follow up actions on margin calls, request repayment, request diversification of portfolio of margin clients, liaise with the margin clients on various solutions or any other actions senior management deems necessary. For non-financial risks, a compliance committee has been set up to ensure our Group's compliance with relevant rules and regulations and to oversee and rectify internal control matters. The Board is of the view that the Group's current internal control review system is adequate and effective but will perform periodical reviews so as to improve and safeguard our internal control system.

Investors' Relations

The Company has encouraged two ways of communications with both its investors and shareholders. Extensive information about the Company's activities is provided in our interim and annual reports which are sent to the shareholders. Enquiries from individuals on matters relating to their shareholdings or the business of the Company are welcomed and are dealt with in an informative and timely manner. In order to promote effective communication, the Company maintains its website on which financial and other information relating to the Group and its business are disclosed.

Corporate Governance Report

Shareholders' Rights to Nominate a Director

If a shareholder of the Company (the "Shareholder") wishes to propose a person other than a director, (the "Director") for election as a new Director of the Company, the Shareholder must deposit a written notice (the "Notice") to the principal place of business of the Company in Hong Kong at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong, or the branch share registrar of the Company, Tricor Investor Services Limited ("Share Registrar"), at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the company secretary of the Company (the "Company Secretary").

The Notice must state clearly the name, the contact information of the Shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, and the person's biographical details. Such Notice must be signed by the Shareholder concerned (other than the person to be proposed), accompanied by a letter of consent (the "Letter") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

The period for lodgment of the Notice and the Letter will commence no earlier than the day after the despatch of the notice by the Company of the general meeting arranged for election of Directors and end no later than seven (7) days prior to the date of such general meeting.

The Notice will be verified by the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Nomination Committee and the Board to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

Shareholders' Rights on Convening an Extraordinary General Meeting

Pursuant to article 64 of the Articles of Association of the Company, any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company and carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requested shareholder(s) ("Requested Shareholders") himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the Requested Shareholders as a result of the failure of the Board shall be reimbursed by the Company.

Enquiries to the Board

Shareholders may at any time make a request for the Company's information to the extent that such information is publicly available to the Company Secretary who is responsible for forwarding communications relating to the Board or ordinary business matters, such as suggestions, inquiries and complaints, to the Directors of the Company. Shareholders may send their enquiries to our enquiry email at enquiry@pinestone.com.hk or send them directly to our office at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

Putting forward proposals at a general meeting

Shareholders are welcomed to put forward proposals relating to the operations and management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the company secretary at our office or the Share Registrar "Tricor Investor Services Limited" at the abovementioned address of the Company by written requisition. Shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in "Shareholders' Rights on Convening an extraordinary general meeting" above.

Directors' Responsibility

The Directors acknowledge their responsibilities for preparing the financial statements of the Company are to give a true and fair view and comply with the Listing Rules Appendix 14 C.1.3., HKFRS, other regulatory requirements and accounting standards. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31 December 2019. Accordingly, the Directors have prepared the consolidated financial statements for the year ended 31 December 2019 on a going concern basis.

Biography of Directors and Senior Management

Executive Directors

Mr. Cheung Yan Leung Henry, aged 69, has been the Chairman and an executive Director of our Group since 2012. He is primarily responsible for formulating the corporate strategy, managing the Group's overall business development and client referrals. After graduating from McMaster University in Canada with a Bachelor of Commerce in November 1973, he became a member of The Institute of Chartered Accountants of Ontario in December 1976. Mr. Cheung has over thirty years' worth of experience in the accounting field along with experience in the financial and business sectors in China. Mr. Cheung has been a fellow member of the Hong Kong Institute of Certified Public Accountants since May 1987. He is the father of Mr. Cheung Jonathan.

Mr. Cheung Jonathan, aged 33, is the Chief Executive Officer, Vice Chairman and an executive Director of the Company. Mr. Cheung obtained a Bachelor of Science degree in Operations Research and Engineering from Cornell University in the United States of America in May 2008. He has been a designated Financial Risk Manager (FRM) since September 2010 and a Chartered Financial Analyst (CFA) since September 2012. He has experience in various financial fields, including investment banking, direct investment, credit finance and asset management. He is responsible for formulating corporate strategies and overall management of the Group. He is a founder of the Company and he is the son of Mr. Cheung Yan Leung Henry, the Chairman of the Company.

Independent Non-Executive Director

Mr. Yeung King Wah, aged 61, was appointed as INED on 22 May 2015. He has over 20 years' experience in audit, taxation, financial consulting and management which he accrued whilst working in both Europe and Asia. He obtained a Bachelor of Commerce degree from the University of Birmingham in the UK in July 1981. He has been a member of the Institute of Chartered Accountants in England and Wales since May 1987 and a member of the Hong Kong Institute of Certified Public Accountants since April 1998. Mr. Yeung is the founder of two accounting businesses, namely Yeung and Co., Chartered Accountants, headquartered in the UK, and China Consulting Consortium Limited, a Hong Kong based company.

Mr. Lai Tze Leung George, aged 68, was appointed as INED on 22 May 2015. He has over 30 years' experience in the manufacturing industry (such as executive vice president, general manager and managing director respectively) at several multinational companies engaged in the manufacturing of consumer and speciality packaging; laminates, foils and films; and labeling and packaging materials. He obtained a Bachelor of Social Science degree from the Chinese University of Hong Kong in October 1973 and a Master of Business Administration degree from the same institution in December 1982.

Mr. So Stephen Hon Cheung, aged 64, was appointed as INED on 22 May 2015. He has been a director of the accounting firm T.M. Ho So & Leung CPA Limited since August 2003. Mr. So has over ten years' experience in the accountancy field and several years' experience working as the chief financial officer of CY Oriental Holdings Limited and then a finance director of Jetion Holdings Limited, both in the manufacturing industry. Mr. So graduated from the University of British Columbia in Canada with a Bachelor of Commerce degree in November 1979. Mr. So has been an associate member of the Institute of Chartered Accountants of British Columbia since December 1985 and a member of the Society of Management Accountants of British Columbia since October 1991, and has been a fellow member of the Hong Kong Institute of Certified Public Accountants since July 1993.

Biography of Directors and Senior Management

Senior Management

Ms. Wong Siu Kuen, aged 61, joined our Group in February 2013. She is our Senior Vice President and is the Head of the Operations Department. Ms. Wong is responsible for monitoring the daily operation of settlement, dealing with regulatory authorities, handling payrolls and general administrative duties. Ms. Wong has over 15 years' experience in the back office operations departments of various banks and financial institutions including EAA Securities Limited and JS Cresvale Securities International Limited. From April 2006 to December 2007, Ms. Wong was a Senior Assistant Manager at HSBC Private Bank; and from January 2008 to February 2013, she was a Vice President at iSTAR International Securities Co. Ltd. Ms. Wong obtained a Higher Certificate in Accountancy from the Hong Kong Polytechnic in November 1989 and a Bachelor's degree in Business Administration from the Open University of Hong Kong in December 2002.

Mr. Wong Wing Shing, aged 32, joined our Group in February 2013. He works as a Responsible Officer and is the Head of our Credit department. He has been licensed by the SFC to carry out Type 1 (dealing in securities) regulated activity since October 2009. Mr. Wong's primary duties involve overseeing the securities-backed lending services and overall risk management. Mr. Wong has over seven years' experience in the securities industry. He worked as a Vice President at iSTAR International Securities Co. Limited from October 2009 to February 2013. Mr. Wong obtained a Bachelor of Science degree from Cornell University in the US in May 2009.

Company Secretary

Mr. Au Kin Kee Kinson, aged 55, joined our Group in November 2015 as our Director of Finance and Company Secretary. His major responsibilities are to review the finance and accounting functions and oversee financial reporting matters of our Group. Mr. Au has over 10 years of experience in the securities industry. He worked in OSK Asia Securities Limited from September 1992 to April 1997. His last position was research manager. He joined Asia Financial (Securities) Limited as research manager from June 1997 to June 2015. He then joined Gartner Inc. as client relationship manager from June 1997 to June 2015. Mr. Au obtained a Master of Science degree in Business Studies from the University of Salford and a Post-graduate Diploma in Corporate Administration from City University of Hong Kong. He also received a Bachelor of Law Degree from the University of Wolverhampton. Mr. Au is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrator. According to the requirements of Rule 3.29 of the Listing Rules, Mr. Au undertook no less than 15 hours of relevant professional training during the year ended 31 December 2019.

Directors' Report

The Directors are pleased to present their report and the audited consolidated financial statements of the Pinestone Capital Limited (the"Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019.

Principal Activities

We provide a range of financial services which are tailor-made to suit the needs of each of our clients, both individual and corporate. Our revenue is primarily derived from (i) commission from our brokerage services; (ii) interest from our securities-backed lending services; and (iii) commission from our placing and underwriting services.

Corporate Reorganisation

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability on 14 January 2015. Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group on 12 May 2015. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" section to the Company's prospectus. The Company issued and placed 120,000,000 new shares of HK$0.01 each at a subscription price of HK$0.50 per share. The Shares of the Company were listed on GEM of the Stock Exchange with effect on 12 June 2015. On 15 March 2016, the Company held a stock split of 10-for-1 shares as to increase the liquidity of the shares of the Company. On 2 June 2016, the Company placed 110,000,000 new shares at the placing price of HK$0.55 each to raise approximately HK$60.5 million. On 8 June, 2017, the Company successfully transferred from GEM to list its shares to trade on the Main Board of the Stock Exchange.

Financial Statements and Appropriations

The financial performance of the Group for the year ended 31 December 2019 and the financial position of the Group at that date are set out in the consolidated financial statements from pages 43 to 101 of this annual report.

In September 2019, the Company paid an interim dividend of HK0.1 cent per share with a total amount of HK$4,897,000 (2018: nil).

The Directors do not recommend the payment of final dividend in respect of the financial year ended 31 December 2019 (2018: nil).

Share Capital

Details of movements in the Company's share capital during the year are set out in note 26 to the consolidated financial statements.

Property, Plant and Equipment

Details of movements in the Group's property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

Purchase, Sale or Redemption of Listed Shares

During the year ended 31 December 2019, the Company repurchased a total of 212,510,000 shares of a nominal value of HK$0.001 each in the capital of the Company ("Share") on the Stock Exchange, for a total cash consideration amounting to HK$32,302,000 pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting held on 24 May 2019.

Directors' Report

Particulars of the repurchased and cancelled shares during the year ended 31 December 2019 are as follows:

Months 2019	Number of Shares repurchased (shares)	Purchase Price Per Share Highest (HK$)	Lowest (HK$)	Aggregate consideration (HK$'000)
June 2019	12,370,000	0.105	0.065	1,101
July 2019	310,000	0.080	0.079	25
September 2019	28,500,000	0.159	0.150	4,453
October 2019	115,590,000	0.163	0.150	18,029
November 2019	42,740,000	0.159	0.155	6,737
December 2019	13,000,000 #	0.152	0.149	1,957
Sub-total	212,510,000			32,302

Cancelled on 25 February 2020

Except for the 13,000,000 shares repurchased in December 2019, 199,510,000 repurchased shares of the Company have been cancelled during the year ended 31 December 2019 and the issued share capital of the Company have been reduced by the nominal value of the cancelled shares. The premium paid on cancelled shares was charged against the share premium of the Company.

Particulars of the repurchased and cancelled shares subsequent to the year end date of 31 December 2019 are as follows:

Months 2020	Number of Shares repurchased (shares)	Purchase Price Per Share Highest (HK$)	Lowest (HK$)	Aggregate consideration (HK$'000)
Jan 2020	185,600,000 #	0.143	0.136	25,813
Sub-Total	185,600,000			25,813
Total	398,110,000			58,115

Cancelled on 25 February 2020

Total number of ordinary shares repurchased by the Company since the annual general meeting held on 24 May 2019 was 398,110,000. All the repurchased ordinary shares were cancelled as at the date of this report and the issued share capital of the Company was reduced by the nominal value thereof.

Except as disclosed above, during the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. The Directors believed that the above share repurchase should reflect the underlying value of the Company, and signify the Group's confidence in its long term growth prospects.

Directors' Report

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Directors

The Directors of the Company during the year ended 31 December 2019 and up to the date of this report are:

Executive Directors

Mr. CHEUNG Yan Leung Henry (張仁亮)
Mr. CHEUNG Jonathan (張存雋)

Independent Non-Executive Directors (INEDs.)

Mr. YEUNG King Wah (楊景華)
Mr. LAI Tze Leung George (黎子亮)
Mr. SO Stephen Hon Cheung (蘇漢章)

Board of Directors and Senior Management

Biographical information of Directors and senior management of the Group are set out from pages 16 to 17 of this annual report.

Directors' Service Contracts

Each of our executive Directors has entered into a service contract with our Company and each of our INEDs has entered into a letter of appointment with our Company for a term of three years commencing from 22 May 2018, which may be terminated by not less than three months' notice in writing served by either party to the other.

Permitted Indemnity Provision

During the year, the Company has arranged for appropriate insurance covering Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622, Laws of Hong Kong).

Directors' Report

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2019, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (which has the same meaning as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO.

Long positions in the shares of the Company:

Name of Directors	Number of the shares interest and nature of interests			Approximate Percentage of the total issued share capital of the Company
	Personal	Corporate	Total	
Cheung Yan Leung Henry *(Note 1)*	–	2,520,000,000	2,520,000,000	53.5%
Cheung Jonathan *(Note 2)*	–	825,000,000	825,000,000	17.5%

Notes:

1. The interests disclosed includes 2,520,000,000 Shares of the Company beneficially held by HCC & CO. Limited ("HCC"), which is wholly owned by Mr. Cheung Yan Leung Henry.

2. The interests disclosed includes 825,000,000 Shares of the Company beneficially held by Snail Capital Limited ("SCL"), which is wholly owned by Mr. Cheung Jonathan.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executives of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO.

Directors' Interests in Significant Transactions, Arrangements and Contracts

Save for those disclosed in note 33, there is no transaction, arrangement or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party and in which a Director of the Company or an entity with him has or had a material interest, whether directly or indirectly, subsisted at any time during the year 2019.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Directors' Interests in Shares and Underlying Shares" above and "Share Option Scheme" below, at no time during the year ended 31 December 2019 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement which enables the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

Directors' Report

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2019, substantial shareholders (not being the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of Shareholders	Capacity and nature of interests	*Notes*	Total	Approximate Percentage of the total issued share Capital of the Company
HCC	Directly beneficially owned	*1*	2,520,000,000	53.5%
SCL	Directly beneficially owned	*2*	825,000,000	17.5%

Notes:

1. HCC is 100% owned by Mr. Cheung Yan Leung Henry, who is the beneficial owner of 2,520,000,000 shares in the Company. Mr. Cheung Yan Leung Henry owned 53.5% of the issued shares of the Company.

2. SCL is 100% owned by Mr. Cheung Jonathan, who is the beneficial owner of 825,000,000 shares in the Company. Mr. Cheung Jonathan owned 17.5% of the issued shares of the Company.

Save as disclosed above, the Directors and chief executives of the Company are not aware that there is any party who, as at 31 December 2019, had an interest or short position in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Scheme

Pursuant to resolutions passed by the shareholders of the Company on 22 May 2015, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period commencing on the listing date, i.e. 12 June 2015 (the "Listing date") and ending on the tenth anniversary of the Listing Date.

The purpose of the Share Option Scheme is a share incentive scheme and is established to (i) motivate the Eligible Participants (including employees, executives, officers of the Group and any advisors, consultants, agents, customers, and such other persons who, in the sole opinion of the board of directors, will contribute of have contributed to the Group) for the benefit of the Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Directors' Report

Share Option Scheme (continued)

The maximum number of shares in respect of which options under the Share Option Scheme or options under other schemes may be granted is 10% of the shares in issue immediately upon completion of the placing. The Company may refresh this limit from time to time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules to 10% of the shares in issue as at the date of the approval of the refreshed limit. Notwithstanding the foregoing, the refresh limit shall in no event result in the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company exceeding 30% of the shares in issue from time to time. Based on the number of issued shares on the approval date of the refreshed limit on 11 May 2018, the maximum number of shares in respect of which options under the Share Option Scheme or options under other schemes may be granted is 491,000,000 shares, which represents 10.9% of the issued shares of the Company (after deducting the treasury shares) as the date of this annual report.

In addition, the maximum number of shares in respect of which options may be granted under the Share Option Scheme to any Eligible Participant, shall not, when aggregated with (a) any shares issued upon exercise of options granted under the Share Option Scheme or options under the other schemes which have been granted to the Eligible Participant; (b) any shares which would be issued upon the exercise of outstanding options under the Share Option Scheme or options under other schemes granted to that Eligible Participant; and (c) any cancelled shares which were subject of options under the Share Option Scheme or options under other schemes which had been granted and accepted by the Eligible Participant, in any 12-month period up to the offer date, exceed 1% of the number of shares in issue on the offer date.

The option period in respect of options granted is to be notified by the Board to each grantee within which the options may be exercisable provided that such period of time shall not exceed a period of 10 years commencing on the date upon which the option is deemed to be granted and accepted in accordance with the conditions under the Share Option Scheme.

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the documents constituting acceptance of the option duly signed by the grantee, together with a remittance or payment in favour of the Company of HK$1 by way of consideration for the grant thereof is received by the Company on or before the acceptance date, being a date not later than 30 days after the offer date.

The exercise price in relation to each option offered to an Eligible Participant shall, subject to adjustments arising from capital restructuring, be determined by the Board in its absolute discretion but in any event must be the higher of:

(a) the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date;

(b) the average of the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and

(c) the nominal value of a share.

No option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

Remuneration of Directors, Senior Management and Five Individuals with Highest Emoluments

Details of the emolument of the Directors, senior management and five individuals with highest emoluments are set out in note 11 to the consolidated financial statements.

Directors' Report

Competing Interest

The Directors are not aware of any business that they themselves are currently conducting or is being conducted by connected or related parties during the year.

Related Party Transactions

Details of the related party transactions are set out in note 33 to the consolidated financial statement. These transactions also constitute de minimis continuing connected transactions and exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios, defined in Listing Rules 14A.07 and calculated with reference to each of the Dealing Annual Caps and the Financing Annual Caps on an annual basis, are less than 5.0% (and the annual consideration is less than HK$3,000,000), the transactions contemplated under the Brokerage Service Agreements and the Margin Financing Service Agreements will fall within the exemption under Chapter 14A and be exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements.

Confirmation of Independence

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to CG Code A6 and considers all the Independent Non-executive Directors to be independent.

Dividend Policy

The Company will evaluate its dividend payment in each year in light of its financial position, the prevailing economic environment and business performance. The determination of dividends distributions will be made at the sole discretion of the Board after considerations of the Company's operations and earnings, development, cashflows, financial positions, capital and other reserve requirements, surplus and other conditions or factors, which the board deems relevant.

Dividends

The Directors do not recommend the payment of final dividend for the year ended 31 December 2019.

In September 2019, the Company paid an interim dividend of HK0.1 cent per share with a total amount of HK$4,897,000 (2018: nil).

Total dividends paid by the Company for the year ended 31 December 2019 were HK0.1 cent per share (2018: nil).

Events after the reporting period

The world is faced with the sudden and widespread of the novel coronavirus since early 2020, which led to disruptions and challenges to the global economy in an unprecedented scale. The Group has been closely monitoring the impact of the pandemic on the Group's business and manage our risk exposure with extreme caution and prudence. Based on the information currently available, the management does not foresee any material adverse impacts on the financial position of the Group.

Subsequent to the end of the reporting period, the Company has repurchased and cancelled its own shares and further details are set out in note 26.

Saved as the above, the Directors are not aware of any significant event requiring disclosure that have been taken place subsequent to 31 December 2019 and up to the date of this report.

Directors' Report

Corporate Governance

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 to the Listing Rules. A report on the principal corporate governance practices adopted by the Company is set out from pages 10 to 15 of this annual report.

Non-Competition Undertaking

Details of Non-Competition Undertaking of Mr. Cheung Yan Leung Henry and Mr. Cheung Jonathan under the Deed of Non-competition during the year are set out in the paragraph headed "Non-Competition Undertaking" in the Corporate Governance Report of this annual report.

Pension Scheme

The Company and its subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme ("MPF Scheme) set up in accordance with the Hong Kong Mandatory Fund Schemes Ordinance, under which employers and employees are each required to make regular contributions calculated at 5% of the employer's relevant income ("Mandatory Contributions") to the MPF Scheme, subject to the minimum and maximum relevant income levels as prescribed by law.

Any Mandatory Contributions paid for and in respect of an employee are fully and immediately vested in employee once paid to the trustee of the MPF Scheme and any investment return derived from the investment of the Mandatory Contributions is also fully and immediately vested in the employee. The employees are entitled to all of the accrued benefits derived from the employers' Mandatory Contributions upon retirement at the age of 65 years old, death of total incapacity, subject to other applicable provisions of law.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditor

The consolidated financial statements for the year ended 31 December 2019 have been audited by the Company's auditor, BDO Limited, who shall retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution for the re-appointment of BDO Limited as auditor of the Company will be proposed at the AGM.

Annual General Meeting

The annual general meeting ("AGM") for the financial year 2019 of the Company will be held at 11:00 a.m. on Wednesday, 20 May 2020 at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central Hong Kong and a notice of AGM will be published and despatched in due course.

Closure of Register of Members to Ascertain Shareholders' Entitlement to Attend and Vote at the Annual General Meeting

The register of members of the Company for the annual general meeting will be closed from Thursday, 14 May 2020 to Tuesday, 19 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance at the annual general meeting to be held on Wednesday, 20 May 2020, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 13 May 2020.

On behalf of the Directors

Cheung Jonathan
Executive Director

Hong Kong, 30 March 2020

Environmental, Social and Governance Report

Introduction

As a Hong Kong based financial institution engaged in securities brokerage, securities-backed lending and placing and underwriting business, Pinestone Capital Limited and its subsidiaries (the "Group") are pleased to present this Environmental, Social and Governance ("ESG") Report in accordance with the Environmental, Social and Governance Reporting Guide ("ESG Guide"), as set out in Appendix 27 of the Listing Rules governing the Main Board. This report aims to give our stakeholders a more comprehensive understanding of our practices and performance in the context of ESG.

The information stated in this report covers the period from 1 January 2019 to 31 December 2019 (the "reporting period") which aligns with the financial year as the 2019 annual report of the Group.

Scope of Report

The report mainly focused on the securities brokerage, securities-backed lending, placing and underwriting business principally engaged by the Group in Hong Kong.

The scope of disclosure will be expanded gradually to cover all of our operations upon further development of the Group's ESG practices. ESG data from vendors or service providers is not included due to the difficulty of verifying with available resources.

Stakeholders Engagement and Materiality Analysis

The Group strives to create positive values and believes that the interests of all stakeholders must be taken in account in order to strengthen relationship with our shareholders, employees, suppliers, customers, government authorities and the society as a whole.

Our approach to stakeholder engagement is designed to ensure that our stakeholders' perspectives and expectations are fully understood to help define our current and future sustainability strategies.

Environmental, Social and Governance Report

The Group proactively engaged with the key stakeholder groups in a variety of ways to ensure effective communication of our objective and progress in relation to the following areas of concern:

Major Stakeholder	Major Communication Channels	Major Concerns
Shareholders and Investors	• Press release, Corporate Announcements and Circulars • Annual and Interim Reports • Annual General Meetings	• Profitability • Financial Stability • Information Disclosure & Transparency
Employees	• Trainings and Team Building Activities • Business Meetings and Briefings • Performance Appraisals	• Compensation & Benefits • Career Development and Training Opportunities • Health & Safety Work Environment
Suppliers	• Phone Calls, Conferences, Emails	• Cooperation on Fair Terms
Customers	• Customer Complaint Hotlines • Meetings and Correspondences	• Quality of Products and Services • Understanding of the Products and Services • Privacy Protection
Public Community	• Charitable and Volunteering Activities • Community Interactions	• Corporate Social Responsibilities • Community Investment and Charitable Activities
Government and Supervisory Institutions	• Major Meeting and Policy Consultation • Information Disclosures • Institutional Visits	• Compliance Operation • Corporate Governance • Environmental Protection

Throughout the year, through a wide range of communication channels, we found that ESG compliance, environmental emissions and anti-fraud measures are the main focuses of our stakeholders.

Environmental, Social and Governance Report

Areas of Concern

As far as environmental management is concerned, though businesses of the Group in securities brokerage, securities-backed lending, placing and underwriting businesses do not pose significant environmental risks, the Group has actively paid attention to reduce the use of natural resources in operations, and implement environmental control measures wherever practicable to minimize its impact on the environment.

In addition, in carrying out our placing and underwriting business, the Group always pays attentions to cooperate with companies that strive to minimize environmental impact and have good operating practices. The Group also encourages major customers to adopt the same principles and to invest in socially responsible vehicles.

As a listed and licensed corporation, the Group is mindful of the continuous development of the regulatory environment and have designed and implement a continuous system for collecting information regarding regulatory changes and ensuring that our directors, responsible officers, licensed representatives and other employees attend necessary training programs. This enables the Group to ensure that the employees are well equipped with the necessary industry knowledge, skills and professionalism to perform their duties in accordance with currently accepted practices, and ensure its compliance with the Guidelines on Continuous Professional Training published by the SFC pursuant to section 399 of the SFO.

The Group has been expanding the securities-backed lending business through margin financing and money lending; the Group has developed proper risk management and good operating practices with a view to (i) work closely with our major customers to help them to understand the risks of margin trading; and (ii) ensure there are no over-lending to the customers and to specific stock collateral and individual borrower.

The following sections provide more information about the Group's practices in the areas of the environment, investment practices, employees' engagement and development, good operating practices and our contribution to the community.

Environmental, Social and Governance Report

A. Environmental Aspects

A1 Emissions & A2 Use of Resources

In order to seek long-term sustainability of the environment, the Group is prudent in controlling its emissions, and complies with relevant environmental laws and regulations during its daily operations.

The Group's primary business is the provision of quality financial services which has minimal direct impact to the environment.

Overall, the Group generates with relatively low energy consumption and raw materials usage. The Group does not generate any hazardous waste and our employees rarely travel for business purposes. As such, the Group's main contribution to the carbon footprint comes from indirect greenhouse gas (GHG) emissions from electricity consumption, primarily due the use of office equipment in the workplace, including but not limited to the lighting systems, air-conditionings and office machineries.

Emissions	Units	2019	2018	Percentage Increase (+) or Decrease (-)
Total GHG emissions	tonnes	9.02	8.81	+2%
Total GHG emissions per floor area	tonnes/ft^2	0.01	0.01	+2%
Total GHG emissions per employee	tonnes/employee	0.69	0.63	+10%

During the year, the total carbon emissions were approximately 9.02 tonnes, representing an increase of 0.21 tonnes, or 2%, compared with the figure in the last fiscal year. The increase of the total GHG emissions per employee was mainly due to the decrease of number of employee from 14 (in 2018) to 13 (in 2019). The Group will continue to assess and record its greenhouse gas emissions and other environmental data annually and compare it with last year's data to assist the Group in further developing emission reduction targets in the future.

Electricity Consumption

In order to achieve energy conservation and reduce GHG emissions, the Group has adopted a number of energy conservation measures to ensure the most efficient use of electricity, reduce emission of GHG and demonstrate our determination to protect our environment, including but not limited to the below:

(1) Choose energy-efficient appliances, e.g. the use of T8 fluorescent tubes, being one of the one of the most efficient light sources available;

(2) Switch off air conditioning and lighting systems after office hours;

(3) Advise employees to put their computers in hibernation mode and turn off all other office equipment when not in use;

(4) Keep all the doors and windows closed when the air conditioners are in operation; and

(5) Teleconferences and internet-meeting practices are encouraged to avoid unnecessary business travel.

Environmental, Social and Governance Report

Electricity Consumption	Units	2019	2018	Percentage Increase (+) or Decrease (-)
Total energy consumption	kWh	**11,021**	11,157	-1%
Total energy consumption per floor area	kWh/ft^2	**6.49**	6.57	-1%
Total energy consumption per employee	kWh/employee	**847.80**	796.93	+6%

The Group will continue to improve the efficiency of resource utilization and gradually establish a quantitative target for future electricity use based on resource utilization in the current year.

Water Consumption

Our office is located in the prime business distinct in Hong Kong where the water fee is included in the overall management fees. The Group's water consumption is minimal and is mainly used for drinking. Thus, the corresponding data is not available for calculation in the GHG emission.

Paper Usage

In order to enhance environment protection, the Group has also followed a number of resources saving and efficiency measures to promote paperless office, including but not limited to the below:

(1) Encourage employees to reduce the use of paper by assessing the necessity of printing before use;

(2) Encourage double sides printing and the use of scrap papers in printing;

(3) Recycled paper is used for intra-group informal documents and draft papers;

(4) Send electronic greetings over email or other forms of electronic applications, such as WhatsApp or WeChat, rather than faxing or writing; and

(5) Encourages the shredding and recycling of documents that are no longer needed.

Paper Usage	Units	2019	2018	Percentage Increase (+) or Decrease (-)
Total paper consumption	kilograms	**1,683**	1,653	+2%
Total paper consumption per employee	kilograms/ employee	**129.50**	118.06	+10%

During the year, the total paper used was 1,683 kg with an intensity of 168.35 kg per employee. This figure represents an increase of 30 kg, or 2%, compared to the total paper usage in 2018. The total paper consumption per employee increase was mainly due to the decrease of number of employee from 14 (in 2018) to 13 (in 2019).

Environmental, Social and Governance Report

Investment Practices

The Group practices a set of principles when acting as a placing agent or an underwriter of fund-raising activities whereby the Group seeks to cooperate with companies with good practices in dealing with environmental, humanitarian and governance issues. Good business practices help to generate better profits and returns for investors, particularly in the long run. Companies that treat their workers and the environment with respect generally find themselves less burdened by regulatory issues, fines and lawsuits. The Group reads prospectuses and annual reports of these companies and take into account their transparency and accountability, the Group cares about who manages these companies and or who sits on their boards, the Group finds out how the companies are behaving with respect to environmental, social and workers' rights.

The Group seeks to work with companies that are environmentally conscious – those who (i) make efforts to reduce energy use, waste and pollution; (ii) give best efforts to conserve resources such as use of recycled materials and minimize their paper communication; and (iii) extract natural resources in a responsible manner.

The Group looks for social responsible companies, who (i) work with high-quality suppliers of high ethics standards; (ii) have high customers' satisfaction; (iii) interact the government and regulators with integrity; (iv) make decisions with a view to maximize positive effects and minimize negative effects on the community; and (v) make charitable contributions and provide support to the community.

The Group would like to work with companies that respect workers' and human rights, ensure health and safety in working conditions and the surrounding community and provide fair and equitable wages and benefit.

Companies with good governance help to ensure long term success. The major corporate governance issues include financial reporting and other disclosures, investor relationship, executive compensation, conflict of interest and regulatory compliance.

The Group shares the set of principles and best practices with our major customers and encourages them to apply the same principles when selecting a company to invest.

A3 The Environment and Natural Resources

Since our business is mainly office-based, the impact on the environment is minimal. The main environmental impact of the business is the indirect impact of carbon dioxide generated by power and paper usage in the daily activities of the business.

The Group has taken steps to reduce its impact on the environment by adopting energy saving measures mentioned in A1 Emissions and A2 Use of Resources.

Environmental, Social and Governance Report

B. Social

B1 Employment and Labor Practices

The Group strongly believes that employees are the most valuable asset for its sustainable development.

The Group strictly complies with the Hong Kong Employment Ordinances and other legal employment requirements, avoiding any child employment, discrimination, harassment or offenses against the laws of Hong Kong. We strive to fulfill our responsibilities to employees, respects their legitimate rights and interests, promote their professional development, improve our working environment and pay attention to the physical and mental health of employees, in order to realize the common development of the Group and its employees.

The Group is committed to providing a workplace free from any form of discrimination and harassment and provides opportunities to employees with different backgrounds and characteristics so as to build a diversified workforce. As prescribed in our policies and procedures, the Group emphases a transparent recruitment and employment mechanism. In all employment decisions, including recruitment, promotion and termination, the Group only takes the qualification, experience and performance of candidates or employees relevant to the job function into account.

Any form of discrimination against our potential or current employees on the ground of nationality, age, gender, sexual orientation, gender identity, ethnicity, disability, pregnancy, political inclination is strongly prohibited.

The Group provides a wide range of incentives, including competitive remuneration and benefits packages, which are based on individual performances and qualifications of employees and benchmarked against our industry peers on an annual basis.

All of our employees are essentially treated with fair wage, fixed working hours, proper insurance coverage, statutory holidays and miscellaneous types of leaves, including sick leave, maternity leave, marriage leave, compassionate leave and jury service leave. In addition, a various of leisure activities are organized which includes but not limited to annual dinners, birthday or Christmas parties to enhance the staff bonding.

The Group has established an "Employee Hand Book" that includes the terms and conditions of employment, the staff benefits (leave entitlement, insurance and training), and the office rules and policies.

During the year under review, the Group was not aware of any litigation cases regarding labor and employment practices brought against the Group or its employees were noted.

Environmental, Social and Governance Report

The total workforce by age group and gender, as compared to last year, are as follows:

Percentage of Employees by Age Group

	Age Group					
Year	**21-30**	**31-40**	**41-50**	**51-60**	**>61**	**Total**
2018	7%	29%	7%	21%	36%	100%
2019	–	23%	15%	8%	54%	100%

Percentage of Employees by Gender

Year	**Male**	**Female**	**Total**
2018	71%	29%	100%
2019	77%	23%	100%

Since its establishment, the Group implemented different measures to reduce employee turnover rate, such as strengthening recruitment controls, so that applicants can fully understand the working environment and control of the Group strengthen the staff trainings system to meet the career development requirement of employees at all levels; focus on the work pressure of employees, expand the development prospects of the Group so that competitive career platform can be provided to the employees.

The employee turnover rate was low. Only one employee left the company during the reporting period.

B2 Health and Safety

The Group concerns about the health and safety of its employees and is committed to provide a safe, healthy and productive environment for all.

The Group provides full time employees with a comprehensive set of medical insurance to its employees, including but not limited to medical insurance, surgical insurance, hospitalization insurance and employees' compensation insurance.

The Group has established the "Occupational Safety & Health Regulations" for primary prevention of hazards and to deal with all aspects of health and safety in the workplace. The main focus of our practices has three different objectives: (1) to maintain and promote workers' health and capacity at work; (2) to improve the working environment so to be conducive to safety and health; and (3) to develop a work culture in a direction which supports health and safety at the workplace. Other policies and procedures regarding fire safety, suspicious mail alerts, rainstorm warnings, typhoon arrangement and office tidy policies are required to be followed by all employees to protect employees from risks resulting from factors adverse to health.

As far as physical working environment is concerned, the Board of Directors has set up an office in the prime business distinct in Hong Kong to provide a safe, clean and healthy working environment to protect employees from occupational hazards. Smoking policy is in place to prohibit smoking in any area of our premises during office hours to provide employees with a healthy and safe working environment.

During the year under review, the Group was not aware of any violations of Hong Kong health and safety laws and regulations.

Environmental, Social and Governance Report

B3 Development and Training

The Group is required to comply with the various ordinances, rules and guidelines including but not limited to the Securities and Futures Commission Ordinance, Cap 571 ("SFO"), the Personal Data (Privacy) Ordinance, Cap 486, the Main Board Listing Rules and the Hong Kong Securities and Futures Commission's Guideline on Anti-Money Laundering and Counter-Terrorist Financing ("AML Guideline").

Each licensed individual in the organization must fulfill the Continuous Professional Training (CPT) requirements made under Section 399 of the SFO for each regulated activity within each calendar year.

Pursuant to the Code provision A.6.5 under Appendix 14 of the Mainboard Listing Rules, all directors are also required to participate in continuous professional training to develop and refresh their knowledge and skills. Our compliance team is responsible for collecting all relevant regulatory changes and working closely with our Company Secretary to determine if professional training is required for relevant employees and directors to ensure they have the knowledge and skills they need to perform their duties.

In order to maintain a competitive edge, the Group is also committed to provide support to its employees and directors, including representative officers and company secretary, in continuous professional training and encourages them to attend professional training programs organized by various professional bodies by offering eligible employees with sponsorship, examination fee reimbursement, education and examination leaves. Every licensed individual must complete at least five hours of continuous professional training per calendar year for each type of regulated activity. The Group ensures that our licensed staff fulfils the relevant requirement and maintains the training attendance record.

In additional, the Group has held several trainings, discussions or meetings regarding the internal control procedures on anti-corruptions and risk-managements during the year.

B4 Labor Standards

In line with the local employment laws including the Employment Ordinance of Hong Kong and other related labor laws and regulations, the Group prohibits the employment of child labor or any other form of forced and illegal labor.

During the recruitment process, all candidates are required to provide identification proof to ensure compliance with the relevant laws and regulations on prohibiting child labor and forced labor. If applicants are found in providing any counterfeiting or forged information, the Group has right to dismiss the employee immediately.

The employment term and conditions are set out in the "Staff Handbook" which is required to be signed by all new employees to confirm acceptance.

During the year under review, the Group was not aware of any non-compliance with laws and regulations which have a significant impact on employment and labor practices.

Environmental, Social and Governance Report

B5 Supply Chain Management

Due to the nature of the business, the Group only has a few suppliers of office supplies and equipment and is not highly dependent on these suppliers.

The Group has established processes in accordance with certain requirements and standards set by the Group to select and evaluate suppliers to ensure that the purchased goods comply with relevant standards and criteria.

In selecting and evaluating suppliers, the Group also pays attention to their environmental compliance record as well as their commitment to social responsibility. Environmentally and socially responsible suppliers will be prioritized in the selection process.

B6 Operating Practices and Product Responsibility

As a licensed corporation, the Group is committed to comply with all relevant laws and regulations under the regulatory regime for the financial service industry, in particular, all applicable provisions of the SFO (Security & Futures Ordinance) and its supplementary rules and regulations as well as the codes and guidelines issued by SFC (The Securities & Futures Commission).

Securities-Backed Lending

Our securities-backed lending businesses are composed of two main streams of services, namely margin financing and money lending, which remain the main source of our revenue in 2019.

The Group provides margin financing to customers who prefer more financing flexibility through trading securities on a margin basis. As a kind of high-risk investment strategy, while margin financing gives the potential for investors to magnify their gains, it also risks the potential of magnifying losses. As such, our Group believes that it is critical for all our margin trading customers to fully understand the benefits and risks involved with this type of investment activity.

The Group help them to understand the benefits and risks associated with margin financing by preparing a comprehensive and detailed agreement to explain the terms and conditions of the margin account, including how interest is calculated, the responsibility of loan repayment and how the securities serve as collateral for the loan.

We take a prudent procedure to determine the suitability and credit-worthiness of margin customers by assessing their risk profile, investment experience and the level of liquid assets available to meet the margin call should once be incurred. Risk management controls are also adopted in areas such as lending ratios and limits and cash flow projections.

Prior to the activation of a margin account, the Group will share the margin call policies and procedures with the customer, including how much a customer investment portfolio will need to fall before a margin call occurs as well as the strategy to meet a margin call such as holding a sufficient cash reserve and availability of specific assets.

We also recommend our customers to review their strategies and portfolios at least on an annual basis to ensure the financing products continue to address their long term needs and objectives, and to ensure that their loan-to-value ratios are remained at an appropriate level.

Our money lending business is conducted by Pinestone Capital Group Limited, our wholly-owned subsidiary which is granted the Money Lenders License by the Licensing Court.

Environmental, Social and Governance Report

The licensing of money lenders and regulation of money-lending transactions are governed by the Money Lenders Ordinance, Cap 163. Whilst margin loans can only be used for the purchase of securities via our Group's securities brokerage, customers may use loans granted under the money lender license for other purposes.

The Group has followed all forms and procedures prescribed under the provisions of the Money Lenders Ordinance when making relevant application for the renewal of Money Lender Licenses and conducting our money lending business.

Protection of Customers' Data
The nature of our business requires that we frequently and regularly collect, retain, and utilize personal data from our existing and potential customers. Therefore, we must abide by the fair information practices as stipulated in the data protection principles of the Personal Data (Privacy) Ordinance.

For the protection of privacy in respect of personal data, the Group has well established internal control and compliance procedures developed on the basis of the Ordinance to ensure compliance with the relevant laws and regulations.

The Group is committed to the full compliance with our data protection principles and all relevant provisions of the Ordinance. We inform our customers of their rights under the Ordinance and the purpose for which their data may be used by the Group.

We seek to ensure that appropriate measures are taken to prevent the misuse or disclosure of personal data and to hold such personal data solely for such collection purposes.

B7 Anti-Corruption & Anti-Money Laundering

The Group stands against any form of bribery, extortion, fraud, and has a zero-tolerance policy towards misconduct and is committed to creating a culture of integrity and justice by accepting internal complaints and whistleblowing.

To make this strong commitment within our business, the Group has established the "Compliance Manual" in accordance with the relevant regulatory laws and standards to promote anti-fraud principles and consistent organizational behaviors by providing guidelines, assigning responsibility and facilitating early detection of potential fraud that are against the interest of the Group. The Manual has defined a wide range of terms related to anti-corruption and explains how these terms apply to various situations to ensure compliance.

The whistle blowing channel, as set out in the "Anti-Fraud and Whistle-Blowing Policy", has been in place for employees at all levels to raise any concerns without fear of any negative impacts. The Group encourages reporting of suspected business irregularities and provides clear channels specifically for this purpose. All employees can contact the Compliance Officer or, in case of extremely serious matter, directly to the Chairman of the Board's audit committee for lodging a complaint or whistleblowing. The Group is committed to the highest standards of integrity and ethics.

Environmental, Social and Governance Report

The Group is required to conduct customer due diligence and report suspicious transactions to relevant regulatory agencies. To achieve this objective, the Group has adopted policies and procedures for implementing customer due diligence process, identifying employees' involvement in money laundering activities, detecting, monitoring and reporting of suspicious transactions. In addition, we also have policies and procedures in place to detect and prevent the use of our operations for money laundering activities and other illegal or improper activities may not preclude customers' international fraud.

During the period under review, the Group has complied with all applicable anti-money laundering laws and regulations in Hong Kong, including the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, Cap 615 (the AMLO) and the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC. The Group was not aware of any of non-compliance with laws or regulations that has a significant impact concerning bribery, extortion, fraud or money laundering during the year.

B8 Community

Recognizing our responsibility to the community, we are committed to providing available resources to support the community and encouraging employees to participate in various charitable and voluntary activities.

We actively advocate employees to participate in charitable events, to arouse attention to the community and drive further participation in community services.

The Group will continue to uphold the principles of accountability to shareholders, investors, suppliers, customers and the public community and seek further development opportunities to maintain a harmonious relationship with stakeholders.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF PINESTONE CAPITAL LIMITED
鼎石資本有限公司

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Pinestone Capital Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 43 to 101, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Independent Auditor's Report

Key Audit Matters (continued)

Impairment assessment of trade receivables due from margin clients and loans receivable

Refer to notes 2g(ii), 4(ii), 17, 18 and 37(a) in the consolidated financial statements

As at 31 December 2019, the Group had trade receivables due from margin clients amounting to HK$189,253,000 and loans receivable amounting to HK$37,409,000. The Group assessed impairment for these receivables based on expected credit losses model under HKFRS 9 *Financial Instruments* ("HKFRS 9"). Loss allowance for expected credit losses amounting to HK$14,628,000 and HK$3,180,000 respectively have been made for the trade receivables due from margin clients and loans receivable as at 31 December 2019.

Assessing expected credit losses on trade and loans receivables is a subjective area as it requires application of judgment and uses of estimates. Judgment is applied in assessing whether the credit risk of the receivables has increased significantly since initial recognition and whether the receivables are credit-impaired. In this regard, management considers factors including the collateral ratio, that is the level of securities collateral in proportion to the outstanding receivables; the changes in the expected behaviour of the margin clients or the borrowers; the value of the securities collateral as well as those relevant forward-looking information and how it has impact on the historical data. These require significant judgment by the management. Estimates are used mainly in assessing the recoverable amount of the securities collateral and the ultimate realisation of these receivables having regard to the sales proceeds and costs of selling the securities collateral and other credit enhancement measures.

We have identified impairment assessment of trade receivables due from margin clients and loans receivable as a key audit matter due to considerable amount of judgment and estimation being required in conducting impairment assessment as mentioned in the foregoing paragraph.

Our procedures in relation to management's assessment of expected credit losses on trade receivables due from margin clients and loans receivable included:

- Testing key controls over monitoring credit assessment of customers relating to new customers acceptance and annual review of existing customers, reviewing policies and procedures in monitoring the trading activities and level of securities collateral of margin clients and borrowers as well as for valuing and managing collateral, and reviewing the margin call procedures for margin shortfall;

- Assessing whether the Group's impairment policy is in accordance with the requirements under HKFRS 9;

- Assessing the factors considered by the management for determining whether the credit risk of the receivables has increased significantly since initial recognition and whether the receivables are credit-impaired which include:

    - Re-performing the calculation of collateral ratio;

    - Challenging management in applying the collateral ratio and considering other factors including changes in behaviour of the margin clients and borrowers and changes in value of collateral in doing their assessment;

    - Checking the relevant documents supporting the payment status of the customers and customers' actions in response to the margin calls or similar request of the Group; and

    - Assessing how reasonably management has incorporated in their assessment forward-looking information including expected changes in economic and financial conditions which is expected to cause a significant change in the customers' ability to meet their debt obligations; and

Independent Auditor's Report

Key Audit Matters (continued)

Impairment assessment of trade receivables due from margin clients and loans receivable (continued)

- Assessing the amount of loss allowance made by the management including:
  - assessing the appropriateness and reasonableness of the estimation techniques, inputs and assumptions used by the management to determine the loss allowance amount;
  - assessing management's estimation of the recoverable amount of securities collateral which includes checking their current market value and price fluctuation in the past and assessing their quality, assessing other sources of cash flows, where applicable, and assessing how reasonably management has incorporated forward-looking information in doing the estimation such as assessing the financial market analysis and individual stock analysis performed by the management; and
  - checking management's calculations of expected cash shortfall and impairment allowance.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include 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.

Directors' Responsibilities 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 Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and 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 also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

Independent Auditor's Report

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 the terms of our 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.

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 judgment and maintain professional skepticism throughout the audit. We also:

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

- 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.

Independent Auditor's Report

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants
Lee Ming Wai
Practising Certificate no. P05682

Hong Kong, 30 March 2020

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	6	**25,917**	18,849
Other income	7	**68**	5
Commission and fee expenses		**–**	(61)
Employee benefit expenses	8	**(6,496)**	(6,070)
Depreciation	10	**(2,039)**	(95)
Impairment losses on trade and loans receivables, net	17&18	**–**	(9,203)
Other operating expenses		**(7,649)**	(6,168)
Finance costs	9	**(179)**	(48)
Profit/(Loss) before income tax	10	**9,622**	(2,791)
Income tax expense	12	**(2,391)**	(214)
Profit/(Loss) for the year		**7,231**	(3,005)
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**7,231**	(3,005)
		HK cents	HK cents
Earnings/(Loss) per share			
Basic and diluted	14	**0.15**	(0.06)

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**3,725**	300
Intangible asset	16	**500**	500
Statutory deposits placed with stock exchange and clearing house		**1,205**	205
Deferred tax assets	25	**2,647**	2,732
		8,077	3,737
Current assets			
Trade receivables	17	**174,626**	224,115
Loans receivable	18	**34,229**	18,514
Other receivables, deposits and prepayments	19	**1,173**	1,166
Tax recoverable		**487**	2,879
Trust bank balances held on behalf of customers	20	**6,140**	5,276
Cash and bank balances	21	**29,212**	22,547
		245,867	274,497
Current liabilities			
Trade payables	22	**8,193**	5,969
Other payables and accruals		**581**	667
Lease liabilities	23	**2,025**	–
Obligation under finance lease	24	**–**	51
Tax payable		**75**	–
		10,874	6,687
Net current assets		**234,993**	267,810
Total assets less current liabilities		**243,070**	271,547
Non-current liabilities			
Lease liabilities	23	**1,745**	–
Obligation under finance lease	24	**–**	218
		1,745	218
Net assets		**241,325**	271,329
CAPITAL AND RESERVES			
Share capital	26	**4,710**	4,910
Reserves	27	**236,615**	266,419
Total equity		**241,325**	271,329

On behalf of the directors

Mr. Cheung Yan Leung Henry	**Mr. Cheung Jonathan**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital HK$'000 *(note 26)*	Share premium* HK$'000 *(note 27)*	Treasury shares* HK$'000 *(note 27)*	Capital reserve* HK$'000 *(note 27)*	Retained profits* HK$'000 *(note 27)*	Total HK$'000
At 1 January 2018	4,910	217,210	–	(4,866)	57,080	274,334
Loss for the year	–	–	–	–	(3,005)	(3,005)
Other comprehensive income for the year	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	(3,005)	(3,005)
At 31 December 2018 and 1 January 2019	**4,910**	**217,210**	**–**	**(4,866)**	**54,075**	**271,329**
Profit for the year	**–**	**–**	**–**	**–**	**7,231**	**7,231**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**7,231**	**7,231**
Transactions with owners:						
Repurchase of shares *(note 26)*	**–**	**–**	**(32,338)**	**–**	**–**	**(32,338)**
Cancellation of shares repurchased *(note 26)*	**(200)**	**(30,179)**	**30,379**	**–**	**–**	**–**
2019 interim dividend paid *(note 13)*	**–**	**–**	**–**	**–**	**(4,897)**	**(4,897)**
	(200)	**(30,179)**	**(1,959)**	**–**	**(4,897)**	**(37,235)**
At 31 December 2019	**4,710**	**187,031**	**(1,959)**	**(4,866)**	**56,409**	**241,325**

* The total of these balances at the end of the reporting period represents "Reserves" in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Operating activities			
Profit/(Loss) before income tax		**9,622**	(2,791)
Adjustments for:			
Depreciation on property, plant and equipment		**2,039**	95
Impairment losses on trade and loans receivables, net		**–**	9,203
Write-back of payables		**(61)**	–
Bank interest income		**(7)**	(5)
Interest expense		**179**	48
Operating profit before working capital changes		**11,772**	6,550
Increase in statutory deposits placed with stock exchange and clearing house		**(1,000)**	–
Decrease/(Increase) in trade receivables		**51,488**	(59,613)
Increase in loans receivable		**(17,714)**	(8,666)
Increase in other receivables, deposits and prepayments		**(7)**	(166)
(Increase)/Decrease in trust bank balances held on behalf of customers		**(864)**	11,193
Increase/(Decrease) in trade payables		**265**	(10,546)
Decrease in other payables and accruals		**(25)**	(318)
Net cash from/(used in) operations		**43,915**	(61,566)
Income tax refunded/(paid), net		**161**	(3,186)
Net cash from/(used in) operating activities		**44,076**	(64,752)
Investing activities			
Purchase of property, plant and equipment		**–**	(30)
Bank interest income		**7**	5
Net cash from/(used in) investing activities		**7**	(25)
Financing activities			
Repayment of borrowings	*32(b)*	**–**	(6,072)
Repayment of capital element of lease liabilities	*32(b)*	**(1,963)**	–
Payment of interim dividend		**(4,897)**	–
Repurchase of shares	*26*	**(30,379)**	–
Interest paid	*32(b)*	**(179)**	(59)
Net cash used in financing activities		**(37,418)**	(6,131)
Net increase/(decrease) in cash and cash equivalents		**6,665**	(70,908)
Cash and cash equivalents at beginning of year		**22,547**	93,455
Cash and cash equivalents at end of year		**29,212**	22,547
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**29,212**	22,547

Notes to the Financial Statements

1. Corporate Information

Pinestone Capital Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. Its principal place of business is located at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services.

The Company's parent is HCC & Co Limited ("HCC & Co"), a limited liability company incorporated in the British Virgin Islands ("BVI"). In the opinion of the directors, HCC & Co is also the ultimate parent of the Company.

The financial statements for the year ended 31 December 2019 were approved and authorised for issue by the directors on 30 March 2020.

2. Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") which collective term includes individual Hong Kong Financial Reporting Standands, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements have been prepared under the historical cost basis.

The financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

All values are rounded to the nearest thousand except otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately different from those estimates. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(b) Business combination

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. 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 year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the 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 other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. 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 at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(c) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Right-of-use for office premises	Over the shorter of the remaining lease term or estimated useful life
Leasehold improvements	Over the shorter of the remaining lease term or 3 years
Furniture, fixtures and equipment	5 years
Computer system and software	5 years
Motor vehicle	3 years

Leased assets are depreciated on straight-line basis over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 2(p)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(e) Leasing

A. *Policies applicable from 1 January 2019*

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of identified asset for a period of time in exchange for consideration.

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases are expensed on straight-line basis over the lease term.

Right-of-use assets

Right-of-use asset is recognised at cost and comprises: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. The Group presents right-of-use assets that do not meet the definition of investment property in "Property, plant and equipment" in the consolidated statement of financial position.

Lease liabilities

Lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

The following payments for use of the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group presents lease liabilities separately in the consolidated statement of financial position.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(e) Leasing (continued)

B. Policies applied until 31 December 2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as leasee under finance lease

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the lease term and is calculated so that it represents a constant proportion of the lease liabilities. The capital element reduces the lease liabilities.

The Group as lessee under operating lease

The total rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(f) Intangible assets

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (note 2(p)). Amortisation is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses (note 2(p)).

(g) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

Financial assets with embedded derivatives are considered at their entirety when determining whether their cash flows are solely payments of principal and interest on the principal outstanding.

The Group classifies its financial assets in the following measurement categories:

– Financial assets at amortised cost;

– Financial assets at fair value through other comprehensive income; and

– Financial assets at fair value through profit or loss.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(i) Financial assets (continued)

The classification is generally based on two criteria:

– the business model under which the financial asset is managed; and

– the contractual cash flow characteristics of the financial asset.

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

Debt instruments

There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost
  Financial assets that are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.

– Fair value through other comprehensive income
  Financial assets that are held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling the financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at fair value though other comprehensive income. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– Fair value through profit or loss
  Financial assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. Changes in fair value and interest income are recognised in profit or loss.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(i) Financial assets (continued)

Equity instruments

– Fair value through profit or loss

Equity investments at fair value through profit or loss are subsequently measured at fair value. Changes in fair value, dividend income and interest income are recognised in profit or loss.

– Fair value through other comprehensive income

For equity investment which 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, they are subsequently measured at fair value and 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. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. On disposal of the investment, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. Equity instruments at fair value through other comprehensive income are not subject to impairment assessment.

(ii) Impairment loss on financial assets

The Group recognises an allowance for expected credit losses ("ECL") on debt instruments carried at amortised cost (including trade receivables, loans receivable, other receivables, deposits, trust bank balances held on behalf of customers and cash and bank balances) and debt instruments measured at fair value through other comprehensive income.

ECL are probability-weighted estimate of credit losses. Credit losses are measured at the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancement that are integral to the contract terms.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

The ECL are measured on either of the following bases:

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

– lifetime ECL: these are the ECL that result from all possible default events over the expected life of a financial instrument.

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

For trade receivables from cash clients and clearing house, the Group applies the simplified approach in measuring ECL, that is to recognise a loss allowance based on lifetime ECL at each reporting date. The Group has estimated a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the Group applies the general approach to measure ECL, that is to recognise a loss allowance based on 12-month ECL. However, when there has been a significant increase in credit risk since initial recognition, the loss allowance will be based on lifetime ECL.

The Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, such as credit risk grading, collateral type, remaining term to maturity and the value of collateral relative to the financial asset if it has an impact on the probability of default occurring.

The Group recognises an impairment loss or reversal in profit or loss for financial assets carried at amortised cost by adjusting their carrying amount through the use of a loss allowance account. 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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

For investments in debt instruments that are measured at fair value through other comprehensive income, the impairment loss is recognised in other comprehensive income and accumulated in the fair value reserve without reducing the carrying amounts of those debt instruments.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial assets. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

A financial liability is classified as (i) financial liabilities at amortised cost; or (ii) financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(iii) *Financial liabilities (continued)*

Financial liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, lease liabilities and obligation under finance lease are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (note 2(q)).

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 2(g)(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15").

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(vi) Financial guarantee contracts (continued)

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECL on the financial guarantees are determined to be higher than the carrying amount of the guarantees. To determine ECL, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9 *Financial Instruments* ("HKFRS 9").

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(viii) Offsetting of financial instruments

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(h) Recognition of revenue and other income

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if:

– the customers simultaneous receives and consumes the benefits provided by the Group's performance as the Group performs;

– the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

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

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

The Group recognises revenue and other income on the following basis:

(i) Commission income from securities brokerage services is recognised on trade date basis when the relevant transactions are executed.

(ii) Handling fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

(iii) Income from placing and underwriting services is recognised when the relevant services are provided.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(h) Recognition of revenue and other income (continued)

(iv) Interest income:

Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate on (i) the amortised cost (i.e. gross carrying amount less loss allowance for credit-impaired financial assets); or (ii) the gross carrying amount for non credit-impaired financial assets.

(i) Contract costs, contract assets and contract liabilities

Contract costs

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

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

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

Capitalised contract costs are stated as cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the assets relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of goods or services to which the costs relate. The accounting policy for revenue recognition is set out in note 2(h).

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(i) Contract costs, contract assets and contract liabilities (continued)

Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(h)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2(g)(ii). Loss allowance for contract assets is measured at an amount equal to lifetime ECL. Contract assets are reclassified to receivable when the right to the consideration has become unconditional (note 2(j)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(h)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as contract assets (see note 2(i)). Receivables are stated at amortised cost using the effective interest method (see note 2(g)(i)) less allowance for credit losses (see note 2(g)(ii)).

(k) Cash and cash equivalents

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

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with the accounting policy set out in note 2(g)(vi), trade and other payables are subsequently stated at amortised cost (see note 2(g)(iii)) unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(m) Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of the reporting period.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit or tax loss of the periods in which the temporary differences are expected to reverse. The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of taxable income in those years. The estimate of future taxable income includes income or loss excluding reversals of temporary differences; and reversals of existing temporary differences.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(n) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(o) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

(p) Impairment of non-financial assets

Intangible assets having indefinite useful lives are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Property, plant and equipment including right-of-use assets and investments in subsidiaries are tested for impairment whenever there are indications that the assets' carrying amounts may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if 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, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

(q) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) 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.

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of 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 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 the Company's parent.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(t) Related parties (continued)

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3. Adoption of new or revised HKFRS

(a) Adoption of new or revised HKFRS – effective 1 January 2019

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2019:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Annual Improvements to HKFRS 2015-2017 Cycle	Amendments to HKFRS 3 Business Combination, HKAS 12 Income Taxes and HKAS 23 Borrowing Costs

The impact of the adoption of HKFRS 16 *Leases* ("HKFRS 16") have been summarised below. The other new or amended HKFRS that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 *Leases* ("HKAS 17"), HK(IFRIC) – Int 4 *Determining Whether an Arrangement Contains a Lease*, HK(SIC) – Int 15 *Operating Leases – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease*. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17.

Details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's consolidated financial statements and accounting policies and the transition method adopted by the Group as allowed under HKFRS 16 are set out below.

Notes to the Financial Statements

3. Adoption of new or revised HKFRS (continued)

(a) Adoption of new or revised HKFRS – effective 1 January 2019 (continued)

HKFRS 16 (continued)

The impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 is summarised as follows:

	As previously reported HK$'000	HKFRS 16 contract capitalisation HK$'000	HKFRS 16 reclassification HK$'000	As restated HK$'000
Assets				
Right-of-use assets presented in property, plant and equipment	–	5,464	–	5,464
Liabilities				
Lease liabilities (current)	–	1,912	51	1,963
Lease liabilities (non-current)	–	3,552	218	3,770
Obligation under finance lease (current)	51	–	(51)	–
Obligation under finance lease (non-current)	218	–	(218)	–

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Operating lease commitments as at 31 December 2018	5,762
Less: Future interest expenses	(298)
Add: Finance lease liabilities as at 31 December 2018 *(note 3(a)(iii))*	269
Total lease liabilities as at 1 January 2019	5,733

The weighted average of the incremental borrowing rates applied to the lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 4.1%.

Notes to the Financial Statements

3. Adoption of new or revised HKFRS (continued)

(a) Adoption of new or revised HKFRS – effective 1 January 2019 (continued)

HKFRS 16 (continued)

(i) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(ii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

The new accounting policies for leases under HKFRS 16 are set out in note 2(e)A.

Notes to the Financial Statements

3. Adoption of new or revised HKFRS (continued)

(a) Adoption of new or revised HKFRS – effective 1 January 2019 (continued)

HKFRS 16 (continued)

(iii) Transition

The Group has applied HKFRS 16 using the modified retrospective approach and recognised all the cumulative effect of initially applying HKFRS 16, if any, as an adjustment to the opening balance of retained profits at the date of initial application, i.e. 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has applied the transitional expedients to grandfather the previous assessment on leases. The Group has recognised lease liabilities at the date of 1 January 2019 for leases previously classified as operating lease applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has recognised right-of-use assets at 1 January 2019 for lease previously classified as operating lease under HKAS 17 at the amount equals to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 *Impairment of Assets* at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also leased a motor vehicle which was previously classified as finance lease under HKAS 17. As the Group has elected to adopt the modified retrospective approach over the adoption of HKFRS 16, for the finance lease under HKAS 17, the right-of-use assets and the corresponding lease liabilities at 1 January 2019 were the carrying amount of the lease assets and lease liabilities under HKAS 17 immediately before that date. The Group has accounted for the right-of-use assets and the lease liabilities of the lease applying HKFRS 16 from 1 January 2019. Upon adoption of HKFRS 16 on 1 January 2019, the right-of-use assets arising from the lease of motor vehicle with net carrying amount of HK$294,000 continues to be presented within "Property, plant and equipment" whereas the corresponding finance lease liabilities amounting to HK$269,000 were reclassified from "Obligation under finance lease" to "Lease liabilities".

Notes to the Financial Statements

3. Adoption of new or revised HKFRS (continued)

(a) Adoption of new or revised HKFRS – effective 1 January 2019 (continued)

HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12 *Income Taxes* by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met, instead of at fair value through profit or loss.

Annual Improvements to HKFRS 2015-2017 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include the followings:

Amendments to HKFRS 3 Business Combinations

Amendments to HKFRS 3 clarify that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition-date fair value.

Amendments to HKAS 12 Income Taxes

Amendments to HKAS 12 clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Amendments to HKAS 23 Borrowing Costs

Amendments to HKAS 23 clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Notes to the Financial Statements

3. Adoption of new or revised HKFRS (continued)

(b) New or revised HKFRS that have been issued but are not yet effective

The following new or revised HKFRS potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]

[1] Effective for annual periods beginning on or after 1 January 2020

The directors of the Company anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Amendments to HKFRS 3 Definition of a Business
The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 Definition of Material
The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform
The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The above new or revised HKFRS that have been issued but not yet effective are unlikely to have material impact on the Group's results and financial position upon application.

Notes to the Financial Statements

4. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

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 as follows:

(i) Impairment of non-financial assets

Management assesses impairment by evaluating conditions specific to the Group that may lead to impairment of non-financial assets. When an impairment trigger exists, the recoverable amount of the asset is determined. For intangible asset with indefinite useful life, it is tested for impairment annually, irrespective of whether there is any impairment indication. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgments, the directors take into consideration assumptions that are mainly based on market conditions existing at the reporting date and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. Significant estimates and assumptions used by the directors for the impairment assessment of intangible asset are disclosed in note 16.

(ii) Impairment of financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires significant judgment and estimation, in particular, the assessment of a significant increase in credit risk and credit-impaired financial assets as well as the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Details of the key assumptions and inputs used are set out in note 37(a).

(iii) Measurement of deferred tax assets

The Group has recognised deferred tax assets which amounted to HK$2,647,000 as at 31 December 2019 (2018: HK$2,732,000). Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against with deductible temporary differences can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. Where the timing and/or the amount of future taxable income differ from the expectation, a material adjustment to the deferred tax assets may be necessary. Further details of the Group's deferred tax assets are set out in note 25.

Notes to the Financial Statements

5. Segment Information

(a) Operating segment information

The information reported to the executive directors, who are the chief operating decision makers for the purposes of resources allocation and assessment of performance, is the financial information of the Group as a whole as reported under HKFRS. Such information does not contain profit or loss information of particular product or service line or geographical area. Therefore, the executive directors have determined that the Group has only one single reportable segment which is provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services. The executive directors allocate resources and assess performance on an aggregated basis.

(b) Geographical segment information

The Company is an investment holding company and the principal place of the Group's operations is in Hong Kong. Accordingly, management determines that the Group is domiciled in Hong Kong.

All of the revenues from external customers are derived from activities in Hong Kong and all non-current assets of the Group are located in Hong Kong. Accordingly, no geographical information is presented.

(c) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue, are set out below:

	2019 **HK$'000**	2018 HK$'000
Customer I	**3,263**	4,226
Customer II	**3,014**	2,312
Customer III	**N/A**	2,103

N/A: not applicable as revenue from this customer was less than 10% of the Group's revenue for the year.

Notes to the Financial Statements

6. Revenue

The Group is principally engaged in the provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services. Revenue derived from the Group's principal activities comprises of the following:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Commission income from securities brokerage services	419	909
– Income from placing and underwriting services	108	–
– Handling fee income	84	481
– Others	–	1
	611	1,391
Revenue from other sources		
– Interest income from securities-backed lending services	25,306	17,458
	25,917	18,849

Revenue from contracts with customers derived by the Group for the year ended 31 December 2019 amounting to HK$611,000 (2018: HK$1,391,000) are recognised at a point in time.

7. Other Income

	2019 HK$'000	2018 HK$'000
Bank interest income	7	5
Write-back of payables	61	–
	68	5

8. Employee Benefit Expenses

Employee costs (including directors' emoluments) comprises:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and other benefits	6,288	5,768
Commission expenses	72	158
Contributions to defined contribution retirement plan	136	144
	6,496	6,070

Notes to the Financial Statements

9. Finance Costs

	2019 HK$'000	2018 HK$'000
Interest on lease liabilities	179	–
Interest on borrowings	–	48
	179	48

10. Profit/(Loss) Before Income Tax

Profit/(Loss) before income tax is arrived at after charging:

	2019 HK$'000	2018 HK$'000
Depreciation charge		
Owned property, plant and equipment	5	90
Right-of-use assets included in property, plant and equipment under the following categories *(note)*:		
– Office premises	1,969	–
– Motor vehicle	65	–
Property, plant and equipment held under finance lease under HKAS 17	–	5
	2,039	95
Total minimum lease payments in respect of office premises previously classified as operating lease under HKAS 17	–	1,604
Auditor's remuneration	598	568

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to lease which was previously classified as operating lease under HKAS 17. The depreciated carrying amount of the finance lease asset which was previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating lease on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated (note 3(a)).

Notes to the Financial Statements

11. Directors' Emoluments, Five Highest Paid Individuals and Senior Management's Emoluments

(a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Year ended 31 December 2019					
Executive directors					
Mr. Cheung Yan Leung Henry	–	1,200	–	–	1,200
Mr. Cheung Jonathan	–	1,200	–	18	1,218
Independent non-executive directors					
Mr. Yeung King Wah	120	–	–	–	120
Mr. Lai Tze Leung George	120	–	–	–	120
Mr. So Stephen Hon Cheung	120	–	–	–	120
	360	2,400	–	18	2,778

	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Year ended 31 December 2018					
Executive directors					
Mr. Cheung Yan Leung Henry	–	500	400	–	900
Mr. Cheung Jonathan	–	500	400	16	916
Independent non-executive directors					
Mr. Yeung King Wah	120	–	–	–	120
Mr. Lai Tze Leung George	120	–	–	–	120
Mr. So Stephen Hon Cheung	120	–	–	–	120
	360	1,000	800	16	2,176

No directors waived or agreed to waive any emoluments during the year ended 31 December 2019 (2018: nil).

No emolument was paid by the Group to any of the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2018: nil).

Notes to the Financial Statements

11. Directors' Emoluments, Five Highest Paid Individuals and Senior Management's Emoluments (continued)

(b) Five highest paid individuals

Of the five individuals whose emoluments were the highest in the Group during the year, two (2018: two) were directors of the Company whose emoluments are included in note 11(a) above. The emoluments payable to the remaining three (2018: three) highest paid individuals are as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries, allowances and other benefits	**1,726**	1,681
Discretionary bonus	**252**	398
Contributions to defined contribution retirement plan	**52**	52
	2,030	2,131

The emoluments of each of the above non-director highest paid individuals during the year and in prior year were all within band of nil to HK$1,000,000.

No emolument was paid by the Group to any of the non-director highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2018: nil).

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors of the Company were within the following band:

	2019 **Number of individuals**	2018 Number of individuals
Nil to HK$1,000,000	**3**	4

Notes to the Financial Statements

12. Income Tax Expense

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2019 **HK$'000**	2018 HK$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	**2,326**	1,524
– over-provision in respect of prior years	**(20)**	(62)
	2,306	1,462
Deferred tax *(note 25)*		
– current year	**119**	(1,367)
– attributable to change in applicable tax rate	**(34)**	119
	85	(1,248)
Income tax expense	**2,391**	214

The Group is subject to Hong Kong Profits Tax.

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 profits of qualifying entities will be taxed at 8.25% whereas profits above HK$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual reporting periods beginning on or after 1 January 2018.

The income tax expense for the year can be reconciled to the profit/loss before income tax in the consolidated statement of comprehensive income as follows:

	2019 **HK$'000**	2018 HK$'000
Profit/(Loss) before income tax	**9,622**	(2,791)
Tax on profit/(loss) before income tax, calculated at Hong Kong Profits Tax rate of 16.5%	**1,588**	(461)
Effect on adoption of two-tiered profits tax rates regime	**(43)**	(19)
Tax effect of expenses not deductible for tax purposes	**1,031**	506
Utilisation of tax losses previously not recognised	**(131)**	–
Tax effect of tax losses not recognised	**–**	131
Effect on opening deferred tax balances resulting from change in applicable tax rate	**(34)**	119
Over-provision in respect of prior years	**(20)**	(62)
Income tax expense	**2,391**	214

Notes to the Financial Statements

13. Dividends

	2019 HK$'000	2018 HK$'000
Interim dividend paid of HK0.1 cent (2018: nil) per ordinary share	**4,897**	–

The directors of the Company do not recommend the payment of final dividend in respect of the year ended 31 December 2019 (2018: nil).

14. Earnings/(Loss) Per Share

The calculation of basic earnings/loss per share is based on the following data:

	2019 HK$'000	2018 HK$'000
Earnings/(Loss)		
Profit/(Loss) for the year attributable to owners of the Company	**7,231**	(3,005)

	2019 Number of shares '000	2018 Number of shares '000
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	**4,865,777**	4,910,000

The weighted average number of ordinary shares for the purposes of calculating the basic earnings per share for the year ended 31 December 2019 is based on the weighted average number of shares in issue during the year and adjusted for the treasury shares held by the Company as set out in note 26.

Diluted earnings/loss per share is same as the basic earnings/loss per share as there have been no dilutive potential ordinary shares in existence during the year or prior year.

Notes to the Financial Statements

15. Property, Plant and Equipment

	Owned assets			Right-of-use assets		
	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer system and software HK$'000	Office premises HK$'000	Motor vehicle HK$'000	Total HK$'000
Cost						
At 1 January 2018	551	158	216	–	–	925
Additions	–	–	–	–	299	299
At 31 December 2018 as originally presented	551	158	216	–	299	1,224
Initial adoption of HKFRS 16 *(note (b))*	–	–	–	5,464	(5)	5,459
Restated balance at 1 January 2019 and 31 December 2019	**551**	**158**	**216**	**5,464**	**294**	**6,683**
Accumulated depreciation						
At 1 January 2018	468	146	215	–	–	829
Charge for the year	83	6	1	–	5	95
At 31 December 2018 as originally presented	551	152	216	–	5	924
Initial adoption of HKFRS 16 *(note (b))*	–	–	–	–	(5)	(5)
Restated balance as at 1 January 2019	**551**	**152**	**216**	**–**	**–**	**919**
Charged for the year	**–**	**5**	**–**	**1,969**	**65**	**2,039**
At 31 December 2019	**551**	**157**	**216**	**1,969**	**65**	**2,958**
Net carrying amount						
At 31 December 2019	**–**	**1**	**–**	**3,495**	**229**	**3,725**
At 31 December 2018	–	6	–	–	294	300

Notes:

(a) During the year ended 31 December 2018, the Group acquired a motor vehicle at acquisition cost of HK$299,000 under finance lease arrangement. As at 31 December 2018, the net carrying amount of motor vehicle held under finance lease was HK$294,000.

(b) At 1 January 2019, the Group leased office premises and a motor vehicle. The lease of office premises was previously classified as operating lease whereas the lease of motor vehicle was previously classified as finance lease.

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to lease which was previously classified as operating lease under HKAS 17, being the lease of office premises. In addition, the depreciated carrying amount of asset held under finance lease which was previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating lease on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. Further details of the transition to HKFRS 16 are set out in note 3(a)(iii).

Notes to the Financial Statements

16. Intangible Asset

	Trading right HK$'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	**500**
Accumulated impairment	
At 1 January 2018, 31 December 2018 and 31 December 2019	–
Net carrying amount	
At 31 December 2019	**500**
At 31 December 2018	500

Trading right confers right to the Group to trade securities contract on or through the Stock Exchange such that the Group can conduct the business of securities brokerage.

Trading right is considered by the directors of the Company as having indefinite useful life because there is no foreseeable limit on the period over which the trading right is expected to generate cash flows to the Group. Accordingly, trading right is not amortised. Instead, it is tested for impairment annually and whenever there is an indication that it may be impaired.

Trading right is tested for impairment by the directors by estimating its recoverable amount based on value-in-use calculation. For such purposes, trading right is allocated to the businesses of securities brokerage, placing and underwriting services and margin financing as one cash generating unit ("CGU"). For the year ended 31 December 2019, the value-in-use of the CGU is determined using cash flow projection which is based on the financial budget approved by the management covering a period of 2 years (2018: 2 years).

The key assumptions used in the budget plan include:

(a) Revenue from providing margin financing services is projected based on the expected credit facilities available to customers during the budget period which are subject to fulfilment of regulatory requirements and the expected liquidity position of the Group. Commission income from securities brokerage services is projected based on estimated trading value of customers. Income from providing placing and underwriting services is budgeted based on the number of placement and underwriting assignments expected to be secured in the budget period.

(b) Operating expenses will grow in line with the general inflation in Hong Kong throughout the budget period.

(c) Zero growth rate is used to extrapolate cash flow projection beyond the period covered by the recent financial budgets.

(d) The discount rate applied to the cash flow projections is 14% for the year ended 31 December 2019 (2018: 14%). The discount rate used is pre-tax and reflect specific risks relating to the businesses.

The key assumptions adopted by the management have been determined based on past performance and management's expectation on market development. Based on the result of the above impairment testing, the directors determined that there is no impairment in respect of the trading right as at 31 December 2019 (2018: nil).

Notes to the Financial Statements

17. Trade Receivables

	2019 HK$'000	2018 HK$'000
Trade receivables arising from securities dealing and margin financing *(note (a))*		
– Margin clients *(note (b))*	**189,253**	234,972
– Clearing house *(note (c))*	**1**	5,770
	189,254	240,742
Less: Loss allowance *(note (d))*	**(14,628)**	(16,627)
	174,626	224,115

Notes:

(a) The settlement term of trade receivables arising from the business of securities dealing are two business days after trade date ("T+2").

(b) Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The amount of credit facilities granted to the margin clients is determined with reference to the discounted market value of securities accepted by the Group. Margin loans due from margin clients are either current or repayable on demand for those margin clients subject to margin calls. Except for those disclosed below, no ageing analysis is disclosed for trade receivables from margin clients as, in the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing and margin financing.

To manage the credit risk exposure, when the level of securities collateral in proportion to the outstanding balance due from the margin client ("collateral ratio") has reached alarming level, the Group will demand the margin clients to deposit additional money or securities to maintain their margin accounts, or to sell their securities collateral to reduce the exposure. Other than the above, the Group may implement other credit enhancement measures including to enter into repayment schedule for a period of normally less than one year with margin clients for settling their outstanding balances by monthly instalment by depositing cash or securities in equivalent market value.

During the year ended 31 December 2018, certain margin clients who had entered into repayment agreements with the Group in 2017 fulfilled their obligation under the repayment agreements mainly by way of depositing securities collateral rather than cash. The trade receivables due from those margin clients amounted to HK$88,242,000 as at 31 December 2018, which were repayable on demand and interest-bearing at 12.5% per annum. The remaining trade receivables as at 31 December 2018 were HK$146,730,000, of which HK$93,881,000 were current and HK$52,849,000 were repayable on demand. These margin loans were interest-bearing at fixed rates ranging from 8.0% to 12.5% per annum.

Trade receivables as at 31 December 2019 due from those margin clients with whom the Group entered into repayment schedule amounted to HK$22,009,000, which were interest-bearing at 12.5% per annum and not yet past due based on the repayment agreements entered into during the year. The remaining trade receivable balances as at 31 December 2019 were HK$167,244,000, of which HK$18,230,000 were current and HK$149,014,000 were repayable on demand. These margin loans were interest-bearing at fixed rates ranging from 8.0% to 12.5% per annum.

Of the gross carrying amount of trade receivables due from margin clients as at 31 December 2019 amounting to HK$189,253,000 (2018: HK$234,972,000), a total sum of HK$43,849,000 were considered credit-impaired whereas none of the trade receivables due from margin clients as at 31 December 2018 were considered credit-impaired.

Subject to certain conditions, the Group is allowed to repledge collateral from margin clients. There was no repledge of collateral from margin clients as at 31 December 2019 (2018: nil).

Trade receivables due from margin clients as at 31 December 2019 included balance receivable from a related party. Further details of the balance are set out in note 33(b).

Notes to the Financial Statements

17. Trade Receivables (continued)

Notes: (continued)

(c) Trade receivables from clearing house, i.e. Hong Kong Securities Clearing Company Limited ("HKSCC"), is current which represents pending trades arising from the business of securities dealing and are normally due on "T+2" day in accordance with the requirements of Hong Kong Exchange and Clearing Limited.

(d) The movements in the loss allowance for trade receivables arising from the business of securities dealing and margin financing are as follows:

	2019 **HK$'000**	2018 HK$'000
At 1 January	**16,627**	7,424
(Reversal of impairment losses)/Impairment losses	**(1,999)**	9,203
At 31 December	**14,628**	16,627

Further details of the Group's credit policy and credit risk arising from trade receivables and the loss arising from ECL are set out in note 37(a).

18. Loans Receivable

	2019 **HK$'000**	2018 HK$'000
Loans receivable arising from money lending *(notes (a) & (b))*	**37,409**	19,695
Less: Loss allowance *(note (c))*	**(3,180)**	(1,181)
	34,229	18,514

Notes:

(a) The borrowers, which are mainly margin clients of the Group's securities dealing business, either (i) had entered into securities charge agreement with the Group charging certain securities or securities portfolio as collateral which were deposited in the designated custodian account maintained by the borrower; or (ii) had undertaken to maintain net assets value at specified amount in term of market value of securities held or cash in the designated margin account maintained by the borrower.

(b) The loans receivable as at 31 December 2018 amounting to HK$8,666,000 were interest-bearing at 8.0% to 15.0% per annum and repayable in 2019. The remaining loan receivable of HK$11,029,000 as at 31 December 2018 were interest-fee and repayable on demand.

The loans receivable as at 31 December 2019 amounting to HK$26,641,000 were interest-bearing at fixed rates ranging from 6.0% to 15.0% per annum whereas the remaining balance of HK$10,768,000 were non-interest bearing.

As at 31 December 2019, loans receivable amounting to HK$5,855,000 were not yet past due based on the repayment agreement entered into during the year whereas the remaining balance of HK$31,554,000 were past due within one year.

Of the gross carrying amount of loans receivable amounting to HK$37,409,000 as at 31 December 2019 (2018: HK$19,695,000), a sum of HK$10,768,000 was considered credit-impaired whereas none of the loans receivable as at 31 December 2018 was considered credit-impaired.

Notes to the Financial Statements

18. Loans Receivable (continued)

Notes: (continued)

(c) The movements in the loss allowance for loans receivable arising from money lending business are as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	1,181	1,181
Impairment losses charged to profit or loss	1,999	–
At 31 December	3,180	1,181

Further details of the Group's credit policy and credit risk arising from loans receivables and the loss arising from ECL are set out in note 37(a).

19. Other Receivables, Deposits and Prepayments

	2019 HK$'000	2018 HK$'000
Deposits	574	574
Prepayments	599	592
	1,173	1,166

20. Trust Bank Balances Held on Behalf of Customers

In respect of the Group's business of securities dealing, the Group maintains segregated trust accounts with authorised financial institutions to hold client's monies. The Group classifies clients' monies separately under current assets in the consolidated statement of financial position and has recognised the corresponding balances due to cash and margin clients separately under trade payables (note 22) on the grounds that the Group is liable for any loss or misappropriation of clients' monies and does not have a currently enforceable right to offset those payables with the deposits placed.

21. Cash and Bank Balances

Cash at banks earns interest at floating rate based on daily bank deposit rates.

Notes to the Financial Statements

22. Trade Payables

	2019 HK$'000	2018 HK$'000
Trade payables arising from securities dealing		
– Cash clients	**1,181**	2,496
– Margin clients	**4,648**	2,430
– Clearing house	**2,364**	1,043
	8,193	5,969

The settlement term of trade payables arising from the business of securities dealing is "T+2". Trade payables arising from securities trading during the "T+2" period are current whereas those which are outstanding after the "T+2" period are repayable on demand. No ageing analysis is disclosed for trade payables arising from securities dealing as in the opinion of the directors, ageing analysis does not give additional value in view of the business nature.

Margin and cash client payables as at 31 December 2019 and 2018 included balances payable to certain related parties. Further details of these balances are set out in note 33(b).

23. Lease liabilities

HKFRS 16 was adopted by the Group on 1 January 2019 without restating comparative information. Details of the transitional provision that were applied as at 1 January 2019 are set out in note 3(a)(iii). The Group recognises lease contracts as at 31 December 2019 and 2018 based on the accounting policies stated in note 2(e)A and note 2(e)B respectively.

The Group as leasee

The Group leases office premises and a motor vehicle for use in its operation. Leases of office premises and motor vehicle have lease term of three years and only comprise fixed payments over the lease terms. The lease of motor vehicle includes an option to acquire the motor vehicle at the end of the lease term.

The movements of lease liabilities are as follows:

	Office premises HK$'000	Motor vehicle HK$'000	Total HK$'000
At 31 December 2018 as originally presented	–	–	–
Initial adoption of HKFRS 16 *(note)*	5,464	269	5,733
Restated balance at 1 January 2019	**5,464**	**269**	**5,733**
Finance cost	**165**	**14**	**179**
Lease payments	**(2,077)**	**(65)**	**(2,142)**
Balance at 31 December 2019	**3,552**	**218**	**3,770**

Notes to the Financial Statements

23. Lease liabilities (continued)

Future lease payments are due as follows:

	Minimum lease payments HK$'000	Interest HK$'000	Present value of minimum lease payments HK$'000
As at 31 December 2019			
Not later than one year	**2,142**	**(117)**	**2,025**
Later than one year but not later than five years	**1,780**	**(35)**	**1,745**
	3,922	**(152)**	**3,770**

	Minimum lease payments HK$'000	Interest HK$'000	Present value of minimum lease payments HK$'000
As at 1 January 2019 *(note)*			
Not later than one year	**2,142**	**(179)**	**1,963**
Later than one year but not later than five years	**3,922**	**(152)**	**3,770**
	6,064	**(331)**	**5,733**

The present value of future lease payments are analysed as follows:

	31 December 2019 HK$'000	1 January 2019 HK$'000
Current liabilities	**2,025**	**1,963**
Non-current liabilities	**1,745**	**3,770**
	3,770	**5,733**

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to lease which was previously classified as operating lease under HKAS 17. In addition, the carrying amount of lease liabilities as at 31 December 2018 relating to lease previously classified as finance lease and included in obligation under finance lease (note 24) were reclassified to lease liabilities upon initial adoption of HKFRS 16 on 1 January 2019. Further details on the impact of the transition to HKFRS 16 are set out in note 3(a)(iii).

The Group's obligations under the lease of the motor vehicle are secured by the motor vehicle and subject to corporate guarantee provided by the Company.

Notes to the Financial Statements

24. Obligation under Finance Lease

As at 31 December 2018, the Group leased a motor vehicle and the lease was classified as finance lease as at 31 December 2018 under HKAS 17. The lease obligation was secured by the leased asset. Upon initial adoption of HKFRS 16 on 1 January 2019, the carrying amount of lease liabilities relating to this lease was reclassified to lease liabilities (note 23).

The future lease payments under the finance lease as at 31 December 2018 were due as follows:

	Minimum lease payments HK$'000	Interest HK$'000	Present value of minimum lease payments HK$'000
As at 31 December 2018			
Not later than one year	65	(14)	51
Later than one year but not later than five years	237	(19)	218
	302	(33)	269

The present value of future lease payments as at 31 December 2018 were analysed as follows:

	HK$'000
Current liabilities	51
Non-current liabilities	218
	269

The finance lease obligations under this arrangement are subject to corporate guarantee provided by the Company.

Notes to the Financial Statements

25. Deferred Tax Assets

Details of the deferred tax assets recognised and movements during the year are as follows:

	Depreciation in excess of related depreciation allowance HK$'000	Impairment provision on trade and loans receivables HK$'000	Recognition of leases HK$'000	Total HK$'000
At 1 January 2018	64	1,420	–	1,484
(Charged)/Credited to profit or loss *(note 12)*				
Current year effect	(4)	1,371	–	1,367
Effect on opening balances resulting from change in applicable tax rate	–	(119)	–	(119)
At 31 December 2018 and 1 January 2019	**60**	**2,672**	**–**	**2,732**
(Charged)/Credited to profit or loss *(note 12)*				
Current year effect	**(6)**	**(122)**	**9**	**(119)**
Effect on opening balances resulting from change in applicable tax rate	**–**	**34**	**–**	**34**
At 31 December 2019	**54**	**2,584**	**9**	**2,647**

As at 31 December 2019, the Group has unused tax losses amounting to approximately HK$142,000 (2018: HK$938,000) available for offset future profit. No deferred tax assets in respect of these tax losses have been recognised in the consolidated financial statements due to unpredictability of future profit streams. These tax losses have no expiry date.

26. Share Capital

Authorised and issued shares

	Par value HK$	Number of ordinary shares	Amount HK$'000
Authorised:			
At 1 January 2018, 31 December 2018 and 31 December 2019	**0.001**	**500,000,000,000**	**500,000**

	Par value HK$	Number of ordinary shares	Amount HK$'000
Issued and fully paid:			
At 1 January 2018, 31 December 2018 and 1 January 2019	**0.001**	**4,910,000,000**	**4,910**
Cancellation of shares repurchased *(note)*	**0.001**	**(199,510,000)**	**(200)**
At 31 December 2019	**0.001**	**4,710,490,000**	**4,710**

Notes to the Financial Statements

26. Share Capital (continued)

Treasury shares

	Number of ordinary shares	Amount HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	–	–
Repurchase of shares *(note)*	**212,510,000**	**32,338**
Cancellation of shares repurchased *(note)*	**(199,510,000)**	**(30,379)**
At 31 December 2019	**13,000,000**	**1,959**

Note:

During the year ended 31 December 2019, the Company repurchased an aggregate of 212,510,000 of its own shares on the Stock Exchange at total consideration plus transaction costs of HK$32,338,000, of which 199,510,000 repurchased shares were cancelled during 2019.

Upon cancellation of the 199,510,000 repurchased shares, the number of issued ordinary shares of the Company was reduced from 4,910,000,000 to 4,710,490,000. Of the repurchase costs amounting to HK$30,379,000, an amount of HK$200,000 representing the par value of cancelled shares was deducted from share capital whereas the remaining amount of HK$30,179,000 was deducted from share premium.

As at 31 December 2019, 13,000,000 repurchased shares have not yet been cancelled by the Company and the total repurchase costs amounting to HK$1,959,000 was not yet due for settlement under the settlement term of "T+2" days. Such outstanding amount was recognised as trade payables to clearing house (note 22) and the corresponding amount was included in treasury shares in the Company's equity. These 13,000,000 treasury shares have been subsequently cancelled after the end of the reporting period.

Subsequent to the end of the reporting period, the Company further repurchased 185,600,000 shares of its own ordinary shares on the Stock Exchange at total cash consideration plus transaction costs amounting to HK$25,842,000. All these repurchased shares have been cancelled as of the date of this report.

Notes to the Financial Statements

27. Reserves

The Group

The following describes the nature and purpose of each reserve within owner's equity.

Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less expenses incurred in connection with the issue and acquisition of the shares.

Treasury shares

Treasury shares represent the repurchase of the Company's own shares pending for cancellation. Details of the Company's treasury shares as at 31 December 2019 are set out in note 26.

Capital reserve

Capital reserve arose from the following transactions under the reorganisation carried out by the group companies for the purpose of the listing:

(a) In May 2015, the Company issued 30 ordinary shares of HK$0.10 each to settle the consideration for acquisition of 100% equity interest in Pinestone Capital Group Limited ("PCGL") from Gryphuz Group Limited ("GGL"), its then shareholder, amounting to HK$726,000. The difference between the consideration of HK$726,000 and the issued share capital of PCGL of HK$1,000,000 was credited to the capital reserve.

(b) In May 2015, the Company issued 70 ordinary shares of HK$0.10 each to settle the consideration for acquiring 100% equity interest in Pinestone Investment Group Limited ("PIGL") from GGL, its then shareholder, together with an outstanding non-interest bearing amount due by PIGL to GGL amounting to HK$104,581,000. The difference between the consideration of HK$104,581,000 and the share capital of PIGL of HK$8 together with the outstanding non-interest bearing amount due by PIGL to GGL of HK$99,441,000 was debited to the capital reserve.

Retained profits

Retained profits is the cumulative net gains and losses recognised in profit or loss.

The Company

The movements of the Company's reserves are as follows:

	Share premium HK$'000	Treasury shares HK$'000	(Accumulated losses)/Retained profits HK$'000	Total HK$'000
At 1 January 2018	217,210	–	(16,860)	200,350
Loss for the year	–	–	(2,993)	(2,993)
At 31 December 2018 and 1 January 2019	**217,210**	**–**	**(19,853)**	**197,357**
Profit for the year	**–**	**–**	**25,421**	**25,421**
Repurchase of shares *(note 26)*	**–**	**(32,338)**	**–**	**(32,338)**
Cancellation of shares repurchased *(note 26)*	**(30,179)**	**30,379**	**–**	**200**
2019 interim dividend paid *(note 13)*	**–**	**–**	**(4,897)**	**(4,897)**
At 31 December 2019	**187,031**	**(1,959)**	**671**	**185,743**

Notes to the Financial Statements

28. Share Option Scheme

Pursuant to resolutions passed by the shareholders of the Company on 22 May 2015, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period commencing on the listing date, i.e. 12 June 2015 (the "Listing Date") and ending on the tenth anniversary of the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to (i) motivate the Eligible Participants (including employees, executives, officers or directors of the Group and any advisors, consultants, agents, customers, and such other persons who, in the sole opinion of the board of directors (the "Board"), will contribute or have contributed to the Group) for the benefit of the Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

The maximum number of shares in respect of which options under the Share Option Scheme or options under other schemes may be granted is 10% of the shares in issue immediately upon completion of the placing. The Company may refresh this limit from time to time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules to 10% of the shares in issue as at the date of the approval of the refreshed limit. Notwithstanding the foregoing, the refresh limit shall in no event result in the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company exceeding 30% of the shares in issue from time to time. Based on the number of issued shares on the approval date of the refreshed limit on 11 May 2018, the maximum number of shares in respect of which options under the Share Option Scheme or options under other schemes may be granted is 491,000,000 shares.

In addition, the maximum number of shares in respect of which options may be granted under the Share Option Scheme to any Eligible Participant, shall not, when aggregated with (a) any shares issued upon exercise of options granted under the Share Option Scheme or options under the other schemes which have been granted to the Eligible Participant; (b) any shares which would be issued upon the exercise of outstanding options under the Share Option Scheme or options under other schemes granted to that Eligible Participant; and (c) any cancelled shares which were the subject of options under the Share Option Scheme or options under other schemes which had been granted and accepted by the Eligible Participant, in any 12-month period up to the offer date, exceed 1% of the number of shares in issue on the offer date.

The option period in respect of options granted is to be notified by the Board to each grantee within which the options may be exercisable provided that such period of time shall not exceed a period of 10 years commencing on the date upon which the option is deemed to be granted and accepted in accordance with the conditions under the Share Option Scheme.

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the documents constituting acceptance of the option duly signed by the grantee, together with a remittance or payment in favour of the Company of HK$1 by way of consideration for the grant thereof is received by the Company on or before the acceptance date, being a date not later than 30 days after the offer date.

Notes to the Financial Statements

28. Share Option Scheme (continued)

The exercise price in relation to each option offered to an Eligible Participant shall, subject to adjustments arising from capital restructuring, be determined by the Board in its absolute discretion but in any event must be the higher of:

(a) the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date;

(b) the average of the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and

(c) the nominal value of a share.

No option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption.

29. Holding Company Statement of Financial Position

Below is the statement of financial position of the Company as at 31 December 2019.

	Notes	**2019 HK$'000**	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	*30*	**104,581**	104,581
Current assets			
Prepayments		**548**	542
Amounts due from subsidiaries		**87,007**	95,310
Cash and bank balances		**654**	2,087
		88,209	97,939
Current liabilities			
Other payables and accruals		**373**	253
Amount due to a subsidiary		**1,964**	–
		2,337	253
Net current assets		**85,872**	97,686
Net assets		**190,453**	202,267
CAPITAL AND RESERVES			
Share capital	*26*	**4,710**	4,910
Reserves	*27*	**185,743**	197,357
Total equity		**190,453**	202,267

On behalf of the directors

Mr. Cheung Yan Leung Henry
Director

Mr. Cheung Jonathan
Director

Notes to the Financial Statements

30. Investments in Subsidiaries

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Place of incorporation and type of legal entity	Place of operations	Issued and paid up capital	Effective interest held by the Company		Principal activities
				Directly	Indirectly	
Pinestone Securities Limited	Hong Kong/Limited liability company	Hong Kong	149,000,000 shares of HK$149,000,000 (2018: 119,000,000 shares of HK$119,000,000)	–	100%	Provision of securities brokerage services, placing and underwriting services as well as margin financing services
PCGL	Hong Kong/Limited liability company	Hong Kong	1,000,000 shares of HK$1,000,000	–	100%	Provision of money lending services
PIGL	The BVI/Limited liability company	Hong Kong	1 ordinary share of United States dollars ("US$") 1 each	100%	–	Investment holding
Pinestone International Limited	The BVI/Limited liability company	Hong Kong	1 ordinary share of US$1 each	100%	–	Investment holding
Pinestone Principal Investment Limited	Hong Kong/Limited liability company	Hong Kong	1 share of HK$1	100%	–	Inactive

None of the subsidiaries had issued any debt securities at the end of the reporting period.

31. Operating Lease Commitments

The Group as lessee

As at 31 December 2018, the Group leased office premises under operating lease arrangement. The lease runs for an initial period of three years and is non-cancellable. The total minimum lease payments under the lease as at 31 December 2018 were due as follows:

	2018 HK$'000
Within one year	2,077
Later than one year and not more than five years	3,685
	5,762

The Group has applied HKFRS 16 on 1 January 2019 and recognised lease liabilities relating to this lease in the consolidated statement of financial position in accordance with the policy set out in note 2(e)A. Details of the Group's future lease payments as at 31 December 2019 are set out in note 23.

Notes to the Financial Statements

32. Notes to the Consolidated Statement of Cash Flows

(a) During the year ended 31 December 2018, the Group acquired a motor vehicle at acquisition cost of HK$299,000 (note 15) under finance lease arrangement (note 24). The Group paid down payment of HK$30,000 in December 2018 and the remaining balance of HK$269,000 is to be settled by 36 monthly instalments commencing on 28 January 2019.

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings HK$'000	**Lease liabilities* HK$'000** *(note 23)*	**Obligation under finance lease HK$'000** *(note 24)*
At 31 December 2018 as originally presented	**–**	**–**	**269**
Initial adoption of HKFRS 16 *(note 3(a))*	**–**	**5,733**	**(269)**
Restated balance at 1 January 2019	**–**	**5,733**	**–**
Changes from cash flows:			
Capital element of lease liabilities paid	**–**	**(1,963)**	**–**
Interest element of lease liabilities paid	**–**	**(179)**	**–**
Total changes from financing cash flow	**–**	**(2,142)**	**–**
Other changes:			
Interest expense	**–**	**179**	**–**
At 31 December 2019	**–**	**3,770**	**–**

	Borrowings HK$'000	Lease liabilities* HK$'000	Obligation under finance lease HK$'000 *(note 24)*
At 1 January 2018	6,083	–	–
Changes from cash flows:			
Repayment of bank loans	(6,072)	–	–
Interest paid	(59)	–	–
Total changes from financing cash flow	(6,131)	–	–
Other changes:			
Interest expense	48	–	–
New finance lease *(note(a))*	–	–	269
	48	–	269
At 31 December 2018	–	–	269

* Previously, cash payments under operating lease made by the Group as a lessee of HK$1,604,000 were classified as operating activities in the consolidated statement of cash flow. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 3(a)(iii).

Notes to the Financial Statements

33. Related Party Transactions

Saved as disclosed elsewhere in these financial statements, the Group has the following significant transactions and balances with related parties.

(a) During the year, the Group entered into the following significant transactions with related parties:

Name of related party	Related party relationship	Type of transaction	Transaction amount 2019 HK$'000	2018 HK$'000
Mr. Cheung Yan Leung Henry	Director	Brokerage income	8	26
Mr. Cheung Jonathan	Director	Brokerage income	–	1
Ms. Chow Shuk Yi Zoe*	Close family member of director	Brokerage income	–	2
Snail Capital Limited#	Company controlled by a director of the Company	Brokerage income and handling fee	81	–
Pinerion Financial Limited^	Company controlled by directors of the Company	Consultancy fee	1,727	73

* spouse of Mr. Cheung Jonathan

\# Mr. Cheung Jonathan has equity interest in Snail Capital Limited

^ Mr. Cheung Yan Leung Henry and Mr. Cheung Jonathan have indirect equity interest in Pinerion Financial Limited

(b) At the end of the reporting period, the Group had the following balances with the directors and other related parties:

Balances due to the directors and person connected with directors arising from securities dealing transactions included in trade payables *(note 22)*

	As at 1 January 2019 HK$'000	Maximum outstanding during the year^ HK$'000	As at 31 December 2019 HK$'000	Margin financing facilities granted HK$'000	Securities held
Mr. Cheung Yan Leung Henry	805	N/A	333	–	Marketable securities
Mr. Cheung Jonathan	313	N/A	313	–	Marketable securities

	As at 1 January 2018 HK$'000	Maximum outstanding during the year^ HK$'000	As at 31 December 2018 HK$'000	Margin financing facilities granted HK$'000 *(note)*	Securities held
Mr. Cheung Yan Leung Henry	1,090	N/A	805	500	Marketable securities
Mr. Cheung Jonathan	–	300	313	500	Marketable securities
Ms. Chow Shuk Yi Zoe	110	–	–	–	Marketable securities

^ These amounts represented the maximum amounts due from the directors and persons connected with directors during the respective years.

Note: The margin financing facilities previously granted to Mr. Cheung Yan Leung Henry and Mr. Cheung Jonathan were terminated in September 2018.

Notes to the Financial Statements

33. Related Party Transactions (continued)

(b) (continued)

Balances due from other related parties arising from securities dealing transactions included in trade receivables *(note 17)*

	2019 HK$'000	2018 HK$'000
Key management	**100**	–

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and other benefits	**4,661**	4,194
Contributions to defined contribution retirement plan	**69**	71
	4,730	4,265

34. Capital Management

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The capital structure of the Group consists of debts, which include lease liabilities as at 31 December 2019 (note 23) and obligation under finance lease as at 31 December 2018 (note 24), and equity, comprising share capital and reserves.

The directors of the Company actively and regularly reviews and manages the Group's capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholders' returns. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, raise new debts or sells assets to reduce debt.

The gearing ratio of the Group at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
Lease liabilities	**3,770**	–
Obligation under finance lease	**–**	269
	3,770	269
Equity	**241,325**	271,329
Gearing ratio	**2%**	0%

Notes to the Financial Statements

34. Capital Management (continued)

The Group targets to maintain the level of its gearing ratio which allows the Group to cope with the changes in the financial market and economic condition.

A subsidiary of the Company is regulated by the Securities and Futures Commission ("SFC") and required to maintain minimum liquid capital and paid up capital according to the Securities and Futures Ordinance. Management monitors this subsidiary's liquid capital and paid up capital to ensure they meet the minimum requirement in accordance with the Securities and Futures (Financial Resources) Rules.

35. Summary of Financial Assets and Financial Liabilities by Category

The following table shows the carrying amounts of financial assets and liabilities:

	2019 HK$'000	2018 HK$'000
Financial assets		
Finance assets at amortised cost		
– Trade receivables, loans receivable and deposits	**209,429**	243,203
– Trust bank balances held on behalf of customers	**6,140**	5,276
– Cash and bank balances	**29,212**	22,547
	244,781	271,026
Financial liabilities		
Financial liabilities at amortised cost		
– Trade payables	**8,193**	5,969
– Other payables and accruals	**581**	667
– Lease liabilities	**3,770**	–
– Obligation under finance lease	**–**	269
	12,544	6,905

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade receivables, loans receivable, deposits, trust bank balances held on behalf of customers, cash and bank balances, trade payables, other payables and accruals, lease liabilities and obligation under finance lease. Due to their short-term nature, the carrying values of the above financial instruments except for non-current lease liabilities and obligation under finance lease approximate their fair values.

For disclosure purpose, the fair values of non-current lease liabilities and obligation under finance lease are not materially different from their carrying values. The fair value has been determined using discounted cash flow model and is classified as level 3 in the fair value hierarchy. Significant inputs include the discount rate used to reflect the credit risk of the Group.

(b) Financial instruments measured at fair value

As at 31 December 2018 and 2019, the Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

Notes to the Financial Statements

36. Offsetting Financial Assets and Financial Liabilities

The Group currently has a legally enforceable right to set off the Continuous Net Settlement ("CNS") money obligation receivables and payables with a clearing house, HKSCC and it intends to settle on a net basis as trade receivables from or trade payables to HKSCC. For the net amounts of CNS money obligations receivables or payables and other receivables and payables (such as deposits included in statutory deposits placed with stock exchange and clearing house), they do not meet the criteria for offsetting in the consolidated financial statements since the right to set-off of the recognised amount is only enforceable following an event of default and the Group does not intend to settle the balance on a net basis.

In addition, under the agreements signed between the Group and the customers for dealing in securities, money obligations receivables and payables with the same customer are settled on a net basis. The Group therefore has a legally enforceable right to set-off the trade receivable and payable with the same customer and the Group intends to settle these balances on a net basis.

(a) Financial assets subject to offsetting, enforceable master netting arrangement and similar arrangements

	Amounts due from customers and HKSCC	
	2019	2018
	HK$'000	HK$'000
Gross amount of recognised financial assets (net of provision for impairment)	**174,935**	230,781
Gross amount of financial liabilities offset in the consolidated statement of financial position	**(309)**	(6,666)
Net amount of financial assets included in the consolidated statement of financial position as trade receivables	**174,626**	224,115
Related amounts not offset in the consolidated financial statements – Financial collateral	**(99,558)**	(214,742)
Net amount	**75,068**	9,373

(b) Financial liabilities subject to offsetting, enforceable master netting arrangement and similar arrangements

	Amounts due to customers and HKSCC	
	2019	2018
	HK$'000	HK$'000
Gross amount of recognised financial liabilities	**8,502**	12,635
Gross amount of financial assets offset in the consolidated statement of financial position	**(309)**	(6,666)
Net amount of financial liabilities included in the consolidated statement of financial position as trade payables	**8,193**	5,969

Notes to the Financial Statements

37. Financial Risk Management

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, interest rate risk and liquidity risk. These risks are managed according to the Group's financial management policies and practices described below.

(a) Credit risk

Credit risk arises when a counterparty is unable or unwilling to meet a commitment that it has entered into with the Group. The Group's credit risk is primarily attributable to its trade receivables and loans receivable from customers and bank balances. The maximum exposure to credit risk of the Group's financial assets at the end of the reporting period is their carrying amounts.

In order to minimise credit risk, management, including responsible officers of the regulated activities, compile credit and risk management policies, approve credit limits and determine debt recovery action on those delinquent receivables.

In respect of the securities dealing and margin financing businesses, the Group's credit risk exposure is spread over a number of customers. Accordingly, the Group has no significant concentration of credit risk on a single customer in this respect. To reduce credit risk, the Group requests collateral from individual margin client and the value of such collateral has to be maintained at certain level in proportion to the outstanding balance due from the margin client (collateral ratio). In addition, the Group has formulated certain credit policy procedures for monitoring trading activities and level of securities collateral of margin clients in particular for those margin clients whose collateral ratio has reached alarming level. The Group has also implemented procedures for monitoring the value of the securities collaterals, including assessing the quality and liquidity of the securities collaterals, closely monitoring the volatility of the market prices of the securities collateral taking into consideration of their current market prices and historical price movements, latest information and news of the related listed companies and other relevant factors regarding the financial market that may have impact on the market prices of the securities collateral.

The credit risk of trade receivables due from the clearing house is considered to be minimal.

In respect of the money lending business, in granting loans to customers, management assesses the background and financial condition of the customers and requests securities collateral from the customers in order to minimise credit risk. Management monitors the collateral ratio of borrowers on an on-going basis and would request borrowers to increase the value of securities collateral should the need arise.

Monitoring of credit risk on trade receivables and loans receivable is performed by the management on an on-going basis.

The credit risk on bank balances and trust bank balances held on behalf of customers is considered to be low as the counterparties are reputable banks or financial institutions.

Notes to the Financial Statements

37. Financial Risk Management (continued)

(a) Credit risk (continued)

Impairment under ECL model

As disclosed in note 2(g)(ii), the Group applies simplified approach to measure ECL on trade receivables due from cash clients and clearing house; and general approach to measure ECL on trade receivables due from margin clients, loans receivable, deposits, trust bank balances held on behalf of customers and cash and bank balances. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, the Group applies the "3-stage" impairment model for ECL measurement based on change in credit risk since initial recognition as follows:

– Stage 1: If the credit risk of the financial instrument has not increased significantly since initial recognition, the financial instrument is included in Stage 1.

– Stage 2: If the credit risk of the financial instrument has increased significantly since its initial recognition but is not deemed to be credit-impaired, the financial instrument is included in Stage 2.

– Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in Stage 3.

The ECL for financial instruments in Stage 1 are measured at an amount equivalent to 12-month ECL whereas the ECL for financial instruments in Stage 2 or Stage 3 are measured at an amount equivalent to lifetime ECL.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effect. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit risk assessment and including forward-looking information.

In determining the significant increase in credit risk of trade receivables due from margin clients and loans receivable, the Group would consider if there is significant changes in the behaviour of the margin clients or borrowers including changes in their payment status and changes in responsiveness of the customers to the margin calls or similar request of the Group. In addition, the Group would consider the collateral ratio. In particular, the Group assesses if there is significant changes in the value of the collateral securing the trade receivables of the margin clients or the loans receivable. The decline in value of the collateral being market securities may result in greater incentive of the margin clients and borrowers to default their margin loans and loans receivable. Apart from these, the Group would consider for those global and local political and economic conditions which would have significant impact on the financial market of Hong Kong that are expected to cause a significant change in margin clients' or borrowers' ability to meet their debt obligations.

A financial asset is considered to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred which include significant financial difficulty of the debtors; collateral ratio of the relevant trade receivable or loan receivable exceeding the Group's tolerable level; significant decrease in the value of the collateral and failure to make up shortfall upon margin call or similar request of the Group.

For trade receivables due from margin clients and loans receivable which are securities-backed loans, the Group rebuts the presumption that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due and that financial assets are credit-impaired when they are more than 90 days past due as management considers that the probability of default for securities-backed loans is highly correlated with the collateral value rather than the past due days.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure of default. The assessment of the probability of default and loss given default is based on historical information such as behaviour of customers and changes in value of the collateral, credit rating of customers where applicable, and adjusted for forward-looking information through the use of financial market analysis and individual stock analysis.

Notes to the Financial Statements

37. Financial Risk Management (continued)

(a) Credit risk (continued)

Impairment under ECL model (continued)

Movements in the loss allowance for trade receivables due from margin clients and loans receivable for the year ended 31 December 2019 and 2018 are as follows:

Loss allowance for trade receivables due from margin clients

	Lifetime ECL		
	Not credit-impaired HK$'000	Credit-impaired HK$'000	Total HK$'000
At 1 January 2018	7,424	–	7,424
New receivables originated, net of settlement	736	–	736
Increase in allowance, net	8,467	–	8,467
At 31 December 2018 and 1 January 2019	**16,627**	**–**	**16,627**
Transfer between stage 2 to stage 3	**(6,224)**	**6,224**	**–**
New receivables originated, net of settlement	**(6,134)**	**585**	**(5,549)**
Increase in allowance, net	**1,432**	**2,118**	**3,550**
At 31 December 2019	**5,701**	**8,927**	**14,628**
Trade receivables as at 31 December 2019	**145,404**	**43,849**	**189,253**
Trade receivables as at 31 December 2018	234,972	–	234,972

Loss allowance for loans receivable

	Lifetime ECL		
	Not credit-impaired HK$'000	Credit-impaired HK$'000	Total HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	**1,181**	**–**	**1,181**
Transfer between stage 2 to stage 3	**(1,181)**	**1,181**	**–**
New receivables originated, net of settlement	**149**	**(28)**	**121**
Increase in allowance, net	**739**	**1,139**	**1,878**
At 31 December 2019	**888**	**2,292**	**3,180**
Loans receivable as at 31 December 2019	**26,641**	**10,768**	**37,409**
Loans receivable as at 31 December 2018	19,695	–	19,695

Impairment losses were provided for trade receivables due from margin clients and loans receivable for which there were significant increase in credit risk since initial recognition and they were mainly due from (i) those customers with whom the Group had entered into repayment agreements as mentioned in notes 17(b) and 18(b); (ii) those margin clients and borrowers whose collateral ratio reached alarming ratio or even exceeded the Group's tolerable level; and (iii) those margin clients and borrowers without any securities collateral after forced liquidation action taken by the Group.

Notes to the Financial Statements

37. Financial Risk Management (continued)

(a) Credit risk (continued)

Impairment under ECL model (continued)

Trade receivables and loans receivable amounting to HK$43,849,000 and HK$10,768,000 respectively as at 31 December 2019 were considered credit-impaired as the related margin clients and borrowers were unable to make up the shortfall upon margin call or similar requests by the Group. Their securities collateral were sold by the Group during the year and their receivables at 31 December 2019 were unsecured. In measuring the ECL in respect of these trade receivables and loans receivable, management has taken into account of the cash which is to be realised from the debt assignment arrangements entered into by the Group, as the assignor, with the third-party assignees and the relevant margin clients or borrower, subsequent to the year end. Pursuant to the deed of assignment, the Group agreed to sell all of its right, title and interest of the relevant receivables and the assignee agreed to purchase such right, title and interest at a discount.

For the year ended 31 December 2018, having considered the collateral ratio of the customers, the value of their collateral securing their outstanding balances and their track record settlement and responsiveness to margin call or similar request, management concluded that the credit risk of the trade receivables and loans receivable as at 31 December 2018 had increased significantly since initial recognition but those trade receivables and loans receivable were not credit-impaired.

Collateral for the trade receivables and loans receivable are the securities of small to medium-sized companies listed in Hong Kong. Those securities are less liquid and more volatile in respect of their value, which have been taken into consideration in arriving at the measurement of ECL.

The increase in loss allowance is mainly due to changes in risk parameters including probability of default and market value of the securities collateral.

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk mainly arises from trade receivables, loans receivable, bank balances, lease liabilities and obligation under finance lease. Trade receivables, loans receivable, lease liabilities and obligation under finance lease carrying interest at fixed rates expose the Group to fair value interest rate risk while bank balances carrying interest at variable rates expose the Group to cash flow interest rate risk.

Details of the Group's lease liabilities and obligation under finance lease as at 31 December 2019 and 2018 are disclosed in notes 23 and 24 respectively.

The directors of the Company consider the Group's cash flow interest rate risk on bank balances is not significant due to low level of deposit interest rate.

The Group currently does not have an interest rate hedging policy. However, management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group did not have any floating rate borrowings as at 31 December 2018 and 2019 and accordingly, no sensitivity analysis on interest rate exposure is presented.

Notes to the Financial Statements

37. Financial Risk Management (continued)

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and other payables and its financing obligations, and also in respect of its cash flow management. In addition, a subsidiary of the Company is regulated by SFC and is subject to certain requirements under the Securities and Futures (Financial Resources) Rules and accordingly, the Group has to monitor the liquidity of this subsidiary to ensure compliance with the relevant rules. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000
As at 31 December 2019					
Trade payables	**8,193**	**8,193**	**8,193**	**–**	**–**
Other payables and accruals	**581**	**581**	**581**	**–**	**–**
Lease liabilities	**3,770**	**3,922**	**2,142**	**1,780**	**–**
	12,544	**12,696**	**10,916**	**1,780**	**–**
As at 31 December 2018					
Trade payables	5,969	5,969	5,969	–	–
Other payables and accruals	667	667	667	–	–
Obligations under finance lease	269	302	65	65	172
	6,905	6,938	6,701	65	172

38. Event After The Reporting Period

The outbreak of Coronavirus disease ("COVID-19") in January 2020 has significant impact on the global business environment and the global stock markets which has negative impact on the Group's business. COVID-19 outbreak is expected to have financial effects to the results and financial position of the Group for the year of 2020. The extent of such effects depends on the duration of the pandemic, which could not be reasonably estimated as at the date of this report.

5 Years 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 audited financial statements in this annual report and prior year financial statements are as follows:

Results

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**25,917**	18,849	38,689	45,706	37,502
Other income	**68**	5	2	5	73
Commission and fee expenses	**–**	(61)	(123)	(1,600)	–
Employee benefit expenses	**(6,496)**	(6,070)	(4,766)	(4,665)	(4,487)
Depreciation	**(2,039)**	(95)	(113)	(89)	(189)
Impairment losses on trade and loans receivables, net	**–**	(9,203)	(8,605)	–	–
Other operating expenses	**(7,649)**	(6,168)	(6,936)	(4,871)	(12,277)
Finance costs	**(179)**	(48)	(588)	(960)	(164)
Profit/(Loss) before income tax	**9,622**	(2,791)	17,560	33,526	20,458
Income tax expense	**(2,391)**	(214)	(3,499)	(5,976)	(5,048)
Profit/(Loss) for the year	**7,231**	(3,005)	14,061	27,550	15,410
Other comprehensive income for the year	**–**	–	–	–	–
Total comprehensive income for the year	**7,231**	(3,005)	14,061	27,550	15,410

Asset and liabilities

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**253,944**	278,234	297,959	280,359	216,330
Total liabilities	**(12,619)**	(6,905)	(23,625)	(20,086)	(44,107)
Net assets	**241,325**	271,329	274,334	260,273	172,223