申萬宏源香港
SHENWAN HONGYUAN

SHENWAN HONGYUAN (H.K.) LIMITED
申 萬 宏 源 （ 香 港 ） 有 限 公 司

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

2019

ANNUAL REPORT 年度報告

CONTENTS

	Pages
Corporate Information	2
Financial Highlights	3–4
Chairman's Statement	5–7
Management Discussion & Analysis	8–18
Corporate Social Responsibility Report	19–30
Corporate Governance Report	31–57
Report of the Directors	58–70
Independent Auditor's Report	71–77
Consolidated Statement of Profit or Loss	78
Consolidated Statement of Profit or Loss and Other Comprehensive Income	79
Consolidated Statement of Financial Position	80–81
Consolidated Statement of Changes in Equity	82
Consolidated Cash Flow Statement	83–84
Notes to the Financial Statements	85–170

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Director

Zhang Lei

Independent Non-executive Directors

Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK COMMITTEE

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

COMPANY SECRETARY

Wong Che Keung Leslie

PRINCIPAL BANKERS

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

AUDITORS

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

REGISTERED OFFICE

Level 19
28 Hennessy Road
Hong Kong

SHARE REGISTRARS & TRANSFER OFFICE

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

WEBSITE

http://www.swhyhk.com

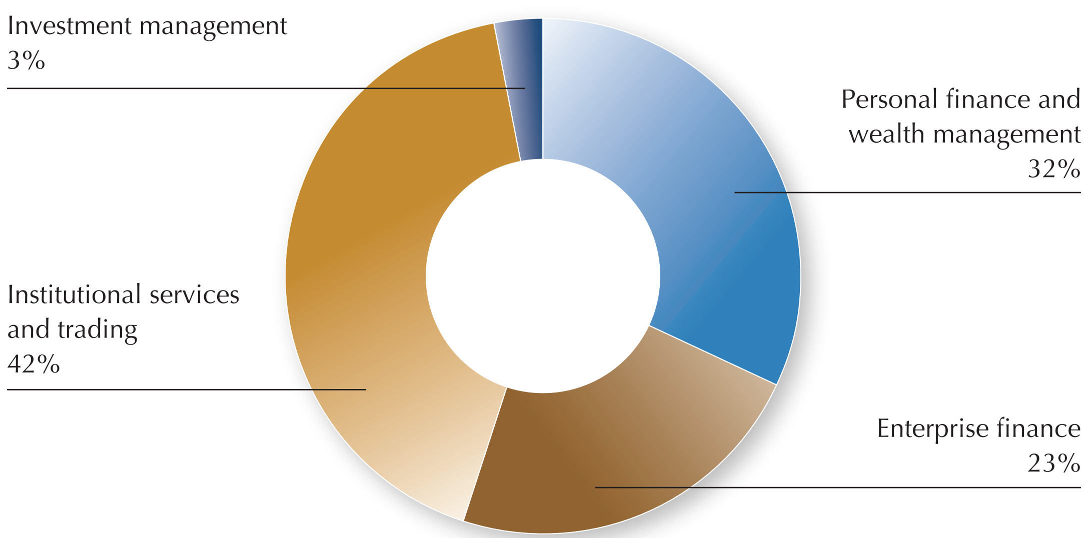
RESULTS AND FINANCIAL POSITION

	For the year ended 31 December 2019 HK$'000	2018 HK$'000	Percentage change
Revenue	**675,584**	519,619	30%
— Fee and commission income	**359,111**	342,748	5%
— Interest income	**151,119**	186,628	(19%)
— Net investment gains/(losses)	**165,354**	(9,757)	N/A
Profit attributable to ordinary equity holders of the Company	**136,664**	96,228	42%
Earnings per share (basic and diluted) (HK cents)	**9.37**	12.09	(22%)
Dividend payout ratio	**32.02%**	16.54%	94%

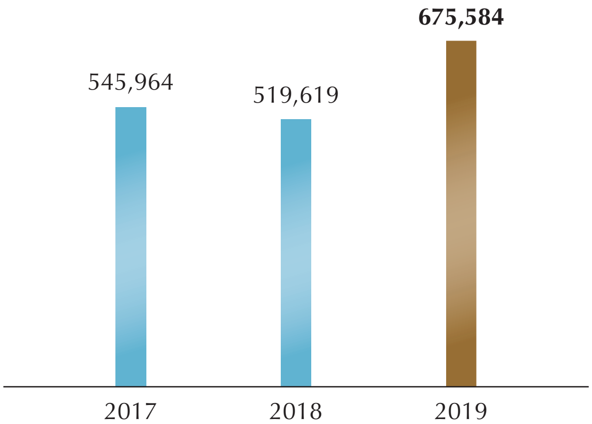
	31 December 2019 HK$'000	2018 HK$'000	Percentage change
Total assets	**10,231,699**	7,863,656	30%
Net assets	**3,919,317**	2,208,110	77%
NAV per share (HK$)	**2.51**	2.77	(9%)

ANALYSIS OF 2019 REVENUE

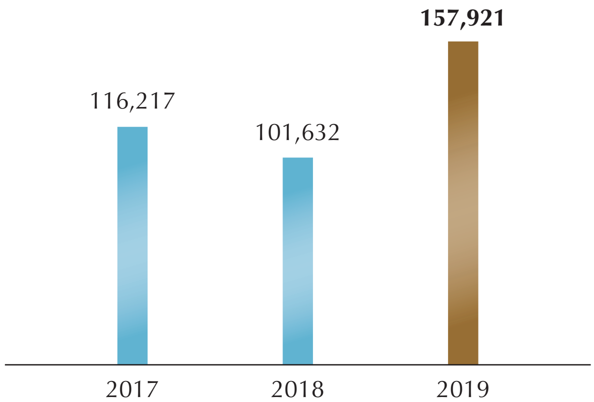
(For the year ended 31 December)



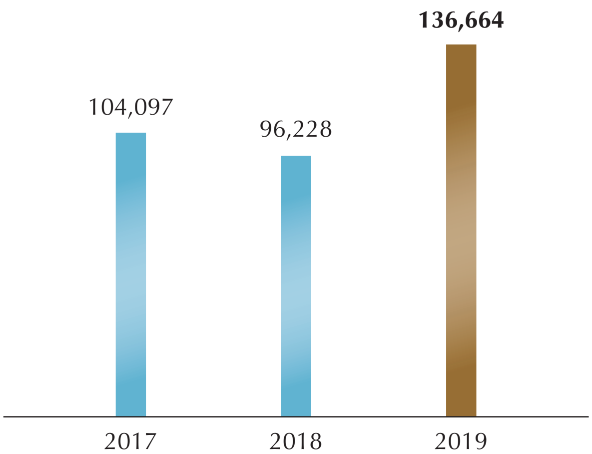
REVENUE
(HK$'000)



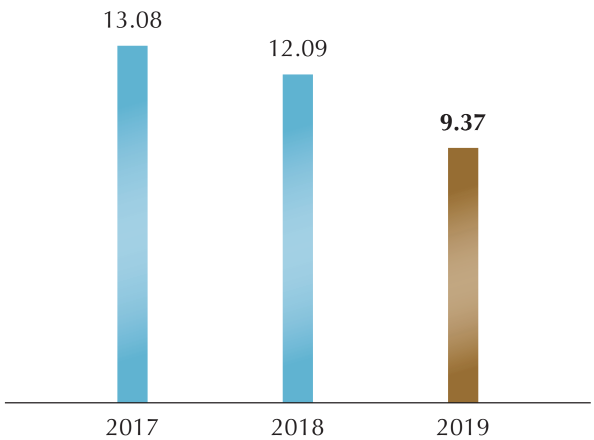
PROFIT BEFORE TAXATION
(HK$'000)



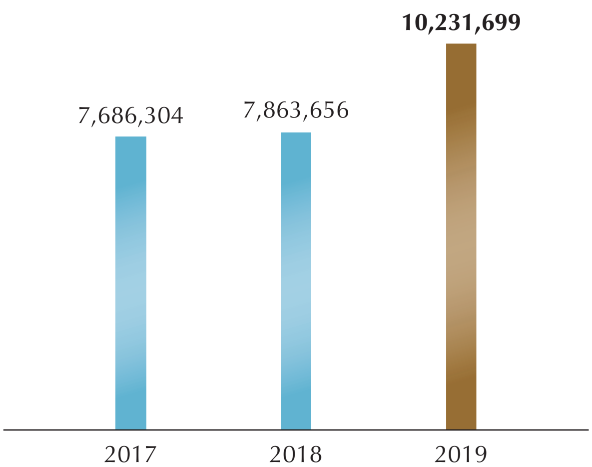
PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY
(HK$'000)



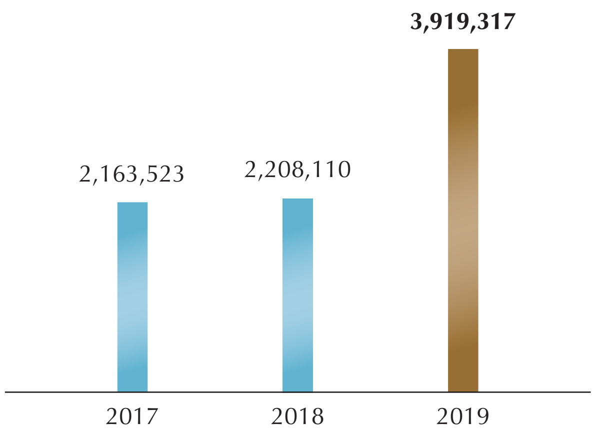
EARNINGS PER SHARE (BASIC AND DILUTED)
(HK cents)



TOTAL ASSETS
(HK$'000)



NET ASSETS
(HK$'000)



CHAIRMAN'S STATEMENT

I hereby present to the shareholders the annual report of Shenwan Hongyuan (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2019.

RESULTS

For the year ended 31 December 2019, the Group recorded a profit before taxation of approximately HK$158 million, representing an increase of 55% as compared with approximately HK$102 million in 2018. Profit attributable to shareholders of approximately HK$137 million, representing an increase of 42% as compared with approximately HK$96 million in 2018. The turnover increased by 30% to approximately HK$676 million (2018: HK$520 million). The basic earnings per share in 2019 decreased by 22% to HK9.37 cents as compared with HK12.09 cents in 2018.

DIVIDEND

The board of directors (the "Board") of the Company has resolved to recommend the payment of a final dividend of HK3 cents (2018: HK2 cents) per ordinary share in respect of 2019, to shareholders whose names appear on the register of members of the Company on 29 May 2020. The proposed dividend will be paid on or about 12 June 2020 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

2019 MARKET REVIEW

From the perspective of global environment, the uncertainties of the global geopolitics and trade environment in 2019 both increased significantly and showed signs of improvement at the end of the year. On the one hand, the progress of the phase one of US-China trade negotiation was beneficial to the stability of the global macroeconomic and trade environment; on the other hand, geopolitical risks such as Brexit have been alleviated at the end of the year. The US economy maintained steady growth, while non-US economies also improved in the fourth quarter, and the global economy showed a pattern from down to up in general.

From the perspective of macro economy of Mainland China, the growth rate in 2019 slowed down but still remained stable within a reasonable range. Real estate investment and consumption were still the important factors which support the economy's resilience, but were relatively weak in terms of the net exports under high uncertainty of global trade environment and the infrastructure investment under high leverage of local governments. Driven by rising pork prices, inflation level rose but did not spread to most of other foods and industrial products, and no obvious constraint on monetary policy was constituted. The counter-cyclical fiscal policy continued to work, while the stabilizing effect of reducing tax and lowering fee to economy gradually emerged.

Mainland China's capital market performed well in 2019, with the Shanghai Composite Index rising over 20% throughout the year. The process of opening the mainland capital market to foreign countries has also accelerated significantly in 2019. Under the circumstances that major global index companies increased the weights of A shares holding, foreign capital realised continuous net inflows into the mainland market through investment channels such as Mainland China-Hong Kong Stock Connect and QFII/RQFII. By the end of 2019, the market value of Chinese A shares held by foreign institutions exceeded RMB2 trillion.

After experiencing a sharp rise in the first quarter of 2019, the Hong Kong market entered into the adjustment range under the pressure from back-and-forth US-China trade friction and local movement. In the context of the simultaneous improvement of the internal and external environment at the end of the year, the market picked up and the Hang Seng Index closed with an increase of more than 9% throughout the year, but the average daily turnover of the Hong Kong stock market dropped by 18.9% year-on-year.

FUTURE PLAN & PROSPECTS

In 2020, economic and financial activities in Mainland China, Hong Kong and many countries or regions around the world suffered from significant shocks under the impact of COVID-19. Affected by the pandemic, the corporate-finance-related business of the Group may be deferred, while the Group's income such as transaction fee and commission will also be affected to certain extent under the circumstances of large fluctuations in Mainland China, Hong Kong and global capital markets. The Company will pay close attention to the development trend of the pandemic situation and timely adjust its business strategy and focus.

FUTURE PLAN & PROSPECTS *(Cont'd)*

From the perspective of the global financial market environment, the global monetary policy in 2020 is expected to show a loose pattern in order to cope with the short-term impact of the pandemic on the economy. The signing of the phase one of US-China trade agreement is conducive to improving the global trade environment as well as the environment for macroeconomic development, the risk of Brexit without an agreement is effectively mitigated, the situation in the Middle East is still under control, so the short-term political risks to the global market are reducing gradually. However, considering the high uncertainty of external environment, asset price volatility in 2020 may be significantly higher than that in 2019. From the perspective of expected returns, China's stock and bond assets may be relatively dominant against the backdrop of China's effective control of the outbreak and continuous deepening reforms.

In the Mainland, in order to mitigate the short-term impact of the COVID-19 outbreak on the economy, the Chinese government has adopted strong stimulus policies and introduced a series of measures of deepening reform while calming the short-term economic downturn. The endogenous resilience of the Chinese economy is expected to be further verified in 2020 and more proactive monetary policy and fiscal policy are expected to be implemented in 2020. Fiscal policies will continue to strengthen in terms of stable growth. Investment in new infrastructure, such as 5G telecommunication, new energy, big data and artificial intelligence will be further strengthened. In 2020, the A-share market volatility may further increase, and the structural differences between different industry sectors will be further presented.

In Hong Kong, in the context of external financial markets facing with relatively strong impact, the Hong Kong market will also face with greater volatility. With the implementation of various relief measures introduced by the SAR government in 2020 and the characteristics of overall high dividend yield of Hong Kong stocks, the Hong Kong stock market as a whole has certain revaluation opportunities against the background of under valuation. Regarding the structure of Hong Kong stock investors, the proportion of mainland investors has gradually increased, the trend of which we believe is expected to further enhance this year.

Under the circumstances of Mainland China further opening up its financial market and vigorously advancing the strategic layout of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group, as the main platform for Shenwan Hongyuan Group's overseas and cross-border business, will further enrich its capital size and vigorously explore sales and trading business towards institutional clients, optimize personal finance business, strengthen product platform for asset management, leverage the resource advantages of domestic parent company, consolidate the competitive strategy of the "investment + investment bank", provide customers with integrated domestic and overseas corporate financial services, and strive to become an integrated financial services provider with international competitiveness.

During the year, Mr. Zhu Minjie resigned as Executive Director and Chairman of the Board of the Company on 10 August 2019 due to work adjustment. On behalf of the Board and all staff of the Group, I would like to express our heartfelt and tribute to Mr. Zhu Minjie for his contributions to the Group.

Chen Xiaosheng
Chairman

Hong Kong
23 March 2020

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF OPERATIONS

In 2019, the Group readjusted its structure to form four business lines: personal finance and wealth management, enterprise finance, institutional services and trading, and investment management. The Group focused on promoting business transformation and development, effectively enhanced professional execution capabilities, increased the diversity of services and products, and gained distinctive and differentiated competitive edges. While steadily developing traditional businesses, the Group was actively exploring new businesses and new models. The transformation and development have achieved initial results with the income structure gradually becoming balanced and profitability steadily improving.

In 2019, the Group strengthened its basic infrastructure construction, engaged in financial technology in an orderly manner, introduced new trading systems, and improved its trading service capabilities, to meet the trading needs of its customers in all aspects and enhance professional competitive advantages. In the meantime, the Group also strengthened the construction of basic systems, by further optimizing the operating system, formulating a management structure and a hierarchical authorization system with focus on risk management, and promoting the professional committee system, so as to improve the professional level and efficiency of management decision-making, and to accelerate the transformation and development of the Company.

REVIEW OF PERFORMANCE

In 2019, the total revenue of the Group increased by 30% year-on-year to HK$676 million from HK$520 million in 2018, which was mainly due to the substantial increase in the revenue generated from enterprise finance and institutional services and trading. Profit before taxation increased by 55% from HK$102 million in 2018 to HK$158 million. Profit attributable to shareholders increased by 42% from HK$96 million in 2018 to HK$137 million.

	2019		2018	
	HK$'000	**%**	HK$'000	%
Fee and commission income	**359,111**	**53%**	342,748	66%
Interest income	**151,119**	**22%**	186,628	36%
Net investment gains/(losses)	**165,354**	**25%**	(9,757)	(2%)
	675,584	**100%**	519,619	100%

Fee and commission income are the most important source of income for the Group. Although the general Hong Kong market environment affected brokerage commission income in 2019, the underwriting and placing commission of corporate finance business increased significantly, driving the fee and commission income of the Group to increase by 5% year-on-year to HK$359 million. As the margin business was affected by the new policy, the interest income of the Group decreased by 19% year-on-year to HK$151 million. Benefiting from the outstanding performance of the fixed income trading business, the Group recorded net investment gains of HK$165 million, while net investment losses of HK$9.757 million were recorded in the same period in 2018.

Personal Finance and Wealth Management

The personal finance and wealth management business line mainly provides a series of comprehensive financial services including securities, futures and options brokerage, the sale of financial products such as wealth management, OTC, as well as securities margin financing to individual customers and non-professional institutional investors through a combination of online and offline methods.

	2019	2018	
	HK$'000	HK$'000	%
Fee and commission income	**86,128**	117,732	(27%)
Interest income	**127,503**	168,462	(24%)
Net investment gains	**226**	1,051	(78%)
	213,857	287,245	(26%)

REVIEW OF PERFORMANCE *(Cont'd)*

Personal Finance and Wealth Management *(Cont'd)*

Under the uncertain factors of continued US-China trade friction, uncertain prospects of Brexit, and social unrest in Hong Kong, the turnover of the Hong Kong stock market decreased significantly. The average daily turnover of the Hong Kong stock market in 2019 was HK$87.2 billion, down 18.9% from the same period in 2018. In addition, as more and more mainland securities firms have entered the Hong Kong securities industry, especially Internet brokers, the market competition is further intensified, and the overall commission rate is decreasing. New competitors have used the Internet as a means of marketing, which has an impact on the profit model of traditional personal finance business. Affected by the shrinking trading value of the securities market and the increasingly fierce competition in the industry, the commission income from securities trading decreased during the year, resulting in the fee and commission income of the personal finance and wealth management business line reducing by 27% year-on-year, to HK$86.13 million.

In addition, since the new policy of The Securities and Futures Commission of Hong Kong, the Guidelines for Securities Margin Financing Activities was implemented during the year, the scope of margin loan business was restricted. During the year under review, interest income from the personal finance and wealth management business line decreased by 24% year-on-year to HK$128 million.

The Group actively responded to the changes in the market and gradually shifted its focus from traditional fee-based brokerage business to comprehensive wealth management business during the year, focusing on improving the construction of wealth management platform, increasing product types and quantities, establishing investment advisory service system, and optimizing product introduction procedure and sales channels, to attract more quality customers while diversifying revenue. In terms of customer base, the Group actively explored high-net-worth customers, and the number of high-net-worth customers increased significantly during the year.

The Group will further accelerate the construction of a one-stop platform for integrated wealth management business, along with the optimization of Internet technology to strengthen service categories, expand product lines, and provide customized professional financial services for high-net-worth customers. The Group will also gradually expand the scope of margin financing to other wealth management products to meet the needs of retail and high-net-worth customers, establish a customer demand-oriented service system, and improve the quality of investment advisory services to form core competitiveness.

REVIEW OF PERFORMANCE *(Cont'd)*

Enterprise Finance

The enterprise finance business line consists of corporate finance business and investment business. Corporate finance business provides corporate clients with stock underwriting sponsor, bond underwriting and financial advisory services, while investment business mainly includes external equity investment, debt investment, other investments, and providing structured financing solutions for clients.

	2019 HK$'000	2018 HK$'000	%
Fee and commission income	**136,547**	76,146	79%
Net investment gains/(losses)	**21,517**	(6,812)	N/A
	158,064	69,334	128%

In 2019, benefiting from the accumulation of project resources and the development of bond underwriting business, the fee and commission income of the enterprise finance business line increased significantly by 79% to HK$137 million. In addition, the Group used its own funds to invest and in the meantime provided customized structured financing services to corporate customers. In 2019, net investment gains amounted to HK$21.517 million.

Sponsorship and underwriting and financial advisory

During the year under review, the Group completed a total of 4 IPO sponsorship projects, including the completion of the H-share IPO of Shenwan Hongyuan Group Co., Ltd., the largest IPO in Hong Kong in the first half of 2019, in which the Group acted as the joint sponsor, joint global coordinator, joint bookrunner and joint lead manager, demonstrating the continuous improvement of the capital market project execution capabilities of the corporate finance team and the Group's unwavering internationalization strategy with the support of the parent company. In the meantime, the Group also completed an asset restructuring project for a large state-owned enterprise during the year. The Group will actively increase reserves of sponsorship and underwriting projects and participate in more acquisition-and-merger-related financial advisory projects. The Group will also strengthen collaboration with the domestic team of the parent company in order to increase the potential customer coverage of corporate financing business.

REVIEW OF PERFORMANCE *(Cont'd)*

Enterprise Finance *(Cont'd)*

Equity capital market

During the year under review, the Group re-planned and completed building the equity capital market team, connecting the link between sponsorship and underwriting to provide customers with comprehensive services. The Group also actively deployed in selective key industries with the quality and number of participating underwriting projects increasing significantly compared to 2018. The equity capital market team completed a total of 9 IPO underwriting projects during the year, which was a significant increase from 3 underwriting projects for the same period in 2018, and the underwriting amounts were at historically good levels. According to the Dealogic, the Group ranked 21st in the market in terms of the number of IPO underwriting deals, and ranked 26th in the market in terms of the amount of IPO underwriting with market share of approximately 6.35% (in total). The Group will further strengthen the construction of the equity capital market team and the underwriting placement network, and enhance the connection of customer resources with domestic and overseas and internal business teams.

Debt capital market

2019 was a year in which the Group has made significant progress in developing its debt capital market business. During the year, a complete fixed income business chain was established, from project origination and distribution. By focusing on the two offshore bond market sectors, real estate and LGFVs, the Group leveraged its abundant resources accumulation and strong client base of the parent company to complete 16 fixed income financing deals as sole or joint global coordinator, assisting clients in raising over US$2.475 billion, among which the Group raised US$1.07 billion for 5 LGFVs and US$950 million for 5 real estate companies. The Group will continue to make use of its outstanding project execution capabilities, leveraging its strong shareholder background and customer resources to expand its coverage of state-owned enterprise customers and gradually increase its revenue contribution from this business.

Structured finance

In order to enrich the scope of customer services and expand business income, the Group continued to improve its structured finance services in 2019, by providing corporate customers with financial services that are different from traditional financing channels, helping customers implement funding arrangements through customized financing solutions and structured product designs, providing customers with flexible and rich capital intermediary services. The Group has strengthened strategic customer service and consolidated the company's risk management and control measures to increase business income through diversified products.

REVIEW OF PERFORMANCE *(Cont'd)*

Institutional Services and Trading

The institutional services and trading business line mainly provides one-stop integrated financial services for institutional clients, such as global stock brokerage and trading, sales and trading of fixed income bonds, currencies and commodities, research advisory, and investment and financing solutions. It also uses its own funds or acts as a counterparty to institutional clients to engage in the trading of fixed income bonds, currencies and commodities, equity and equity-linked securities, and provides sales, trading, hedging and over-the-counter derivative services to institutional clients.

	Fee and commission income		Interest income		Net investment gains/(losses)		Total		
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	%
Fixed income, currencies and commodities	**–**	–	**2,674**	–	**143,611**	(3,996)	**146,285**	(3,996)	N/A
Stock business	**115,039**	108,025	**20,942**	18,166	**–**	–	**135,981**	126,191	8%
	115,039	108,025	**23,616**	18,166	**143,611**	(3,996)	**282,266**	122,195	131%

During the year under review, although the Hong Kong financial market sentiment was stagnant and the total market turnover declined, the Group has actively adjusted its business strategy in sales, resulting in the revenue from the stock business in institutional services and trading business line increasing by 8% year-on-year, to HK$136 million. On the other hand, benefiting from the active expansion of fixed income products and trading businesses, fixed income, currencies and commodities businesses recorded net investment gains of HK$144 million, compared with net investment losses of HK$3.996 million in the same period last year.

In terms of stock business, the Group actively carried out integrated business during the year, invested resources in business development in various aspects such as capital market business, diversified business in Mainland China and Hong Kong, and financing business. The Group completed the adjustment of the sales team of overseas institutions, and introduced advanced high-end trading systems to comprehensively improve the service quality for institutional customers from transaction stability, algorithmic transactions and electronic transactions. The Group will continue to optimize and expand the international targeted customer base, take advantage of diversified products of Shenwan Hongyuan to seize the opportunity of international investors' capital inflows under the opening up of the A-share market, step up efforts to develop integrated businesses, introduce new structured and derivatives teams, focus on giving play to their own advantages, develop cross-border products, and work closely with the parent company and domestic subsidiaries to provide institutional clients with more diversified and richer equity trading services.

REVIEW OF PERFORMANCE *(Cont'd)*

Institutional Services and Trading *(Cont'd)*

In terms of fixed income, currencies and commodities businesses, the Group effectively expanded its fixed income trading portfolio during the year while avoiding large profit swing. Via professional credit analysis, the Group focused on investing in high-quality bond issuers and controlling the duration to minimize the impact of short-term market volatility. The Group will further strengthen the fixed income trading business and explore more trading opportunities of fixed income products, such as derivatives and structured products.

Investment Management

The investment management business line mainly provides (discretionary accounts) asset management, investment advisory, public fund management and private fund management services.

Since Mainland China restricted channel business and established a new regulatory system for domestic asset management in 2018, the channel-related asset management business has been gradually restricted, causing domestic and overseas Chinese investment management companies to start to face with business transformation. Under the guidance of financial supervision in Hong Kong, the Group concentrated on cleaning up existing projects during the year and laying a solid foundation for the transition to active asset management business. Revenue from the investment management business line decreased by 48% year-on-year to HK$21.397 million.

Facing the new landscape of asset management, the Group has actively transformed into active management, started with team reconstruction, and introduced professional teams to remedy the shortcomings in terms of operations, products and management capabilities, etc. The Group will further improve the team building, plan to set up multiple active management funds for the active investment business, coordinate with each business line to develop distinctive and differentiated products to meet the needs of different markets.

CAPITAL STRUCTURE

On 14 December 2018, the Company and Shenwan Hongyuan (International) Holdings Limited (the "Subscriber") entered into the subscription agreement (the "Subscription Agreement"), pursuant to which the Subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 765,000,000 new shares at the subscription price of HK$2.068 per subscription share. The subscription was completed on 18 February 2019 in accordance with the Subscription Agreement in which an aggregate of 765,000,000 new shares had been allotted and issued by the Company to the Subscriber at the subscription price of HK$2.068 per subscription share. Please refer to the Company's related announcements and circular for details.

The net proceeds from the subscription after deducting the related expenses were approximately HK$1.58 billion. The net proceeds were then applied for reinforcing and developing existing businesses as well as strategic expansion.

As at 31 December 2019, the total number of the issued ordinary shares was 1,561,138,689 shares and total equity attributable to ordinary equity holders was approximately HK$3.92 billion (31 December 2018: HK$2.21 billion).

USE OF PROCEEDS FROM THE SUBSCRIPTION OF NEW SHARES ON 18 FEBRUARY 2019

On 14 December 2018, the Company and Shenwan Hongyuan (International) Holdings Limited (the "Subscriber") entered into the subscription agreement (the "Subscription Agreement"), pursuant to which the Subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 765,000,000 new shares at the subscription price of HK$2.068 per subscription share. For details, please refer to the circular issued by the Company dated 15 January 2019 (the "Share Subscription Circular"). The subscription was completed under the Subscription Agreement on 18 February 2019.

USE OF PROCEEDS FROM THE SUBSCRIPTION OF NEW SHARES ON 18 FEBRUARY 2019 *(Cont'd)*

The use of proceeds from the subscription of shares as at 31 December 2019 is as follows:

(a) Actual use of proceeds

The following table sets out a breakdown of the use of proceeds as at 31 December 2019:

	The original purpose of the proceeds disclosed in the Share Subscription Circular HK$ million	Percentage to the total net proceeds	Actual use of the proceeds as of 31 December 2019 HK$ million	Balance of proceeds as at 31 December 2019 HK$ million
(a) Reinforcing and developing existing businesses				
(i) corporate finance business	493.8	31%	493.8	–
(ii) asset management business	395.0	25%	–	395.0
(iii) retail brokerage business	158.0	10%	158.0	–
(iv) back end system upgrade	118.5	8%	9.3	109.2
(v) general working capital	98.8	6%	98.8	–
(b) Strategic expansion				
(i) expanding institutional sales team and debt capital markets business and developing foreign exchange trading business	197.5	12%	197.5	–
(ii) developing overseas branches	118.5	8%	–	118.5
	1,580.1		957.4	622.7

(b) Unutilised proceeds

As set out in the above table (i.e. item a(ii), a(iv) and b(ii)), approximately HK$622.7 million of the proceeds has not been utilised.

As at the date of this annual report, all unutilised proceeds were intended to be used for the same specific purposes as disclosed in the Share Subscription Circular.

The Company has been closely monitoring the market conditions and its business development and is expected to make use of the unutilised amount around the end of 2020.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2019, the Group had a cash holding of HK$938 million (2018: HK$621 million) and investments at fair value through profit or loss of HK$2,189 million (2018: HK$602 million). As at 31 December 2019, the Group's total unutilised banking facilities amounted to HK$3,523 million (2018: HK$3,186 million), of which HK$1,523 million (2018: HK$1,814 million) could be drawn down without the need of notice period or completion of condition precedent.

As at 31 December 2019, the Group had outstanding short-term bank borrowings amounting to HK$779 million (2018: HK$470 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2019 were 143% (2018: 138%) and 20% (2018: 21%) respectively.

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

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

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

CHARGES ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 31 December 2019.

RISK MANAGEMENT

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

The management closely monitors the market condition so that precautionary measures will be taken to eliminate any risk that the Group may encounter. As at 31 December 2019, the advances to customers were overdue accounts receivable from cash clients, margin financing and structured products.

As at 31 December 2019, the balance of overdue accounts receivable from cash clients, margin financing and structured products amounted to HK$32 million (2018: HK$35 million), HK$873 million (2018: HK$1,208 million) and HK$312 million (2018: nil), respectively.

25% (2018: 38%) of margin financing was attributable to corporate customers with the rest attributable to individual customers.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Future Plan & Prospects", the Group had no other future plans for material investments or capital assets as at 31 December 2019.

EMPLOYEES

As at 31 December 2019, the total number of full-time employees was 274 (2018: 258). The total staff costs for the year amounted to approximately HK$250 million (2018: HK$194 million).

In 2019, the Group adopted a series of environmental-friendly measures in the workplace and served the community through organising and participating in various charitable activities to demonstrate our commitment to corporate social responsibility.

The following disclosures are made pursuant to Appendix 27, Environmental, Social and Governance Reporting Guide, of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") covering the general disclosures and key performance indicators in respect of two environmental, social and governance subject areas: Environmental (Subject Area A) and Social (Subject Area B) of the Company in 2019.

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and green house gas emissions, discharges into water and land, generation of hazardous and non-hazardous waste.	• The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period.	24–25
KPI A1.1	Types of emissions and respective emissions data.	• Environmental — Environmental Impacts • Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	24,26
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	24,26
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	• The Group does not produce any hazardous waste from its operations.	Not applicable
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	• Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Environmental Performance Summary	25–27
KPI A1.5	Description of measures to mitigate emissions and results achieved.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving	24
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	• Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Operating Practices — Supply Chain Management	25,29

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	• Environmental — Environmental Performance • Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Plans for 2020 • Operating Practices — Supply Chain Management	24,25,29
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	24,27
KPI A2.2	Water consumption in total and intensity.	• The Group operates in leased office premises of which both the water supply and discharge are solely controlled by the respective building management which considers the provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible.	Not applicable
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	• Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Environmental Performance Summary	24,26
KPI A2.4	Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable to the Group's business.	Not applicable
KPI A2.5	Total packaging material used for finished products (in tonnes).	Not applicable to the Group's business.	Not applicable

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	• Environmental — Environmental Performance • Environmental — Greenhouse Gas Emissions Reduction and Energy Saving • Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Plans for 2020 • Operating Practices — Supply Chain Management	24,25,29
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	• Environmental — Environmental Impacts • Environmental — Sustainable Paper Use • Environmental — Managing IT Equipment • Environmental — Plans for 2020 • Operating Practices — Supply Chain Management	24,25,29
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	• Employment and Labour Practices — Employment	28

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	• Employment and Labour Practices — Health and Safety	28
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	• Employment and Labour Practices — Development and Training	28
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	• Employment and Labour Practices — Labour Standards	28
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	• Operating Practices — Supply Chain Management	29
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	• Operating Practices — Product Responsibility	29

Aspects, general disclosures and KPIs	Description	Section/Statement	Page Number
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	• Operating Practices — Anti-corruption	30
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	• Community Investment	30

ENVIRONMENTAL

Environmental Performance

In 2019, the Group committed to manage its operations in an efficient and sustainable manner, and we continually look for opportunities to improve our environmental performance by reducing our use of energy and other resources.

Environmental Impacts

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

Greenhouse Gas Emissions Reduction and Energy Saving

Our Group generates GHG indirectly through electricity consumption to operate our facilities. We have committed to reduce our GHG emissions by improving our operational efficiency. In 2019, the direct GHG emissions generated by the Group's company car amounted to 14.68 tonnes of carbon dioxide[1] and indirect GHG emissions generated by the Group's electricity consumption and paper consumption (Hong Kong business) amounted to 634.89 tonnes of carbon dioxide[1]. We have reduced the total amount of GHG emissions by about 3.39% compared with the GHG emissions in 2018.

Energy consumption accounts for a major part of the Group's GHG emissions. Various energy saving measures were implemented in 2019 to improve operational efficiency and to reduce energy consumption of the Group. Further to the energy saving measures of 2018, the Group continued to adopt high energy efficient office equipment for its departments.

---

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

ENVIRONMENTAL *(Cont'd)*

Sustainable Paper Use

The Group continued to use paper that is independently certified as sourced from sustainably managed forests. In 2019, approximately 98% of the sustainably certified paper purchased by our Group was maintained. In addition, the Company continued to use the FSC (Forest Stewardship Council) certified printing paper for the production of its corporate communications, such as annual reports, interim reports, circulars, etc.

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

In 2019, the Group was once again awarded the "Wastewise Certificate" designation by the Hong Kong Green Organisation Certification in recognition of our continuous effort to reduce the generation of office waste.

Managing IT Equipment

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

Hazardous waste

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

Plans for 2020

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

ENVIRONMENTAL *(Cont'd)*

Environmental Performance Summary[1]

Emissions[2]

Indicators	2019	2018
Total GHG emissions[3] (Scope 1 and 2) (tonnes)	**615.68**	636
Total GHG emissions (Scope 1 and 2) per unit floor area (tonnes/m^2)	**0.137**	0.157
Total GHG emissions (Scope 1 and 2) per employee (tonnes/employee)	**2.24**	2.46
Total GHG emissions (Scope 1, 2 and 3) (tonnes)	**649.57**	672.33
Total GHG emissions (Scope 1, 2 and 3) per unit floor area (tonnes/m^2)	**0.144**	0.166
Total GHG emissions (Scope 1, 2 and 3) per employee (tonnes/employee)	**2.36**	2.61
Direct GHG emissions (Scope 1) (tonnes)		
Company car	**14.68**	14.7
Indirect GHG emissions (Scope 2) (tonnes)		
Electricity	**601**	621
Indirect GHG emissions[4] (Scope 3) (tonnes)		
Paper consumption	**33.89**	36.62
GHG emissions avoided by recycling of paper (tonnes)	**8.88**	8.14

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

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

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

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

ENVIRONMENTAL *(Cont'd)*

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

Energy Consumption[2]

Indicators	2019	2018
Total energy consumption[3] (MWh)	**925.8**	954.93
Total energy consumption per floor area (MWh/m²)	**0.21**	0.236
Total energy consumption per employee (MWh/employee)	**3.37**	3.7
Direct energy consumption (MWh)		
Unleaded petrol	**67.1**	67.1
Indirect energy consumption (MWh)		
Electricity	**858.7**	887.8

Paper Consumption

Indicators	2019	2018
Total paper consumption[4] (tonnes)	**8.07**	8.54
Office paper	**7.06**	7.63
Paper for financial statement printing	**1.01**	0.91
FSC certified paper used (%)	**98**	98

Water Consumption

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

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

2. Energy consumption data is based on the amount of electricity and fuels consumed.

3. Energy consumption is calculated in megawatt-hours, or MWh.

4. Includes paper used for printing customer financial statements, proposals and office documents.

SOCIAL

Employment and Labour Practices

(a) *Employment*

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

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

(b) *Health and Safety*

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

(c) *Development and Training*

Development and training is an ongoing process to ensure the continued enhancement of the skills and knowledge of employees. The Group has training policies and organises various training programmes to improve the skills of its employees and to increase the professionalism and efficiency of the Group. Employees are provided with on-the-job training throughout their employment with the Group. The Group also has policies for employee development. In compliance with Securities and Futures Commission requirements, the Group organised a total of 14 Continuous Professional Training seminars for all licensed staff members for the year ended 31 December 2019.

(d) *Labour Standards*

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

SOCIAL *(Cont'd)*

Operating Practices

(a) Supply Chain Management

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

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

(b) Product Responsibility

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

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

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

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

SOCIAL *(Cont'd)*

Operating Practices *(Cont'd)*

(c) Anti-corruption

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

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

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

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

Community Investment

In terms of community involvement, the Group is committed to contributing to the community and fulfilling its corporate social responsibility undertakings. We support long-term community investment by establishing community partnerships and encouraging our employees to participate in volunteer services. In 2019, the Group continued its cooperation with the Chinese Young Men's Christian Association (YMCA) of Hong Kong, participated in various charitable and care activities, including sponsoring and organising volunteer teams visiting the workplace and dormitory of intellectual disabilities and making jelly flowers with them as well as participating the bakery workshop with children from low-income families.

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

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

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviation from the Code Provision A.6.7 which is explained below, the Company has met all the code provisions stipulated in Appendix 14, Corporate Governance Code and Corporate Governance Report (the "Code"), of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2019.

Code Provision A.6.7 specifies that independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Due to other business engagements at that relevant time, an independent non-executive director of the Company was unable to attend the annual general meeting of the Company held on 10 May 2019, and a non-executive director of the Company was unable to attend the extraordinary general meetings held on 31 January 2019 and 17 May 2019 respectively.

CORPORATE GOVERNANCE PRINCIPLES AND SHENWAN HONGYUAN'S PRACTICES:

A.1 The Board of Directors

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

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

Five board meetings and four general meetings, being the annual general meeting held on 10 May 2019 and three extraordinary general meetings held on 31 January 2019, 25 March 2019 and 17 May 2019 respectively, were held by the Company in the financial year ended 31 December 2019. Attendance record of each individual director is as follows:

Name of Directors	Number of board meeting(s) attended/held	Number of general meeting(s) attended/held
Executive Directors		
Zhu Minjie *(Chairman) (resigned on 10 August 2019)*	4/4	3/4
Chen Xiaosheng *(Chairman)*	4/5	1/4
Zhang Jian	4/5	1/4
Guo Chun *(Deputy Chairman)*	5/5	4/4
Wu Meng *(appointed on 10 August 2019)*	1/1	N/A
Qiu Yizhou *(Chief Executive Officer)*	5/5	4/4
Non-executive Director		
Zhang Lei	3/5	2/4
Independent Non-executive Directors		
Ng Wing Hang Patrick	5/5	4/4
Kwok Lam Kwong Larry	5/5	4/4
Chen Liqiang	3/5	3/4

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

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

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

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

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

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

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

A.2 Chairman and Chief Executive

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

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Zhu Minjie acted as the Chairman until he resigned on 10 August 2019 and was succeeded by Mr. Chen Xiaosheng since then. Mr. Guo Chun acts as Deputy Chairman and Mr. Qiu Yizhou acts as Chief Executive Officer.

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

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

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

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

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

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

During the financial year ended 31 December 2019, the Chairman held a meeting with the independent non-executive directors without the presence of other directors.

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

A.3 Board Composition

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

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

Executive Directors
Zhu Minjie *(Chairman) (resigned on 10 August 2019)*
Chen Xiaosheng *(Chairman)*
Zhang Jian
Guo Chun *(Deputy Chairman)*
Wu Meng *(appointed on 10 August 2019)*
Qiu Yizhou *(Chief Executive Officer)*

Non-executive Director
Zhang Lei

Independent Non-executive Directors
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

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

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

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

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

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

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

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

A.5 Nomination Committee

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

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

The Nomination Committee comprises the Chairman of the Company, Mr. Zhu Minjie until he resigned on 10 August 2019 and was succeeded by Mr. Chen Xiaosheng since then, and three independent non-executive directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Chen Liqiang. Mr. Zhu Minjie acted as the chairman of the Nomination Committee until he resigned on 10 August 2019 and was succeeded by Mr. Chen Xiaosheng since then.

The Nomination Committee held one meeting in the financial year ended 31 December 2019. The following is an attendance record of the meeting held by the Nomination Committee for the financial year:

Name of Committee Members	**Number of meeting(s) attended/held**
Zhu Minjie *(Chairman) (resigned on 10 August 2019)*	1/1
Chen Xiaosheng *(Chairman)*	N/A
Ng Wing Hang Patrick	1/1
Kwok Lam Kwong Larry	1/1
Chen Liqiang	1/1

During the financial year, the Nomination Committee reviewed the structure, size, composition and diversity of the Board; assessed the independence of each independent non-executive director; made recommendation to the Board on the re-election of the retiring directors at the 2019 annual general meeting; and made recommendation to the Board on the adoption of the Director Nomination Policy. In addition, the Nomination Committee has resolved by way of written resolutions in January 2019 to make recommendation to the Board on the re-election of the retiring directors, Mr. Zhang Jian and Mr. Chen Liqiang at the extraordinary general meeting held on 31 January 2019; and in July 2019 to make recommendation to the Board on the appointments of Mr. Chen Xiaosheng as Chairman of the Board and Chairman of the Nomination Committee of the Company as well as Ms. Wu Meng as Executive Director of the Company.

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

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

During the year, the Company adopted the Director Nomination Policy which sets out the key selection criteria and procedures of the Nomination Committee in making any recommendations to the Board on the appointment or re-appointment of directors and succession planning of directors with a view to ensuring that the Board maintains a balance of skills, experience and diversity of perspective appropriate to the requirement of the Company's business. In assessing the suitability of a proposed candidate, the Nomination Committee will consider a number of factors which include the proposed candidate's integrity, skills, experience and diversity of perspective, time commitment, and independence. The Director Nomination Policy also lays down the following nomination procedures for (i) appointment of new or replacement Director; (ii) re-election of Director at general meeting; and (iii) nomination of new director by shareholders.

A.6 Responsibilities of Directors

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

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

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

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company made specific enquiry of all directors. According to their replies, all the directors complied with the requirements set out in the Model Code during the financial year ended 31 December 2019. The Company also complied with the other requirements stipulated in the Model Code.

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

Name of Directors	Training Received *(Note)*
Executive Directors	
Zhu Minjie *(Chairman) (resigned on 10 August 2019)*	–
Chen Xiaosheng *(Chairman)*	A, B, C
Zhang Jian	A, B, C
Guo Chun *(Deputy Chairman)*	A
Wu Meng *(appointed on 10 August 2019)*	A, E
Qiu Yizhou *(Chief Executive Officer)*	A
Non-Executive Director	
Zhang Lei	A
Independent Non-Executive Directors	
Ng Wing Hang Patrick	A
Kwok Lam Kwong Larry	A
Chen Liqiang	A, E

Notes:

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

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

A.7 Supply of and Access to Information

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

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

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

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

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

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

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

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

The Remuneration Committee held two meetings in the financial year ended 31 December 2019. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

Name of Committee Members	**Number of meeting(s) attended/held**
Kwok Lam Kwong Larry *(Chairman)*	2/2
Ng Wing Hang Patrick	2/2
Chen Liqiang	2/2

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration policies of the Group and compared with companies of similar scale as benchmark. Furthermore, the Committee made recommendations to the Board for the reward system of the Group, the salary increment of employees in 2019 and the reward of the Chief Executive Officer for 2019. None of the directors of the Company participated in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

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

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

For the financial year ended 31 December 2019, the remuneration of the members of the senior management by band is set out below:

Remuneration bands	**Number of senior management***
Nil–HK$3,000,000	1
HK$3,000,001–HK$5,000,000	1
HK$5,000,001–HK$7,000,000	1

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

Details of the directors' remuneration and five highest paid employees for the financial year ended 31 December 2019 as required to be disclosed pursuant to Appendix 16 of the Listing Rules are provided in notes 8 and 9 to the financial statements.

C.1 Financial Reporting

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

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

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

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

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

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

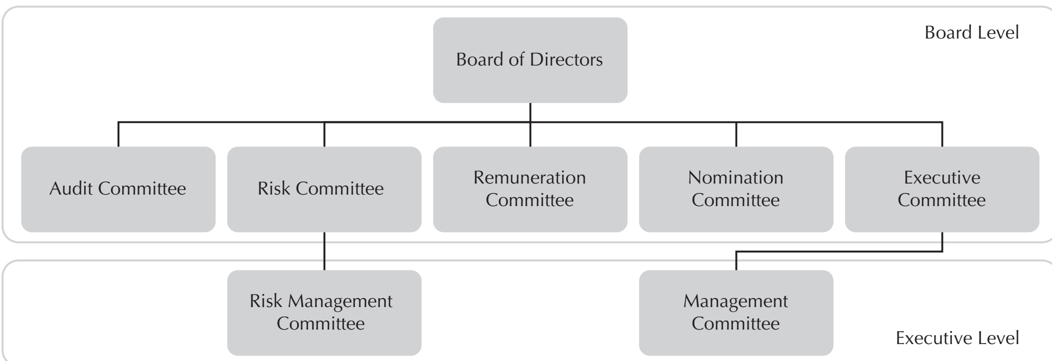
The Board presented a balanced, clear and understandable assessment of the Company in annual and interim reports and other financial disclosures required by the Listing Rules, and also for the reports to regulators and information disclosed under statutory requirements.

C.2 Risk Management and Internal Control

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

(a) Group's Risk Governance Structure

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



(b) Three Lines of Defence Model

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

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

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

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

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

- Carried out internal control effectiveness evaluation in 2019 according to "The Guidelines for Self-Assessment on Internal Controls" established by the Group. "The Guidelines for Self-Assessment on Internal Controls" specifies the requirements or procedures for self-evaluation of internal controls. Each department is required to evaluate and rate its compliance with the established internal control policies and procedures in the "Report for Self-Assessment on Internal Controls". Where control weaknesses are identified, the responsible departments should formulate and implement appropriate remediation measures. According to the results of the internal control effectiveness evaluation performed in 2019, the overall performance of department's implementation of the Company's established internal control policies is satisfactory.

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

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

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

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

- Assist in regulatory authorities' investigations and enquiries.

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

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

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

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

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

- Internal Audit Department reported twice in 2019 the risk management and internal controls related matters to the Audit Committee, which in turn reported to the Board accordingly.

(c) Audit Committee

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

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

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

The Audit Committee is currently composed of three independent non-executive directors; it has held two meetings in the financial year ended 31 December 2019. List of the Audit Committee members and the attendance record of the meeting held by the Audit Committee are set out in C.3 below.

(d) Internal Audit Department

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

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

(e) Risk Committee

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

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

The Risk Committee held three meetings in the financial year ended 31 December 2019. The following is an attendance record of the meeting held by the Risk Committee for the financial year:

Name of Committee Members	**Number of meeting(s) attended/held**
Ng Wing Hang Patrick *(Chairman)*	3/3
Guo Chun	3/3
Qiu Yizhou	3/3
Kwok Lam Kwong Larry	3/3
Chen Liqiang	3/3

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

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

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

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

(f) Risk Management Committee

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

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

(g) Risk Management Department

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

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

(h) *Group's Key Risk and Management Measures*

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

(1) Compliance Risk and Legal Risk

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

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

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

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

(2) Liquidity and Funding Risk

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

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

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

(3) Credit Risk

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

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

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

The Group's Credit Team is responsible for monitoring the positions of client's accounts (including the stock, futures and stock options) and the level of financing on a daily basis. Credit Team strictly enforces margin call and executes forced sale in accordance with the Group's established policies and procedures. When any breach of the Group's financing or credit policy is identified, the Credit Team will report it to the management immediately. In addition, the Credit Team conducts regular stress tests on client's repayment capability, so as to identify those client's accounts that may have margin deficits under volatile market conditions.

To avoid excessive concentration of credit risk, the Group has set limits on single client or counterparty concentration risk, stock and bond concentration risk.

(4) Market Risk

Market risk refers to the risk of the Group suffering from any financial loss as a result of adverse market movements of exchange rate, interest rate, price of financial instruments, etc. The Group's investment trading business should be run on the principle of risk diversification. Each of its portfolios, investments and transactions should be managed within the approved limits.

The Group has procedures and risk indicators in place to monitor the market exposure of the investment business regularly, ensuring the business is run within the Group's risk appetite.

(5) Operational Risk

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

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

(6) Reputational Risk

Reputational Risk refers to the risk of the Group's suffering from any damage to its goodwill as a result of its operation, or external events, leading to negative comment from regulators, customers, partners and other investors. Such damage could be in the form of, for example, criticism from the media or drop in the stock price. Reputational risk events may stand alone or result from other risk events.

The Group strives to maintain its reputation and acts in the Group's long-term interest, and timely handle in accordance with the established requirements in case of a risk event.

(i) Handling and Dissemination of Inside Information

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

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

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

The Board reviews the effectiveness of the Group's risk management and internal control systems on an ongoing basis. Through the structure and measures mentioned above, the Board ensures that appropriate and effective risk management and internal control systems are in place. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Group's compliance, risk management, accounting, internal audit and financial reporting functions. For the financial year ended 31 December 2019, the Board found that the existing risk management and internal control systems were sound and effective to safeguard the shareholders' and customers' interests and the assets of the Group.

C.3 Audit Committee

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

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

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

The Audit Committee held two meetings in the financial year ended 31 December 2019. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Ng Wing Hang Patrick *(Chairman)*	2/2
Kwok Lam Kwong Larry	2/2
Chen Liqiang	2/2

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

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

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

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

(4) nominated external auditors for re-appointments at the annual general meeting held in 2019, and considered the proposed remuneration and terms of engagement of external auditors;

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

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

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

The Board agreed with the Audit Committee's proposal for the re-appointment of Messrs. KPMG as the Company's external auditors for 2020. The recommendation will be put forward for the approval of shareholders at the forthcoming annual general meeting.

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

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

During the financial year ended 31 December 2019, the remuneration to the external auditors, Messrs. KPMG, was as below:

Nature of services	HK$'000
Audit services	2,080
Tax advisory services	320

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

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

D.1 Management Functions

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

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

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

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

Matters reserved to be approved by the Board include:

(1) Appointment of directors;

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

(3) Proposal for selection of external auditors;

(4) Financial statements and budgets;

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

(6) Formation of board committees.

D.2 Board Committees

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

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

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

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

D.3 Corporate Governance Functions

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

E.1 Effective Communication

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

At the annual general meeting held in 2019, a separate resolution was proposed by the Chairman for each substantially separate issue.

During the financial year, the Company held the annual general meeting on 10 May 2019 and three extraordinary general meetings on 31 January 2019, 25 March 2019 and 17 May 2019 respectively.

- At the annual general meeting held on 10 May 2019 was attended by the Chairman of the Board, the chairmen of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee or members of the respective Committees, and the representative of the external auditor, Messrs. KPMG, to answer questions from the shareholders.

- At the extraordinary general meeting held on 31 January 2019 to seek and was eventually obtained independent shareholders' approval for the subscription of new shares by a connected person under specific mandate, the chairman of the independent board committee and the representative from the independent financial advisor to independent shareholders of the Company attended the meeting to answer questions.

- At the extraordinary general meeting held on 25 March 2019 to seek and was eventually obtained independent shareholders' approval for the proposed appointment as underwriter(s) by the parent company for its proposed H Share offering, the chairman of the independent board committee and the representative from the independent financial advisor to independent shareholders of the Company attended the meeting to answer questions.

- At the extraordinary general meeting held on 17 May 2019 to seek and was eventually obtained independent shareholders' approval for the continuing connected transactions, the chairman of the independent board committee and the representative from the independent financial advisor to independent shareholders of the Company attended the meeting to answer questions.

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

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

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

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

(a) How shareholders can convene an extraordinary general meeting

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

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

The written request:

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

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

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

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

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

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

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

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

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

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

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

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

The written request:

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

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

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

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

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

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

E.2 Voting by Poll

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

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

To ensure that shareholders are familiar with the poll procedures at the annual general meeting and extraordinary general meetings held in 2019, the Chairman (through the Company Secretary) explained the detailed procedures of poll voting.

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

F. Company Secretary

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

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

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

Mr. Wong confirmed that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2019 in compliance with Rule 3.29 of the Listing Rules. The biographical details of Mr. Wong are set out on page 65 under the section headed Biographical Details of the Directors of the Company and the Senior Management of the Group.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the audited financial statements.

The Company's existing Dividend Policy allows its shareholders to participate in the Company's profits on one hand, while retaining adequate reserves for future business development on the other. In general, the dividend payout ratio should be in the range between 40% and 60% of the Group's consolidated net profit after tax for the then financial year. In addition, the Board may also declare special dividends in addition to such dividends as it considers appropriate.

The directors recommend the payment of a final dividend of HK3 cents per ordinary share in respect of 2019 to shareholders on the register of members on 29 May 2020.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out under the sections headed Chairman's Statement, Management Discussion & Analysis of Performance, Corporate Social Responsibility Report and Corporate Governance Report on pages 5 to 7, pages 8 to 18, pages 19 to 30 and pages 31 to 57 respectively of this annual report.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**675,584**	519,619	545,964	416,455	696,649
Other (loss)/gains, net	**(13,646)**	2,173	10,779	1,267	988
Commission expenses	**(65,063)**	(89,909)	(113,904)	(68,790)	(156,237)
Employee benefit expenses	**(249,944)**	(193,710)	(191,297)	(139,382)	(193,907)
Depreciation	**(24,450)**	(8,677)	(7,655)	(5,040)	(5,248)
Interest expenses	**(30,734)**	(11,433)	(11,771)	(5,883)	(17,396)
Other expenses, net	**(133,826)**	(116,431)	(115,899)	(107,721)	(122,164)
PROFIT BEFORE TAXATION	**157,921**	101,632	116,217	90,906	202,685
Income tax	**(21,258)**	(5,406)	(12,146)	(8,632)	(18,372)
PROFIT FOR THE YEAR	**136,663**	96,226	104,071	82,274	184,313
Attributable to:					
Ordinary equity holders of the Company	**136,664**	96,228	104,097	82,275	184,314
Non-controlling interests	**(1)**	(2)	(26)	(1)	(1)
	136,663	96,226	104,071	82,274	184,313

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**10,231,699**	7,863,656	7,686,304	7,450,971	7,425,262
TOTAL LIABILITIES	**(6,312,382)**	(5,655,546)	(5,522,781)	(5,359,214)	(5,344,090)
NON-CONTROLLING INTERESTS	**(2,626)**	(2,627)	(2,629)	(3,114)	(2,630)
	3,916,691	2,205,483	2,160,894	2,088,643	2,078,542

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

On 18 February 2019, the Company allotted and issued 765,000,000 new shares to Shenwan Hongyuan (International) Holdings Limited pursuant to the relevant subscription agreement. Please refer to the Company's related announcements and circular for details.

EQUITY-LINKED AGREEMENTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK$78,898,000 of which HK$46,834,000 has been proposed as a final dividend for 2019.

CHARITABLE CONTRIBUTIONS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Zhu Minjie *(Chairman) (resigned on 10 August 2019)*
Chen Xiaosheng *(Chairman)*
Zhang Jian
Guo Chun *(Deputy Chairman)*
Wu Meng *(appointed on 10 August 2019)*
Qiu Yizhou *(Chief Executive Officer)*

Non-executive director:
Zhang Lei

Independent non-executive directors:
Ng Wing Hang Patrick
Kwok Lam Kwong Larry
Chen Liqiang

In accordance with Articles 95 and 104(A) of the Company's Articles of Association and in compliance with Code Provision A.4.3 of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Ms. Wu Meng, Mr. Guo Chun, Mr. Ng Wing Hang Patrick and Mr. Kwok Lam Kwong Larry will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

A list of names of all the directors who have served on the boards of the subsidiaries of the Company for the period from 1 January 2019 to the date of this report is available on the Company's website at www.swhyhk.com.

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

Executive directors

Chen Xiaosheng – Chairman

Mr. Chen Xiaosheng, aged 50, was appointed as an Executive Director of the Company on 5 March 2016 and the Chairman of the Board of the Company on 10 August 2019. Mr. Chen is also an assistant to president of Shenwan Hongyuan Securities Co., Ltd.. In addition, Mr. Chen is a director of Shenwan Hongyuan (International) Holdings Limited, Venture-Some Investments Limited and Shenwan Hongyuan Holdings (B.V.I.) Limited, all are the controlling and substantial shareholders of the Company. He also serves as a deputy head of Securities Analysts and Investment Advisers Committee of the Securities Association of China. From 1994 to 2015, Mr. Chen held various positions at Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd. He has over 20 years of experience in the securities industry. Mr. Chen was accredited as Securities Analyst by the Securities Association of China in 2011. He graduated from Shanghai Jiaotung University with a Master's Degree in Structural Engineering and awarded an Executive Master of Business Administration Degree by Shanghai National Accounting Institute in collaboration with Arizona State University, the United States of America.

Zhang Jian

Mr. Zhang Jian, aged 42, was appointed as an Executive Director of the Company on 28 November 2018. Mr. Zhang is also an assistant to general manager of Shenwan Hongyuan Securities Co., Ltd. and general manager of Shenwan Hongyuan Financing Services Co., Ltd.. In addition, Mr. Zhang is a director of Shenwan Hongyuan (International) Holdings Limited, the controlling and substantial shareholder of the Company. Prior to joining Shenwan Hongyuan Financing Services Co., Ltd. in November 2017, he worked for CITIC Securities Company Limited from July 2001 to October 2017 and held various positions in corporate finance division and merger and acquisition business division. He has more than 10 years' experience in corporate finance business. Mr. Zhang graduated from Sun Yat-sen University with a Ph.D. in Economics and is qualified as a sponsor representative in China.

Guo Chun – Deputy Chairman

Mr. Guo Chun, aged 55, was appointed as an Executive Director of the Company in May 2000 and as the Deputy Chairman of the Board of the Company on 11 August 2018. He served as chief executive officer of the Company from 9 March 2012 to 10 August 2018. Mr. Guo is also a director of Shenwan Hongyuan Holdings (B.V.I.) Limited, a controlling and substantial shareholder of the Company. He has been working in the securities industry of the People's Republic of China (the "PRC") since 1987 and has 32 years' extensive experience in stockbroking and corporate finance in the PRC. Before joining the former Shanghai Shenyin Securities Co., Ltd. and served as a regional superintendent in Shanghai in 1990, Mr. Guo worked for the Industrial and Commercial Bank of China. Mr. Guo acted as the general manager of the International Business Division of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., and Shenwan Hongyuan Securities Co., Ltd. from May 2008 to March 2012 and from February 2014 to June 2019. Mr. Guo holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia and an Executive Master of Business Administration Degree from Arizona State University, the United States of America.

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

Executive directors *(Cont'd)*

Wu Meng

Ms. Wu Meng, aged 38, was appointed as an Executive Director of the Company on 10 August 2019. Ms. Wu is also a general manager of the International Business Division of Shenwan Hongyuan Securities Co., Ltd.. In addition, Ms. Wu is a general manager and director of Shenwan Hongyuan (International) Holdings Limited and a director of Venture-Some Investments Limited, both are the controlling and substantial shareholders of the Company. Prior to joining Shenwan Hongyuan Securities Co., Ltd. in June 2016, she worked for corporate finance division of China Jianyin Investment Ltd. from July 2006 to May 2008, and worked for Central Huijin Investment Ltd. from June 2008 to May 2016 during which she held various positions in capital market department and securities institutions department/insurance institutions department. Ms. Wu has more than 10 years' experience in corporate finance business, and equity management of securities and insurance companies. Ms. Wu graduated from Shandong University with a Bachelor's Degree of Economics in International Economics and Trade, and also holds a Master's Degree of Science in Finance and Investment from Queen Mary and Westfield College to the University of London and a Ph.D. of Management in Management of Agricultural Economy from China Agricultural University.

Qiu Yizhou — Chief Executive Officer

Mr. Qiu Yizhou, aged 46, was appointed as an Executive Director of the Company on 15 May 2017 and as the Chief Executive Officer of the Company on 11 August 2018. Mr. Qiu previously served as the deputy general manager of Strategic Planning Division of Shenwan Hongyuan Securities Co., Ltd. He joined Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., in 2004 and has more than 10 years' experience in corporate finance and management of securities business. Mr. Qiu was graduated from Nanjing University with Bachelor's Degree in Economics and also holds Master's Degree in Science from University of Manchester in the United Kingdom.

Non-executive director

Zhang Lei

Mr. Zhang Lei, aged 51, is a Non-executive Director of the Company. He graduated from Shanghai Jiaotong University as doctor of philosophy of Financial Management Engineering in 1997. Mr. Zhang has many years of experience in the securities industry. He has previously worked for Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., as deputy manager of Client Asset Management Division. Mr. Zhang joined Shanghai Industrial Investment (Holdings) Company Limited in July 2006, and currently serves as its general manager of Finance & Planning Department. He also presently holds directorships in certain wholly-owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited and acts as the responsible officer of SIIC Asset Management Company Limited.

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

Independent non-executive directors

Ng Wing Hang Patrick

Mr. Ng Wing Hang Patrick, aged 67, is an Independent Non-executive Director of the Company. Mr. Ng is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Pan-China (H.K.) CPA Limited, a certified public accountants firm in Hong Kong. He also serves as an Independent Non-executive Director of Far East Hotels and Entertainment Limited, which is listed on the Hong Kong Stock Exchange. Mr. Ng graduated from The Hong Kong Polytechnic University in 1975.

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

Mr. Kwok Lam Kwong Larry, aged 64, is an Independent Non-executive Director of the Company. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a Chartered Accountant in England and Wales and a CPA in Hong Kong and Australia. Mr. Kwok graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws as well as a Master's Degree in Laws. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

Chen Liqiang

Mr. Chen Liqiang, aged 41, is an Independent Non-Executive Director of the Company. He is currently working in a financial institution with more than 10 years of finance experience. Mr. Chen has previously worked for the Department of Public Offering Supervision of the China Securities Regulatory Commission and served as director of the Shanghai Stock Exchange. He graduated from Peking University Law School with a Master Degree in Laws and also obtained the Chinese legal professional qualification.

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

Senior management

He Tian — Deputy General Manager

Mr. He Tian aged 39, has been appointed as Deputy General Manager of the Group in January 2019. Mr. He once served as a tutor counselor of Wuhan University Business School, head of several business lines of CITIC Securities and CLSA, a director of JOINCAP Financial Holdings Limited, Mr. He has more than 14 years' experience in corporate finance and private equity investment. He holds a Master of Finance Degree from Wuhan University.

Xia Mingrui — Deputy General Manager

Mr. Xia Mingrui, aged 46, has been appointed as Deputy General Manager of the Group in March 2020. Mr. Xia was appointed as Assistant General Manager of the Group in October 2017. He has served as manager of the Market Development Department of International Business Division of Shenwan Hongyuan Securities Co., Ltd. and has more than 25 years of experience in securities business. Mr. Xia graduated from Shanghai Jiaotong University with a major in Finance.

Wong Che Keung Leslie — Chief Operating Officer and Company Secretary

Mr. Wong Che Keung Leslie, aged 55, is the Chief Operating Officer and Company Secretary of the Group. Besides company secretarial duties, Mr. Wong is also responsible for overseeing accounting, securities settlement, credit, treasury, information technology as well as legal affairs of the Group. Mr. Wong once served as the Head of Compliance of the Group and subsequently, a Director of Shenwan Hongyuan Securities (H.K.) Limited and the Finance Director before succeeding to the position of the Chief Operating Officer of the Group in 2010. Mr. Wong was appointed as the Company Secretary of the Group in December 2004. Prior to joining the Group in 1996, he has worked in the Securities and Futures Commission for 7 years. Mr. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants, and obtained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

DIRECTOR'S INTEREST IN SHARES

As at 31 December 2019, none of the directors and the chief executive of the Company was taken to be interested or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2019, the interests of substantial shareholders, other than directors or chief executive of the Company, who had interests or short positions of 5% or more of the issued shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions in the ordinary shares of the Company

Name	Capacity and nature of interests	Number of ordinary shares interested *(Note)*	Percentage of the Company's issued shares
Shenwan Hongyuan Holdings (B.V.I.) Limited ("SWHYHBVI")	Directly beneficially owned	402,502,312[(1)]	25.78
Venture-Some Investments Limited ("VSI")	Through controlled corporation	402,502,312[(1)]	25.78
Shenwan Hongyuan (International) Holdings Limited	Through controlled corporation	402,502,312[(1)]	25.78
	Directly beneficially owned	768,306,257[(2)]	49.22
Shenwan Hongyuan Securities Co., Ltd.	Through controlled corporation	1,170,808,569[(1)(2)]	75.00
Shenwan Hongyuan Group Co., Ltd.	Through controlled corporation	1,170,808,569[(1)(2)]	75.00

Notes:

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

(2) Shenwan Hongyuan (International) Holdings Limited also held directly 768,306,257 shares of the Company. Hence, Shenwan Hongyuan Securities Co., Ltd. and Shenwan Hongyuan Group Co., Ltd. are also deemed to be interested in the same parcel of 768,306,257 shares held by Shenwan Hongyuan (International) Holdings Limited under the SFO.

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

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any person who had interests or short positions in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

(a) Connected Transactions

On 15 February 2019, Shenwan Hongyuan Group Co., Ltd. ("SWHY Group") and the Company entered into an appointment memorandum pursuant to which SWHY Group conditionally agreed to engage Shenwan Hongyuan Securities (H.K.) Limited and/or Shenwan Hongyuan Capital (H.K.) Limited, each a wholly-owned subsidiary of the Company, as its underwriter(s) for the proposed H Share offering in accordance with the underwriting agreement. This transaction was approved by independent shareholders of the Company at the extraordinary general meeting held on 25 March 2019 as required under the Listing Rules.

Further details of the transaction are set out in the announcement of the Company dated 15 February 2019 and 25 March 2019, and the circular of the Company dated 7 March 2019.

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

(b) Continuing Connected Transactions

(i) On 29 March 2019, the Company and Shenwan Hongyuan Group Co., Ltd. ("SWHYG") entered into the memorandum of understanding in relation to the transactions that may occur between the SWHYG and its subsidiaries in the next 3 years, and the Company and its subsidiaries to replace the memorandum of understanding entered into between the Company and Shenwan Hongyuan Securities Co., Ltd. on 1 April 2016 and the memorandum of understanding entered into between the Company and SWS Research Co., Ltd. on 1 April 2016. This transaction was approved by independent shareholders of the Company at the extraordinary general meeting held on 17 May 2019 as required under the Listing Rules.

Further details of the transaction are set out in the announcement of the Company dated 29 March 2019 and 17 May 2019, and the circular of the Company dated 30 April 2019.

(ii) The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions as set out in note 33(a)(i-vii) to the financial statements and confirmed that these transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

Mr. Chen Xiaosheng (Executive Director and Chairman of the Company) is an assistant to president of Shenwan Hongyuan Securities Co., Ltd. which is involved in securities business.

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

- an assistant to general manager of Shenwan Hongyuan Securities Co., Ltd. which is involved in securities business; and

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

Ms. Wu Meng (Executive Director of the Company) is a general manager of the international business division of Shenwan Hongyuan Securities Co., Ltd. which is involved in securities business.

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

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

AUDITORS

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

ON BEHALF OF THE BOARD

Chen Xiaosheng
Chairman

Hong Kong
23 March 2020

KPMG

Independent auditor's report to the members of Shenwan Hongyuan (H.K.) Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Shenwan Hongyuan (H.K.) Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 78 to 170, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Revenue recognition — fee and commission income

Refer to note 5 to the consolidated financial statements and the accounting policies on page 115.

The Key Audit Matter	How the matter was addressed in our audit
Fee and commission income from the corporate finance business represented 28% of the total revenue of the Group for the year ended 31 December 2019. Fee and commission income from the corporate finance business was principally derived from initial public offering, placing, underwriting, sponsorship and financial advisory. Commission income from initial public offering, placing and underwriting are recognised when the obligations under the agreements have been fulfilled. Sponsorship fees and financial advisory fees are recognised when the corresponding service is provided. When the service arrangement cover a range of services to be provided over time, the determination of the timing and the proportion of recognition of fee and commission income can involve significant management judgement.	Our audit procedures to assess the recognition of fee and commission income from the corporate finance business included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to revenue recognition, including deal approval, invoicing and journal entry approval; • assessing the appropriateness of the recognition of revenue for a sample of specific revenue transactions recorded during the current year by: o inspecting the executed service agreements and evaluating whether revenue was recognised in accordance with the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; o inspecting relevant documentation such as circulars issued by listed companies and correspondence with customers to assess whether the service has been performed and completed in accordance with the terms of the executed service agreements;

Revenue recognition — fee and commission income *(Cont'd)*

Refer to note 5 to the consolidated financial statements and the accounting policies on page 115.

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

Assessment of the fair value of financial instruments

Refer to notes 18, 19, 25 and 36 to the consolidated financial statements and the accounting policies on pages 96 and 101.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019 the fair value of the Group's financial assets and liabilities was HK$3,693 million and HK$329 million respectively of which HK$3,416 million and HK$329 million were classified as level 2 financial instruments respectively. The valuation of the Group's financial instruments, which are stated at their fair values, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. The Group used its own model and third party model to value certain level 2 financial instruments, which involves significant judgement. We identified assessment of the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in developing its own models and in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation and independent price verification for financial instruments; • evaluating the methodology adopted by management and assessing the reasonableness of the inputs and assumptions used by management in the valuations; • engaging our internal valuation specialists to perform, on a sample basis, independent valuations of certain level 2 financial instruments and comparing these valuations with the Group's valuations. Our independent valuations included developing models, obtaining inputs independently and verifying the inputs obtained independently; and

Refer to notes 18, 19, 25 and 36 to the consolidated financial statements and the accounting policies on pages 96 and 101.

The Key Audit Matter	How the matter was addressed in our audit
	• assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December

(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 *(Note)* HK$'000
Revenue	*5*	**675,584**	519,619
— Interest income calculated using the effective interest method		**195,109**	67,275
— Revenue from contracts with customers within the scope of HKFRS 15		**359,111**	342,748
— Revenue from other sources		**121,364**	109,596
Other (losses)/gains, net	*5*	**(13,646)**	2,173
Commission expenses		**(65,063)**	(89,909)
Employee benefit expenses	*7*	**(249,944)**	(193,710)
Depreciation	*13,14*	**(24,450)**	(8,677)
Interest expenses	*7*	**(30,734)**	(11,433)
Other expenses, net	*6*	**(133,826)**	(116,431)
Profit before taxation	*7*	**157,921**	101,632
Income tax	*10*	**(21,258)**	(5,406)
Profit for the year		**136,663**	96,226
Attributable to:			
Ordinary equity holders of the Company		**136,664**	96,228
Non-controlling interests		**(1)**	(2)
Profit for the year		**136,663**	96,226
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted	*12*	**HK9.37 cents**	HK12.09 cents

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

The notes on pages 85 to 170 form part of these financial statements.

(Expressed in Hong Kong dollars)

	2019 HK$'000	2018 *(Note)* HK$'000
Profit for the year	**136,663**	96,226
Other comprehensive income for the year:		
Item that may be reclassified to the consolidated statement of profit or loss in subsequent periods		
Financial assets at fair value through other comprehensive income — Net movement in fair value reserve (recycling)	**23,747**	–
Other comprehensive income, net of tax	**23,747**	–
Total comprehensive income for the year	**160,410**	96,226
Attributable to:		
Ordinary equity holders of the Company	**160,411**	96,228
Non-controlling interests	**(1)**	(2)
Total comprehensive income for the year	**160,410**	96,226

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

The notes on pages 85 to 170 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

(Expressed in Hong Kong dollars)

	Note	As at 31 December 2019 HK$'000	As at 31 December 2018 *(Note)* HK$'000
Non-current assets			
Property, plant and equipment	*13*	**9,774**	13,150
Stock and Futures Exchange trading rights	*15*	**4,212**	4,212
Other assets	*16*	**37,125**	22,922
Other financial assets	*19*	**1,135,298**	–
Right-of-use assets	*14*	**68,631**	–
Deferred tax assets	*17*	**5,390**	4,624
Total non-current assets		**1,260,430**	44,908
Current assets			
Investments at fair value through profit or loss	*18*	**2,189,495**	602,272
Accounts receivable	*20*	**1,691,210**	457,414
Other contract costs		**–**	5,000
Loans and advances	*21*	**872,588**	1,208,091
Prepayments, deposits and other receivables	*22*	**79,635**	37,277
Tax recoverable		**7,404**	8,674
Bank balances held on behalf of clients	*23*	**3,193,340**	4,879,449
Cash and bank balances	*24*	**937,597**	620,571
Total current assets		**8,971,269**	7,818,748
Current liabilities			
Financial liabilities at fair value through profit or loss	*25*	**329,371**	–
Accounts payable	*26*	**5,000,203**	5,082,122
Contract liabilities	*26*	**1,558**	13,144
Other payables and accruals	*27*	**107,210**	82,185
Interest-bearing bank borrowings	*28*	**778,900**	469,920
Lease liabilities	*29*	**32,473**	–
Tax payable		**25,190**	7,232
Total current liabilities		**6,274,905**	5,654,603
Net current assets		**2,696,364**	2,164,145
Total assets less current liabilities		**3,956,794**	2,209,053

	Note	As at 31 December 2019 HK$'000	As at 31 December 2018 *(Note)* HK$'000
Non-current liabilities			
Deferred tax liability	*17*	**1,013**	943
Lease liabilities	*29*	**36,464**	–
Total non-current liabilities		**37,477**	943
NET ASSETS		**3,919,317**	2,208,110
EQUITY			
Equity attributable to ordinary equity shareholders of the Company			
Share capital	*30*	**2,782,477**	1,200,457
Other reserves	*31*	**1,134,214**	1,005,026
		3,916,691	2,205,483
Non-controlling interests		**2,626**	2,627
TOTAL EQUITY		**3,919,317**	2,208,110

Approved and authorised for issue by the board of directors on 23 March 2020.

Chen Xiaosheng
Director

Qiu Yizhou
Director

The notes on pages 85 to 170 form part of these financial statements.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

(Expressed in Hong Kong dollars)

		Attributable to ordinary equity holders of the Company							
	Note	Share Capital (Note 30) HK$'000	Capital reserve HK$'000	General reserve HK$'000	Revaluation reserve (Recycling) HK$'000	Retained profits HK$'000 (Note)	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017		1,200,457	15	138	–	960,284	2,160,894	2,629	2,163,523
Impact on initial application on HKFRS 15		–	–	–	–	(2,656)	(2,656)	–	(2,656)
Impact on initial application of HKFRS 9		–	–	–	–	(1,215)	(1,215)	–	(1,215)
Adjusted balance at 1 January 2018		1,200,457	15	138	–	956,413	2,157,023	2,629	2,159,652
Profit for the year		–	–	–	–	96,228	96,228	(2)	96,226
Final 2017 dividend declared and paid		–	–	–	–	(47,768)	(47,768)	–	(47,768)
At 31 December 2018		**1,200,457**	**15**	**138**	**–**	**1,004,873**	**2,205,483**	**2,627**	**2,208,110**
Profit for the year		**–**	**–**	**–**	**–**	**136,664**	**136,664**	**(1)**	**136,663**
Other comprehensive income:									
Financial assets at fair value through other comprehensive income									
— Net movement in fair value reserve (recycling)		**–**	**–**	**–**	**23,747**	**–**	**23,747**	**–**	**23,747**
Total comprehensive income		**–**	**–**	**–**	**23,747**	**136,664**	**160,411**	**(1)**	**160,410**
Issuance of new shares		**1,582,020**	**–**	**–**	**–**	**–**	**1,582,020**	**–**	**1,582,020**
Final 2018 dividend declared and paid	11	**–**	**–**	**–**	**–**	**(31,223)**	**(31,223)**	**–**	**(31,223)**
At 31 December 2019		**2,782,477**	**15***	**138***	**23,747***	**1,110,314***	**3,916,691**	**2,626**	**3,919,317**

* These reserve accounts comprise the other reserves of HK$1,134,214,000 (2018: HK$1,005,026,000) in the consolidated statement of financial position.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

The notes on pages 85 to 170 form part of these financial statements.

(Expressed in Hong Kong dollars)

	Note	2019 HK$'000	2018 (Note) HK$'000
Cash flows from operating activities			
Profit before taxation		**157,921**	101,632
Adjustments for:			
Depreciation	*13,14*	**24,450**	8,677
Interest income	*5*	**(195,109)**	(67,275)
Dividend income		**(832)**	(794)
Interest expenses		**30,734**	11,433
Charges for expected credit losses		**14,719**	956
Loss on disposal of property, plant and equipment		**–**	44
		31,883	54,673
(Increase)/decrease in other assets		**(14,203)**	8,304
Net increase in investments at fair value through profit or loss		**(1,587,223)**	(453,494)
Net increase in other financial assets		**(1,131,361)**	–
Net increase in financial liabilities at fair value through profit or loss		**329,371**	–
(Increase)/decrease in accounts receivable		**(1,235,833)**	219,699
Decrease in loans and advances		**335,503**	1,082,798
Increase in prepayments, deposits and other receivables		**(12,486)**	(5,327)
(Decrease)/increase in contract liabilities		**(11,586)**	9,964
Decrease/(increase) in other contract cost		**5,000**	(5,000)
Decrease/(increase) in bank balances held on behalf of clients		**1,686,109**	(814,562)
(Decrease)/increase in accounts payable		**(81,919)**	494,056
Increase/(decrease) in other payables and accruals		**25,024**	(3,902)
Cash (used in)/generated from operations		**(1,661,721)**	587,209
Hong Kong profits tax (paid)/refunded		**(1,890)**	3,336
Overseas taxes paid		**(836)**	(287)
Net cash flows (used in)/generated from operating activities		**(1,664,447)**	590,258

	Note	2019 HK$'000	2018 *(Note)* HK$'000
Cash flow from investing activities			
Purchases of property, plant and equipment	*13*	**(5,835)**	(4,735)
Interest received		**165,213**	61,078
Dividend received		**832**	794
Net cash flows generated from investing activities		**160,210**	57,137
Cash flows from financing activities			
Net proceeds from/(repayment to) bank loans	*24(b)*	**316,141**	(375,012)
Interest paid	*24(b)*	**(29,559)**	(11,501)
Dividend paid	*11*	**(31,223)**	(47,768)
Net proceeds from issuance of shares		**1,582,020**	–
Capital element of lease rentals paid	*24(b)*	**(14,908)**	–
Interest element of lease rentals paid	*24(b)*	**(1,208)**	–
Net cash flows generated from/(used in) financing activities		**1,821,263**	(434,281)
Net increase in cash and cash equivalents		**317,026**	213,114
Cash and cash equivalents at the beginning of year		**620,571**	407,457
Cash and cash equivalents at the end of year	*24(a)*	**937,597**	620,571

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

The notes on pages 85 to 170 form part of these financial statements.

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE AND GROUP INFORMATION

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

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

— brokerage business

— corporate finance business

— asset management business

— financing and loans business

— investment and other business

The Company is a subsidiary of Shenwan Hongyuan (International) Holdings Limited, a company incorporated in Hong Kong with limited liability. In the opinion of the directors, the ultimate holding company of the Company is Shenwan Hongyuan Group Co., Ltd., which was established in the People's Republic of China (the "PRC") and listed in Shenzhen Stock Exchange (stock code: 000166) and Hong Kong Stock Exchange (stock code: 6806).

Information about subsidiaries

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

Name	Issued ordinary share capital/units	Percentage of equity attributable to the Company Direct 2019	Direct 2018	Indirect 2019	Indirect 2018	Principal activities
Shenwan Hongyuan Securities (H.K.) Limited	HK$700,000,000	100	100	–	–	Securities brokerage and margin financing
Shenwan Hongyuan Futures (H.K.) Limited	HK$30,000,000	100	100	–	–	Futures and options brokerage
Shenwan Hongyuan Capital (H.K.) Limited	HK$20,000,000	100	100	–	–	Corporate finance

(Expressed in Hong Kong dollars unless otherwise indicated)

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

Name	Issued ordinary share capital/units	Percentage of equity attributable to the Company				Principal activities
		Direct		Indirect		
		2019	2018	2019	2018	
Shenwan Hongyuan Asset Management (Asia) Limited	HK$10,000,000	–	–	100	100	Provision of asset management services
Shenwan Hongyuan Research (H.K.) Limited	HK$300,000	100	100	–	–	Provision of securities research services
Shenwan Hongyuan Strategic Investments (H.K.) Limited	HK$10,000	100	100	–	–	Securities trading and investment holding
Shenwan Hongyuan Finance (H.K.) Limited	HK$25,000,000	100	100	–	–	Provision of financial services
Shenwan Hongyuan Enterprises (H.K.) Limited	HK$15,000,000	100	100	–	–	Provision of management and treasury services
Shenwan Hongyuan Online Limited	HK$2	100	100	–	–	Leasing of computer equipment
Shenwan Hongyuan Trading (H.K.) Limited	HK$375,000	100	100	–	–	Securities trading
Sparkle Well Limited	HK$2	100	100	–	–	Property holding
Wealthy Limited	HK$2	100	100	–	–	Property holding

(Expressed in Hong Kong dollars unless otherwise indicated)

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

Name	Issued ordinary share capital/units	Percentage of equity attributable to the Company				Principal activities
		Direct		Indirect		
		2019	2018	2019	2018	
Shenwan Hongyuan (Asia) Limited	HK$2	100	100	–	–	Investment holding
First Million Holdings Ltd*	US$1	100	100	–	–	Investment holding
Crux Assets Limited*	US$1	–	–	100	100	Investment holding
Shenwan Hongyuan Financial Products Company Limited (formerly known as "Polymax Assets Limited")*	US$1	100	100	–	–	Financing services
Shenwan Hongyuan Nominees (H.K.) Limited	HK$1,000	–	–	100	100	Provision of share custodian and nominee services
Shenyin Wanguo Online Broker (H.K.) Limited	HK$10,000,000	60	60	–	–	Dormant
Shenwan Hongyuan Singapore Private Limited#	SG$2,500,000	–	–	100	100	Securities brokerage

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. The financial statements not audited by KPMG reflect total net assets and total profit before taxation constituting approximately 1.13% and 2.32% (2018: 1.9% and 10.6%) of consolidated totals.

2.1 STATEMENT OF COMPLIANCE

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

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

2.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

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

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

— Loans and advances (see note 2.5(g))

— Advances to cash clients (see note 2.5(g))

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

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

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

2.3 CHANGES IN ACCOUNTING POLICY

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

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

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.0%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

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

b. Lessee accounting and transitional impact *(Cont'd)*

The following table reconciles the operating lease commitments as disclosed in note 32 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK$'000
Operating lease commitments at 31 December 2018	82,857
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(63,047)
	19,810
Less: total future interest expenses	(751)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	19,059

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

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

b. Lessee accounting and transitional impact *(Cont'd)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK$'000	Capitalisation of operating lease contracts HK$'000	**Carrying amount at 1 January 2019 HK$'000**
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	19,083	**19,083**
Total non-current assets	44,908	19,083	**63,991**
Prepayments, deposits and other receivables	37,277	(24)	**37,253**
Current assets	7,818,748	(24)	**7,818,724**
Lease liabilities	–	8,564	**8,564**
Current liabilities	5,654,603	8,564	**5,663,167**
Net current assets	2,164,145	(8,588)	**2,155,557**
Total assets less current liabilities	2,209,053	10,495	**2,219,548**
Lease liabilities	–	10,495	**10,495**
Total non-current liabilities	943	10,495	**11,438**
Net assets	2,208,110	–	**2,208,110**

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

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 29). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 24(b)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A) HK$'000	Add back: HKFRS 16 depreciation and interest expense (B) HK$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) HK$'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) HK$'000	Compared to amounts reported for 2018 under HKAS 17 HK$'000
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Depreciation	(24,450)	15,239	–	(9,211)	(8,677)
Interest expenses	(30,734)	1,208	–	(29,526)	(11,433)
Other expenses	(133,826)	–	16,116	(149,942)	(116,431)
Profit before taxation	157,921	16,447	16,116	158,252	101,632

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

c. Impact on the financial result, segment results and cash flows of the Group *(Cont'd)*

	2019			2018
	Amounts reported under HKFRS 16 (A) HK$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) HK$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) HK$'000	Compared to amounts reported for 2018 under HKAS 17 HK$'000
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash (used in)/generated from operations	(1,661,721)	(16,116)	(1,677,837)	587,209
Net cash (used in)/generated from operating activities	(1,664,447)	(16,116)	(1,680,563)	590,258
Capital element of lease rentals paid	(14,908)	14,908	–	–
Interest element of lease rentals paid	(1,208)	1,208	–	–
Net cash generated from/(used in) financing activities	239,243	16,116	255,359	(434,281)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

2.4 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(a) Subsidiaries and non-controlling interests *(Cont'd)*

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

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

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

(b) Fair value measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(b) Fair value measurement *(Cont'd)*

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

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

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

— Level 3 valuations: Fair value measured using significant unobservable inputs

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

(c) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(d) Property, plant and equipment and depreciation

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

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

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

—	Buildings	4%
—	Leasehold improvements	Over the lease terms
—	Furniture, fixtures and equipment	15%–33$^{1}/_{3}$%
—	Motor vehicles	25%

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(e) Intangible assets (other than goodwill)

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

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

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

(f) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(f) Leases *(Cont'd)*

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected to separate non-lease components and accounts for each lease component.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2.5(h)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(f) Leases *(Cont'd)*

(B) Policy applicable prior to 1 January 2019

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

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

(g) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

(ii) Classification

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

Financial asset measured at amortised cost or at FVOCI

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

(ii) Classification (Cont'd)

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

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

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

— leverage features;

— prepayment and extension terms;

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

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

Financial asset measured at FVPL

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

(ii) Classification (Cont'd)

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

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

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

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

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

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

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

Reclassifications

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

(iii) Subsequent measurement

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

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

(iv) Derecognition

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(h) Credit losses and impairment of assets

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

Expected credit losses (ECLs) are determined for all financial instruments that are classified at amortised cost or at FVOCI, undrawn commitments and financial guarantees. Financial assets measured at FVPL are not subject to the ECL assessment. The Group recognises a loss allowances for ECL on accounts receivable, except for advances to cash clients, which are measured at fair value through profit or loss.

Measurement of ECLs

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

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

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

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

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

— lease receivables: discount rate used in the measurement of the lease receivable; and

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

Measurement of ECLs *(Cont'd)*

ECLs are measured on either of the following bases:

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

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

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Loss allowances for accounts receivable arising from corporate finance, advisory and other services are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

Basis of calculation of interest income

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

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

— significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

(ii) Impairment of other non-financial assets

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

— property, plant and equipment, including right-of-use assets;

— intangible assets (other than goodwill); and

— investments in subsidiaries, in Company's statement of financial position.

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

— **Calculation of recoverable amount**

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

— **Recognition of impairment losses**

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

— **Reversals of impairment losses**

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

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

(i) Other contract costs

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

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

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

Capitalised contract costs are stated at 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 asset 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 when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 2.5(q).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(j) Contract assets and contract liabilities

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

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

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

(k) Offsetting of financial instruments

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

(l) Accounts and other receivables

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

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2.5(h)).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(m) Cash and bank balances

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

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

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

(n) Bank balances held on behalf of clients

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

(o) Provisions

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(p) Income tax

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

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

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

(q) Revenue and other income

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

(a) Brokerage business income

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

(b) Corporate finance business income

(i) Underwriting fee income

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

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

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

(c) Asset management fee income

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

(d) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2.5(h)(i)).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

(e) Dividend income

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

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

(f) Investment income

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

(g) Other income

Other income is recognised on an accrual basis.

(r) Interest-bearing borrowings

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

(s) Employee benefits

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(s) Employee benefits *(Cont'd)*

(i) Short-term employee benefits and contributions to defined contribution retirement plans (Cont'd)

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

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

(ii) Termination benefits

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

(t) Foreign currencies

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(t) Foreign currencies *(Cont'd)*

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

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

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

(u) Segment reporting

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

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

3 SIGNIFICANT JUDGEMENT AND ACCOUNTING ESTIMATES

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

Estimation uncertainty

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

Deferred tax assets

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

Determining the lease term

As explained in policy note 2.5(f), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

Provision for impairment loss of financial assets measured at amortised cost and at FVOCI

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

4 OPERATING SEGMENT INFORMATION

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

(a) Enterprise finance;

(b) Personal finance and wealth management;

(c) Institutional services and trading;

(d) Investment management; and

(e) Others.

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

4 OPERATING SEGMENT INFORMATION *(Cont'd)*

	Enterprise finance						
	Corporate finance HK$'000	Principal investment HK$'000	Personal finance and wealth management HK$'000	Institutional services and trading HK$'000	Investment management HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2019							
Segment revenue from external customers and other losses	152,252	5,812	213,857	282,266	21,397	(13,646)	661,938
Segment results and profit/(loss) before tax	26,809	2,818	37,040	103,627	1,273	(13,646)	157,921
Other segment information:							
Interest expenses	–	–	30,734	–	–	–	30,734
Depreciation expenses	3,687	348	6,326	13,535	554	–	24,450
Capital expenditure	1,254	48	1,907	2,428	198	–	5,835

	Enterprise finance						
	Corporate finance HK$'000	Principal investment HK$'000	Personal finance and wealth management HK$'000	Institutional services and trading HK$'000	Investment management HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2018							
Segment revenue from external customers and other gains	76,146	(6,812)	287,245	122,195	40,845	2,173	521,792
Segment results and profit/(loss) before tax	10,078	(8,217)	71,103	23,109	3,386	2,173	101,632
Other segment information:							
Interest expenses	–	–	11,433	–	–	–	11,433
Depreciation expenses	1,006	–	4,778	2,307	586	–	8,677
Capital expenditure	683	44	2,656	929	423	–	4,735

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

4 OPERATING SEGMENT INFORMATION *(Cont'd)*

Geographical information

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

Information about major customers

As the revenue from sales of goods or rendering of services attributable to the 5 largest customers combined is less than 30% of the Group's total revenue during the year, no information about major customers is presented.

5 REVENUE AND OTHER GAINS, NET

An analysis of revenue, which is also the Group's turnover and other gains, are as follows:

(a) Disaggregation of revenue and other gains, net

	2019 HK$'000	2018 (restated) HK$'000
Fee and commission income:		
Revenue from contracts with customers within the scope of HKFRS 15:		
Commission on securities dealing		
— Hong Kong securities	91,513	151,024
— Other than Hong Kong securities	26,900	32,755
Commission on futures and options contracts dealing	13,968	18,581
Initial public offering, placing, underwriting and sub-underwriting commission	163,665	54,399
Financial advisory, compliance advisory, sponsorship fee income and others	28,135	21,747
Management fee, investment advisory fee income and performance fee income	21,397	40,845
Handling fee income	5,311	10,613
Research fee income and other service fee income	8,222	12,784
	359,111	342,748
Income from interest-bearing transactions:		
Interest income calculated using the effective interest method:		
Interest income from banks and others	73,558	67,275
Revenue from other sources:		
Interest income from loans to cash clients and margin clients	76,439	114,374
Interest income from initial public offering loans	6,223	4,979
Interest income from structured products	2,674	–
Unrealised fair value losses on margin loans	(7,775)	–
	151,119	186,628

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

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

	2019 HK$'000	2018 (restated) HK$'000
Income from investment business:		
Interest income calculated using the effective interest method:		
Interest income		
— Unlisted investments	121,551	–
Revenue from other sources:		
Net realised and unrealised gains/(losses) on financial instruments:		
— Listed investments	2,475	(1,541)
— Unlisted investments	2,403	(14,067)
Dividend income and interest income:		
— Listed investments	–	235
— Unlisted investments	38,925	5,616
	165,354	(9,757)
	675,584	519,619
Other (losses)/gains, net:		
Exchange (losses)/gains, net	(13,646)	2,217
Loss on disposal of property, plant and equipment	–	(44)
	(13,646)	2,173

Note: Information relating to comparative periods has been restated to align with the presentation of the ultimate holding company.

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

The Group has applied the practical expedient in paragraph 121 of HKFRS 15. For corporate finance business contracts in existence as at 31 December 2019, the Group will recognise the expected revenue in future when the remaining performance obligations under the contracts are satisfied (see note 2.5(q)). All of these contracts had an original expected duration of one year or less.

6 OTHER EXPENSES

The Group's other expenses comprise the followings:

	2019 **HK$'000**	2018 HK$'000
Rent and rates	**25,341**	33,619
System expenses and maintenance	**32,047**	28,244
Office utilities expenses	**9,354**	8,900
Research expenses	**10,000**	3,695
General office expenses	**4,502**	7,589
Legal and professional fee	**7,173**	7,413
Travelling and transportation fee	**7,337**	5,012
Public relation and entertainment fee	**5,498**	4,601
Clearing house and custody fee	**3,511**	3,792
Repair and maintenance expense	**2,214**	2,839
Introduction and advisory fee	**2,422**	1,500
Charges for expected credit losses	**14,719**	956
Others	**9,708**	8,271
	133,826	116,431

7 PROFIT BEFORE TAXATION

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

	2019 HK$'000	2018 HK$'000
Employee benefit expenses (including directors' emoluments — note 8):		
Salaries and other staff costs	240,703	185,213
Retirement benefit scheme contributions	10,722	9,776
Less: Forfeited contributions	(1,481)	(1,279)
Net retirement benefit scheme contributions*	9,241	8,497
	249,944	193,710
Interest expenses on loans and overdrafts wholly repayable within five years	22,398	11,433
Interest on lease liabilities	1,208	–
Interest expense on financial liabilities at FVPL	7,128	–
Total minimum lease payments for leases previously classified as operating lease under HKAS 17^	–	29,297
Auditors' remuneration	2,080	1,961

* At 31 December 2019, no forfeited contributions (2018: HK$13,000) was included in prepayment, deposits and other receivables in the consolidated statement of financial position which is available to reduce the Group's contributions to the retirement benefit schemes in future.

^ 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 leases which were previously classified as operating leases under HKAS 17. 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 leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.3.

8 DIRECTORS' EMOLUMENTS

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

	2019 HK$'000	2018 HK$'000 (Restated)
Fees	**540**	525
Other emoluments:		
Salaries, allowances and benefits in kind	**6,048****	7,890*
Retirement benefit scheme contributions	**–**	–
	6,048	7,890
	6,588	8,415

* The amount in 2018 was restated upon completion of evaluation of the performance of the Executive Directors in 2019.

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

(a) Independent non-executive directors

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

	2019 HK$'000	2018 HK$'000
Ng Wing Hang Patrick	**180**	180
Kwok Lam Kwong Larry	**180**	180
Zhuo Fumin (retired on 4 September 2018)	**–**	135
Chen Liqiang (appointed on 28 November 2018)	**180**	30
	540	525

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8 DIRECTORS' EMOLUMENTS *(Cont'd)*

(b) Executive directors and non-executive directors

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
2019				
Executive directors:				
Zhu Minjie (resigned on 10 August 2019)	–	–	–	–
Chen Xiaosheng	–	–	–	–
Guo Chun	–	3,048**	–	3,048
Qiu Yizhou	–	3,000**	–	3,000
Zhang Jian	–	–	–	–
Wu Meng (appointed on 10 August 2019)	–	–	–	–
	–	6,048	–	6,048
Non-executive director:				
Zhang Lei	–	–	–	–
	–	6,048	–	6,048

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

8 DIRECTORS' EMOLUMENTS *(Cont'd)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
2018 *(Restated)*				
Executive directors:				
Zhu Minjie	–	–	–	–
Chen Xiaosheng	–	–	–	–
Guo Chun	–	3,923*	–	3,923
Qiu Yizhou	–	3,967*	–	3,967
Zhang Jian (appointed on 28 November 2018)	–	–	–	–
	–	7,890	–	7,890
Non-executive director:				
Zhang Lei	–	–	–	–
	–	7,890	–	7,890

* The amount in 2018 was restated upon completion of evaluation of the performance of the Executive Directors in 2019.

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

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2018: two directors), details of whose emoluments are set out in note 8 above. Details of the remuneration for the year of the remaining four (2018: three) non-directors, highest paid employees are as follows:

	2019 HK$'000	2018 (Restated) HK$'000
Salaries, allowances and benefits in kind	10,598	7,713
Bonuses	4,112**	4,387*
Retirement benefit scheme contributions	877	511
	15,587	12,611

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

	Number of employees*	
	2019	2018 (Restated)
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	1	–
HK$3,500,001 to HK$4,000,000	2	–
HK$4,000,001 to HK$4,500,000	–	–
HK$4,500,001 to HK$5,000,000	–	1
HK$5,000,001 to HK$5,500,000	1	1
	4	3

* The amount in 2018 was restated upon completion of evaluation of the performance of the employees in 2019.

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

10 INCOME TAX

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

	2019 **HK$'000**	2018 HK$'000
Current tax — Hong Kong Profits tax		
Provision for the year	**20,969**	5,415
(Over-)/under-provision in respect of prior years	**(19)**	110
	20,950	5,525
Current tax — Elsewhere	**1,004**	82
Deferred tax *(note 17)*	**(696)**	(201)
	21,258	5,406

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the appropriate current rates of tax prevailing in the jurisdictions in which the Group operates.

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

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

	2019 **HK$'000**	2018 HK$'000
Profit before taxation	**157,921**	101,632
Tax at the statutory tax rate of 16.5% (2018: 16.5%)	**26,057**	16,769
(Over)/under provision in respect of prior years	**(19)**	110
Tax effect of non-taxable income	**(16,743)**	(19,773)
Tax effect of non-deductible expenses	**8,098**	6,983
Effect of different tax rates of companies operating in other jurisdictions	**8**	103
Tax effect of unused tax losses not recognised	**1,328**	351
Others	**2,529**	863
Tax expense for the year at the Group's effective rate (2019: 13.5%; 2018: 5.3%)	**21,258**	5,406

11 DIVIDEND

	2019 HK$'000	2018 HK$'000
Proposed final — HK3 cents (2018: HK2 cents) per ordinary share	**46,834**	31,223

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

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

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Group had no potentially dilutive ordinary shares in issue during those years. As at 31 December 2019, the total number of the issued ordinary shares was 1,561,138,689 shares (2018: 796,138,689 shares).

	2019	2018
Earnings		
Profit for the year attributable to ordinary equity holders of the Company (HK$'000)	**136,664**	96,228
Number of shares		
Weighted average number of ordinary shares in issue (in thousands)	**1,458,440**	796,139
Earnings per share, basic and diluted (HK cents per share)	**9.37**	12.09

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2019					
At 31 December 2018 and 1 January 2019:					
Cost	4,095	27,521	60,424	2,463	94,503
Accumulated depreciation	(3,051)	(25,079)	(50,760)	(2,463)	(81,353)
Net carrying amount	1,044	2,442	9,664	–	13,150
Opening net carrying amount	1,044	2,442	9,664	–	13,150
Additions	–	45	5,790	–	5,835
Depreciation provided during the year	(55)	(2,310)	(6,846)	–	(9,211)
Disposal:					
— Cost	–	–	–	–	–
— Accumulated depreciation	–	–	–	–	–
Closing net carrying amount	989	177	8,608	–	9,774
At 31 December 2019:					
Cost	4,095	27,566	66,215	2,463	100,339
Accumulated depreciation	(3,106)	(27,389)	(57,607)	(2,463)	(90,565)
Net carrying amount	989	177	8,608	–	9,774

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

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

The Group's buildings included in property, plant and equipment with a net carrying amount of HK$989,000 (2018: HK$1,044,000) are situated in Hong Kong and are held under a long-term lease.

14 RIGHT-OF-USE ASSETS

The analysis of carrying amount:

	Properties and equipment leased for own use carried at cost HK$'000
Cost	
At 31 December 2018	–
Impact on initial application of HKFRS 16 *(Note)*	19,083
At 1 January 2019	19,083
Additions	64,787
Disposal	–
At 31 December 2019	**83,870**
Accumulated depreciation:	
At 1 January 2019	**–**
Charge for the year	**(15,239)**
At 31 December 2019	**(15,239)**
Net book value:	
At 31 December 2019	**68,631**

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

14 RIGHT-OF-USE ASSETS *(Cont'd)*

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK$'000	2018 *(Note)* HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Other properties leased for own use	15,030	–
Plant, machinery and equipment	209	–
	15,239	–
Interest on lease liabilities (note 24(b))	1,208	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	16,116	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	29,297

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 leases which were previously classified as operating leases under HKAS 17. 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 leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.3.

During the year, additions to right-of-use assets were HK$64,787,000 which is primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 24(c) and 29 respectively.

15 STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	2019 HK$'000	2018 HK$'000
Cost and carrying amount as at 1 January and 31 December	**4,212**	4,212

16 OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Deposits with exchanges and clearing houses	**15,184**	13,565
Unlisted club debentures	**2,470**	2,470
Other deposits and prepayments	**19,471**	6,887
	37,125	22,922

None of the above assets is either past due or impaired.

17 DEFERRED TAX

The movements in deferred tax assets and liability during the year are as follows:

	Losses available for offsetting against future taxable profits HK$'000	Deductible temporary differences HK$'000	Credit loss allowance HK$'000	Total HK$'000
Deferred tax assets				
At 1 January 2018	4,589	52	–	4,641
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 10)*	–	(17)	–	(17)
At 31 December 2018 and 1 January 2019	**4,589**	**35**	**–**	**4,624**
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year *(note 10)*	**(1,331)**	**4**	**2,093**	**766**
At 31 December 2019	**3,258**	**39**	**2,093**	**5,390**

17 DEFERRED TAX *(Cont'd)*

	Accelerated tax depreciation HK$'000
Deferred tax liability	
At 1 January 2018	1,161
Deferred tax credited to the consolidated statement of profit or loss during the year (note 10)	(218)
At 31 December 2018 and 1 January 2019	**943**
Deferred tax charged to the consolidated statement of profit or loss during the year *(note 10)*	**70**
At 31 December 2019	**1,013**

Other than the losses available for offsetting against future taxable profits for which deferred tax assets are recognised as at 31 December 2019, the Group has unrecognised tax losses arising in Hong Kong of HK$214,205,000 (2018: HK$206,159,000), subject to agreement by the Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be available from these group companies against which the tax losses can be utilised. At 31 December 2019, there was no significant unrecognised deferred tax liability (2018: Nil) that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

18 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Investments at fair value through profit or loss		
Unlisted funds	**3,660**	3,670
Unlisted debt securities	**2,185,835**	598,602
	2,189,495	602,272

19 OTHER FINANCIAL ASSETS

(a) Other financial assets comprises:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Financial assets at fair value through other comprehensive income	**599,356**	–
Financial assets at amortised cost	**535,942**	–
	1,135,298	–

(b) Financial assets at fair value through other comprehensive income

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Unlisted debt securities, at fair value *(Note)*	**599,356**	–
	599,356	–

Note: The Group has recognised expected credit losses amounted to HK$10,541,000 in the statement of profit or loss during the year (for year ended 31 December 2018: Nil). As at 31 December 2019, allowance for expected credit losses amounted HK$10,541,000 (31 December 2018: Nil) has been included in fair value reserve (recycling).

During the year, the gain in respect of changes in fair value of the Group's financial assets at fair value through other comprehensive income recognised in other comprehensive income amounted to approximately HK$13,206,000 (31 December 2018: Nil).

19 OTHER FINANCIAL ASSETS *(Cont'd)*

(b) Financial assets at fair value through other comprehensive income *(Cont'd)*

Movement in expected credit losses is as follows:

	For the year ended 31 December 2019 Expected credit loss				For the year ended 31 December 2018 Expected credit loss			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January	–	–	–	–	–	–	–	–
Impairment losses charged to profit or loss	10,541	–	–	10,541	–	–	–	–
At 31 December	10,541	–	–	10,541	–	–	–	–

(c) Financial assets at amortised cost

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Unlisted debt securities	538,083	–
Less: Impairment loss on financial assets at amortised cost	(2,141)	–
	535,942	–

During the year, allowance for expected credit losses of HK$2,141,000 was recognised (for the year ended 31 December 2018: Nil) in the statement of profit or loss.

Movement in expected credit losses is as follows:

	For the year ended 31 December 2019 Expected credit loss				For the year ended 31 December 2018 Expected credit loss			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
At 1 January	–	–	–	–	–	–	–	–
Impairment losses charged to profit or loss	2,141	–	–	2,141	–	–	–	–
At 31 December	2,141	–	–	2,141	–	–	–	–

20 ACCOUNTS RECEIVABLE

(a) Accounts receivable comprise:

	31 December 2019 HK$'000	31 December 2018 HK$'000
(i) Measured at amortised cost:		
Accounts receivable arising from securities dealing		
— Cash clients	936,891	121,726
— Brokers and dealers	276,150	103,199
— Clearing houses	403,500	174,036
	1,616,541	398,961
Accounts receivable arising from corporate finance, advisory and other services		
— Corporate clients	45,554	25,496
	45,554	25,496
	1,662,095	424,457
Less: Expected credit losses (Stage 1)	(1,473)	(1,095)
Less: Expected credit losses (Stage 3)	(1,096)	(1,000)
	1,659,526	422,362
(ii) Measured FVPL		
Accounts receivable arising from securities dealing		
— Advances to cash clients	31,684	35,052
Total	1,691,210	457,414

20 ACCOUNTS RECEIVABLE *(Cont'd)*

(b) Ageing analysis of accounts receivable

An ageing analysis of accounts receivable from cash clients and advances to cash clients based on the trade date is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	**950,578**	132,243
1 to 2 months	**8,929**	3,601
2 to 3 months	**2,238**	3,174
Over 3 months	**6,830**	17,760
	968,575	156,778

The ageing of accounts receivable from clearing houses, brokers and dealers are within one month and are not past due. They represent (1) pending trades arising from business of dealing in securities, which are normally due within a few days after the trade date, (2) deposits at clearing houses arising from the business of dealing in securities, futures and options contracts and (3) cash and deposits balances at brokers and dealers.

The ageing of accounts receivable from corporate clients arising from corporate finance, advisory and other services are mostly within one month. As at 31 December 2019, balances of HK$108,000 (2018: HK$1,000,000) were over 3 months past due, balance of HK$375,000 (2018: HK$274,000) were over 1 month past due, and balances of HK$45,071,000 (2018: HK$24,222,000) were not past due.

As at 31 December 2018, the accounts receivable past due over 3 months of HK$1,000,000 was written-off in 2019.

Save for the credit period allowed by the Group, the accounts receivable from cash clients shall be due on the settlement dates of the respective securities and futures contract transactions. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Although the Group does not hold any collaterals or other credit enhancements over its accounts receivable from cash clients, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts. Advances to cash clients of HK$31,684,000 (2018: HK$35,052,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2018: with reference to the Hong Kong dollar prime rate). Advances to cash clients is covered by securities deposited with the Group of total market value HK$1,702,267,000 (2018: HK$947,776,000).

20 ACCOUNTS RECEIVABLE *(Cont'd)*

The ageing analysis of the accounts receivable from cash clients and advances to cash clients that are not individually nor collectively considered to be impaired, i.e. based on the settlement date, is as follows:

	2019 **HK$'000**	2018 HK$'000
Not past due	**936,891**	121,726
Less than 1 month past due	**14,664**	10,784
1 to 3 months past due	**10,250**	6,559
Over 3 months past due	**6,770**	17,709
	968,575	156,778

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default and are covered by securities deposited with the Group.

Receivables that were past due but not impaired relate to a large number of diversified cash clients that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as they are covered by securities deposited with the Group and there has not been a significant change in credit quality. The balances are therefore considered to be fully recoverable.

21 LOANS AND ADVANCES

	2019 **HK$'000**	2018 HK$'000
Loans and advances to margin clients:		
— at FVPL	**872,588**	1,208,091
	872,588	1,208,091

Customers are required to provide collateral to the Group for the loans and advances granted. As at 31 December 2019, the total market value of the securities pledged by customers to the Group as collateral in respect of the above loans and advances to customers was HK$4,881,646,000 (2018: HK$5,800,322,000), none of which was pledged with banks to secure certain of the Group's utilised bank loans (see note 28) and HK$Nil (2018: HK$1,164,270,000) of such collateral was pledged with banks to secure certain of the Group's unutilised bank facilities as at 31 December 2019.

21 LOANS AND ADVANCES *(Cont'd)*

The Group is allowed to dispose of the collateral in settlement of the customers' obligation to maintain the agreed level of margin and any other liability of the customers due to the Group. The Group is allowed to deposit the collateral with an authorised institution as collateral for financial accommodation provided to the Group according to the applicable legislations and regulations.

In view of the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans and advances to margin clients of HK$872,588,000 (2018: HK$1,208,091,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2018: with reference to the Hong Kong dollar prime rate).

The Group's loans and advances to customers were repayable on demand at the end of the reporting period.

22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
Prepayments	**18,083**	11,675
Deposits and other receivables	**61,552**	25,602
	79,635	37,277

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23 BANK BALANCES HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with authorized banks to hold clients' monies in accordance with the relevant legislation. The Group is allowed to retain some or all of the interest on the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

24 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(a) Cash and bank balances comprise:

	2019 HK$'000	2018 HK$'000
Cash and bank balances	937,932	620,571
Less: Impairment loss on cash and bank balances	(335)	–
	937,597	620,571

As at 31 December 2019, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$22,768,000 (2018: HK$5,005,000)

Cash at bank balances earn interest at floating rates based on daily bank deposit rates. Short-term time deposit is made for one week, and earns interest at the respective short-term time deposit rates. The cash and bank balances are deposited with creditworthy banks with no recent history of default.

During the year, allowance for expected credit losses of HK$335,000 was recognised (for the year ended 31 December 2018: Nil) in the statement of profit or loss.

(b) Reconciliation of liabilities arising from financing activities

	Lease liabilities *(Note 29)* HK$'000	Interest-bearing bank borrowings *(Note 28)* HK$'000
At 31 December 2018	–	469,920
Impact on initial application of HKFRS 16 *(Note)*	19,059	–
At 1 January 2019	19,059	469,920
Changes from financing cash flows:		
Net proceeds from bank loans	–	316,141
Interest paid	–	(29,559)
Capital element of lease rentals paid	(14,908)	–
Interest element of lease rentals paid	(1,208)	–
	(16,116)	286,582
Other changes:		
Increase in lease liabilities from entering into new leases during the period	64,786	–
Interest expenses	1,208	22,398
At 31 December 2019	68,937	778,900

24 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION *(Cont'd)*

(b) Reconciliation of liabilities arising from financing activities *(Cont'd)*

	Interest-bearing bank borrowings *(Note 28)* HK$'000
At 1 January 2018	845,000
Changes from financing cash flows:	
Net payments from bank loans	(375,012)
Interest paid	(11,501)
	(386,513)
Other change:	
Interest expenses	11,433
At 31 December 2018	469,920

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2.3 and 29.

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 **HK$'000**	2018 *(Note)* HK$'000
Within operating cash flows	**–**	–
Within investing cash flows	**–**	–
Within financing cash flows	**16,116**	–
	16,116	–

Note: As explained in note 2.3, the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

24 CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION *(Cont'd)*

(c) Total cash outflow for leases *(Cont'd)*

These amounts relate to the following:

	2019 HK$'000	2018 HK$'000
Lease rentals paid	16,116	–
Purchase of leasehold property	–	–
	16,116	–

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Structured note issued	313,498	–
Short position in unlisted debt securities	15,873	–
	329,371	–

26 ACCOUNTS PAYABLE AND CONTRACT LIABILITIES

(a) Accounts payable

	2019 HK$'000	2018 HK$'000
Accounts payable		
— Clients	4,449,773	5,012,850
— Brokers and dealers	550,041	15,969
— Clearing houses	389	53,303
	5,000,203	5,082,122

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

26 ACCOUNTS PAYABLE AND CONTRACT LIABILITIES *(Cont'd)*

(b) Contract liabilities

	31 December 2019 HK$'000	31 December 2018 HK$'000
Contract liabilities		
Corporate finance contracts		
— advance consideration received	**1,558**	13,144

Movements in contract liabilities

	2019 HK$'000	2018 HK$'000
Balance at 1 January	**13,144**	3,180
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(13,144)**	(3,180)
Increase in contract liabilities as a result of advance consideration received from corporate finance contracts	**1,558**	13,144
Balance at 31 December	**1,558**	13,144

The amount of advance consideration received from corporate finance contracts is expected to be recognised as income within one year.

27 OTHER PAYABLES AND ACCRUALS

	2019 HK$'000	2018 HK$'000
Other payables	**27,930**	23,768
Accruals	**79,280**	58,417
	107,210	82,185

Other payables are non-interest-bearing and have an average term of within one year.

28 INTEREST-BEARING BANK BORROWINGS

	2019			2018		
	Effective interest rate	Maturity	HK$'000	Effective interest rate	Maturity	HK$'000
Current liabilities						
Bank loans	London Interbank Offered Rate ("LIBOR") + 1.5%	On demand	77,890	London Interbank Offered Rate ("LIBOR") + 1.5%	On demand	156,640
	One month LIBOR + 1.4%	On demand	701,010	One month LIBOR + 1.4%	On demand	313,280
			778,900			469,920

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank loans repayable within one year or on demand	778,900	469,920

Notes:

(a) As at 31 December 2019, the Group's bank loans of HK$778,900,000 (2018: HK$156,640,000) were secured by corporate guarantee to banks by the Company.

As at 31 December 2019 and 2018, none of the Group's bank loans utilised was secured by the marketable securities pledged by customers to the Group.

The Company had guaranteed the Group's bank loans of HK$778,900,000 (2018: HK$156,640,000), up to HK$3,082,195,000 (2018: HK$1,123,250,000), as at 31 December 2019.

(b) Certain of the Group's unutilised banking facilities are secured by guarantees given by the Company.

(c) As at 31 December 2019, all borrowings are denominated in United States dollars (2018: United States dollars).

(d) The carrying amounts of the Group's borrowings approximate to their fair values.

29 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 *(Note)*	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**32,473**	**34,498**	9,360	9,903
After 1 year but within 2 years	**24,540**	**25,442**	8,236	8,424
After 2 years but within 5 years	**11,924**	**12,122**	1,463	1,483
After 5 years	**–**	**–**	–	–
	36,464	**37,564**	9,699	9,907
	68,937	**72,062**	19,059	19,810
Less: total future interest expenses		**(3,125)**		(751)
Present value of lease liabilities		**68,937**		19,059
Represent:				
Current		**32,473**		8,564
Non-current		**36,464**		10,495
		68,937		19,059

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 leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 2.3.

30 SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
1,561,138,689 (2018: 796,138,689) ordinary shares	**2,782,477**	1,200,457

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK$'000	Total HK$'000
At 1 January and 31 December 2018	796,138,689	1,200,457	1,200,457
Ordinary shares issued during the year	765,000,000	1,582,020	1,582,020
At 31 December 2019	1,561,138,689	2,782,477	2,782,477

On 14 December 2018, the Company and Shenwan Hongyuan (International) Holdings Limited (the "Subscriber") entered into the subscription agreement (the "Subscription Agreement"), pursuant to which the Subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 765,000,000 new shares at the subscription price of HK$2.068 per subscription share. The subscription was completed on 18 February 2019 in accordance with the Subscription Agreement in which an aggregate of 765,000,000 new shares had been allotted and issued by the Company to the Subscriber at the subscription price of HK$2.068 per subscription share. The net proceeds from the subscription after deducting the related expenses were approximately HK$1.58 billion. The net proceeds were then applied for reinforcing and developing existing businesses as well as strategic expansion.

31 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The Group's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

The Group's revaluation reserve (recycling) represents the cumulative net charge in the fair value and provision for expected credit losses of debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period.

32 COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years (2018: one to six years).

At 31 December 2019, operating lease commitment outstanding not provided for in the financial statements were as follow:

	2019 HK$'000	2018 HK$'000
Within one year	**1,140**	34,284
In the second to fifth years, inclusive	**–**	48,573
	1,140	82,857

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2.3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.5(f), and the details regarding the Group's future lease payments are disclosed in note 29.

At 31 December 2019, the Group did not have any other significant commitments (2018: Nil).

33 RELATED PARTY TRANSACTIONS

(a) Material related party transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Note	**2019 HK$'000**	2018 HK$'000
Commission expenses for brokerage services in relation to the PRC capital markets paid to a wholly-owned subsidiary of the ultimate holding company	*(i)*	**410**	718
Research fee for supporting services in relation to research paid to a subsidiary of the ultimate holding company	*(ii)*	**10,000**	3,500
Consultancy fee for supporting services in relation to PRC market paid to the subsidiaries of the ultimate holding company	*(iii)*	**3,531**	3,343
Consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company	*(iv)*	**10,257**	13,948
Consultancy fee for supporting services in connection with corporate finance business paid by a wholly-owned subsidiary of the ultimate holding company	*(v)*	**–**	1,425
Consultancy fee for supporting services in connection with corporate finance business paid to the subsidiary of ultimate holding company	*(vi)*	**1,911**	–
Principal-to-principal trading of financial products with a wholly-owned subsidiary of the ultimate holding company	*(vii)*	**22,431**	–
Consultancy fee for supporting services in connection with corporate finance business paid by the ultimate holding company	*(viii)*	**–**	274
		48,540	23,208

Notes:

(i) The commission expenses paid to a wholly-owned subsidiary of the ultimate holding company were calculated based on the prescribed percentage stated in the signed cooperation agreement for clients' transaction amount in Shenzhen and Shanghai B shares.

(ii) The research fee paid to a subsidiary of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.

33 RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) Material related party transactions *(Cont'd)*

Notes: (Cont'd)

(iii) The consultancy fee for supporting service in relation to PRC market paid to the subsidiaries of the ultimate holding company was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.

(iv) The consultancy fee for supporting service in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company was calculated based on a fixed percentage of the relevant commission earned by the wholly-owned subsidiary of the ultimate holding company. The amount is included in the accounts receivable balance as at 31 December 2019 and is unsecured, interest-free and repayable on demand.

(v) The consultancy fee for supporting services in connection with corporate finance business paid by a wholly-owned subsidiary of the ultimate holding company was calculated based on prescribed percentage stated in the signed corporation agreement for relevant financial advisory fee earned by a wholly-owned subsidiary of the ultimate holding company.

(vi) The consultancy fee for supporting services in connection with corporate finance business paid to the subsidiary of ultimate holding company were charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred. The amount is included in the accounts payable balance as at 31 December 2019 and is unsecured, interest-free and repayable on demand.

(vii) The principal-to-principal transactions between the Shenwan Hongyuan Group Co., Limited and the Group include, but are not limited to, trading of debt securities on the primary and secondary debt market. All principal-to-principal transactions will be conducted between the Shenwan Hongyuan Group Co., Limited (via Shenwan Hongyuan Securities Co., Limited) and the Group on the basis that the Group has a back-to-back demand from its clients of the same transactions.

(viii) The consultancy fee for supporting services in connection with corporate finance business paid by the ultimate holding company was calculated based on prescribed percentage stated in the signed corporation agreement for relevant financial advisory fee earned by a wholly-owned subsidiary of the ultimate holding company.

(ix) Included in the accounts receivable balance as at 31 December 2019 was a receivable due from a wholly-owned subsidiary of the ultimate holding company of HK$5,139,000 (2018: HK$3,933,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.

(x) Included in the accounts receivable balance as at 31 December 2019 was consultancy fee receivable due from a wholly-owned subsidiary of the ultimate holding company of HK$6,224,000 (2018: HK$6,002,000) arising from supporting services relating to Hong Kong and overseas markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.

(xi) Included in the accounts payable balance as at 31 December 2019 was a payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK$3,539,000 (2018: HK$1,177,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and payable on the settlement date of the relevant transactions.

(xii) Included in the other payables and accruals balance as at 31 December 2019 was a consultancy fee payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK$1,911,000 (2018: HK$2,517,000) arising from supporting services for PRC market. This balance is unsecured, interest-free and payable on demand.

(xiii) Included in the corporate finance business revenue was an underwriting and sponsorship fee earned from the ultimate holding company of HK$66,479,000 (2018: Nil) arising from underwriting services for IPO project in Hong Kong market, which charged based on prescribed allocation arrangement stated in the signed underwriting agreements for underwriting and other relevant services.

33 RELATED PARTY TRANSACTIONS *(Cont'd)*

(a) Material related party transactions *(Cont'd)*

Notes: (Cont'd)

(xiv) Included in the corporate finance business revenue a placement brokerage fee earned from the ultimate holding company of HK$31,363,000 (2018: Nil) arising from placement services for IPO project in Hong Kong market, which was charged based on prescribed allocation arrangement stated in the agreed allocation agreements and a compliance advisory fee earned from the ultimate holding company of HK$408,000 (2018: Nil) arising from compliance advisory services for IPO project in Hong Kong market, which was charged at a fixed amount according to signed agreements.

(xv) Included in the accounts receivable as at 31 December 2019 was placement brokerage fee receivable due from the ultimate holding company of HK$31,363,000 (2018: Nil) arising from placement services for IPO project in Hong Kong market, which charged based on prescribed allocation arrangement stated in the agreed allocation agreements.

(xvi) Included in the accounts receivable as at 31 December 2019 was consultancy fee receivable due from the ultimate holding company of HK$108,000 (2018: Nil) arising from compliance advisory services for IPO project in Hong Kong market, which charged based on prescribed allocation arrangement stated in the signed underwriting agreements for underwriting and other relevant services.

(b) Compensation of key management personnel of the Group:

	2019	2018
		(Restated)
	HK$'000	HK$'000
Short-term employee benefits	**48,947****	45,187*
Post-employment benefits	**2,131**	2,052
	51,078	47,239

* The compensations for key management personnel were restated as the bonus was revised upon completion of evaluation of performance of key management personnel.

** The evaluation of the performance of the key management personnel has not yet been completed. Thus, the amount of short-term employee benefits not been determined and the final amount will be disclosed in due course

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of items (a)(i-vii) above also constitute continuing connected transactions to be disclosed in annual report as defined in Chapter 14A of the Listing Rules.

34 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

	Financial assets at fair value through other comprehensive income HK$'000	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets				
Other assets	–	–	37,125	37,125
Other financial assets	599,356	–	535,942	1,135,298
Investments at fair value through profit or loss	–	2,189,495	–	2,189,495
Accounts receivable	–	31,684	1,659,526	1,691,210
Loans and advances	–	872,588	–	872,588
Financial assets included in prepayments, deposits and other receivables	–	–	61,591*	61,591*
Bank balances held on behalf of clients	–	–	3,193,340	3,193,340
Cash and bank balances	–	–	937,597	937,597
	599,356	3,093,767	6,425,121	10,118,244

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities			
Accounts payable	–	5,000,203	5,000,203
Financial liabilities included in other payables and accruals	–	105,423*	105,423*
Interest-bearing bank borrowings	–	778,900	778,900
Financial liabilities at fair value through profit or loss	329,371	–	329,371
	329,371	5,884,526	6,213,897

* The balance of HK$18,044,000 and HK$1,787,000 which did not meet the definition of financial assets and liabilities were excluded in this disclosure.

34 FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

2018

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets			
Other assets	–	22,922	22,922
Investments at fair value through profit or loss	602,272	–	602,272
Accounts receivable	35,052	422,362	457,414
Loans and advances	1,208,091	–	1,208,091
Financial assets included in prepayments, deposits and other receivables	–	25,602*	25,602*
Bank balances held on behalf of clients	–	4,879,449	4,879,449
Cash and bank balances	–	620,571	620,571
	1,845,415	5,970,906	7,816,321

	Financial liabilities at amortised cost HK$'000
Financial liabilities	
Accounts payable	5,082,122
Financial liabilities included in other payables and accruals	71,437*
Interest-bearing bank borrowings	469,920
	5,623,479

* The balance of HK$11,675,000 and HK$10,748,000 which did not meet the definition of financial assets and liabilities were excluded in this disclosure.

35 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group currently has a legally enforceable right to set off the Continuous Net Settlement ("CNS") money obligations receivable and trade payables with Hong Kong Securities Clearing Company Limited ("HKSCC"), which are included in "accounts receivable" and "accounts payable" as presented in the consolidated statement of financial position, respectively. It intends to settle on a net basis as accounts receivable from or accounts payable to the Stock Exchange. The net amount of CNS money obligations receivable or payable with HKSCC and guarantee fund placed in HKSCC do not meet the criteria for offsetting against each other in the financial statements and the Group does not intend to settle the balances on a net basis.

	As at 31 December 2019					
	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Assets						
Accounts receivable	1,911,208	(219,998)	1,691,210	–	–	1,691,210

	As at 31 December 2019					
	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
Liabilities						
Accounts payable	5,220,201	(219,998)	5,000,203	–	–	5,000,203

35 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Cont'd)*

	As at 31 December 2018					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	Net amount HK$'000
Assets						
Accounts receivable	583,274	(125,860)	457,414	–	–	457,414

	As at 31 December 2018					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral pledged HK$'000	Net amount HK$'000
Liabilities						
Accounts payable	5,207,982	(125,860)	5,082,122	–	–	5,082,122

36 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

The following tables present the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique (see note 2.5(b)).

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

	Fair value measurement using		
	Level 1 (Unadjusted quoted prices in active markets) HK$'000	Level 2 (Significant observable inputs) HK$'000	Total HK$'000
As at 31 December 2019			
Investments at fair value through profit or loss:			
Unlisted debt securities	273,626	1,912,209	2,185,835
Unlisted funds	3,660	–	3,660
Loans and advances to margin clients	–	872,588	872,588
Advances to cash clients	–	31,684	31,684
Financial assets at fair value through other comprehensive income:			
Unlisted debt securities	–	599,356	599,356
	277,286	3,415,837	3,693,123
Financial liabilities at fair value through profit or loss:			
Structured note issued	–	(313,498)	(313,498)
Short position in unlisted debt securities	–	(15,873)	(15,873)
	–	(329,371)	(329,371)

36 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Cont'd)*

(a) Fair value hierarchy *(Cont'd)*

	Fair value measurement using		
	Level 1 (Unadjusted quoted prices in active markets) HK$'000	Level 2 (Significant observable inputs) HK$'000	Total HK$'000
As at 31 December 2018			
Investments at fair value through profit or loss:			
Unlisted debt securities	–	598,602	598,602
Unlisted funds	3,670	–	3,670
Loans and advances to margin clients	–	1,208,091	1,208,091
Advances to cash clients	–	35,052	35,052
	3,670	1,841,745	1,845,415

During the years ended 31 December 2019 and 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

The Group measures Level 2 fair values using the following method and there is no change to the valuation technique:

Level 2 — Valuation techniques based on observable input. This category includes unlisted debt securities and unlisted funds valued using:

— Quoted market prices in active market for similar instruments;

— Quoted prices for similar instruments in market that are considered less than frequent; or

— Other valuation techniques where all significant inputs are directly or indirectly observable from market data

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's operating segments include brokerage business, corporate finance business, asset management business, financing and loans business, investment business and other business.

The main risks arising from the Group's normal course of business and its financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's borrowings from banks during the year are for the provision of financing and loans to customers. The bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the Hong Kong dollar prime rate. As the Hong Kong dollar prime rate basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit before taxation (through the impact on floating rate borrowings, interest-bearing accounts receivable, cash and bank balances and loans and advances) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before taxation HK$'000	Increase/ (decrease) in equity* HK$'000
2019			
Hong Kong dollar	**25**	**3,071**	**–**
Hong Kong dollar	**(25)**	**(3,071)**	**–**
2018			
Hong Kong dollar	25	4,127	–
Hong Kong dollar	(25)	(4,127)	–

* Excluding retained profits

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Foreign currency risk

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars and RMB. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the consolidated statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and take measures when necessary. The Group's revenue denominated in currencies other than Hong Kong dollars and United States dollars constituted approximately 3% (2018: 3%) of the total revenue.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before taxation and the Group's equity.

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before taxation HK$'000	Increase/ (decrease) in equity* HK$'000
2019			
If the Hong Kong dollar weakens against the RMB	**8**	**4,846**	**–**
If the Hong Kong dollar strengthens against the RMB	**(8)**	**(4,846)**	**–**
2018			
If the Hong Kong dollar weakens against the RMB	8	3,499	–
If the Hong Kong dollar strengthens against the RMB	(8)	(3,499)	–

* Excluding retained profits

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk

The Group has put in place a well-established credit policy governing the granting of credit limit to customers. Customers are generally required to deposit their securities with the Group as collateral to their borrowings. The credit department is responsible for assisting the directors in formulating the credit policy of the Group, monitoring the credit risks of customers with reference to the realisable values of the collateral, managing the concentration of credit risk by customer and recommending measures to the directors for granting credit facilities which exceed the authority limit of the credit department. There are no significant concentrations of credit risk within the Group as it relates to a large number of diversified customers.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, bank balances held on behalf of clients, investments at fair value through profit or loss, other assets, and deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and loans and advances are disclosed in notes 20 and 21 to the financial statements, respectively.

Liquidity risk

There is a constant need of funding for the settlement of securities transactions and for the provision of financing and loans to the customers. The source of funding is either from the Group's own capital or borrowings from financial institutions, if necessary.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both of its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

The Group's borrowings from banks during the year are for the provision of financing and loans to customers for their purchases and continuous holding of securities. The maturity of bank borrowings of the Group ranges from overnight to within one year, where the borrowings are either rolled over or repaid by the Group's own funding. In addition, for those clients who are unable to settle their settlement obligations or margin deficits, the Group may dispose of the securities collateral pledged by the customers to the Group. The Group always ensures that the securities collateral pledged by customers is able to be realised in the market within a reasonable period of time.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand HK$'000	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
2019				
Accounts payable	3,444,126*	1,556,077	–	5,000,203
Financial liabilities included in other payables and accruals	–	105,423	–	105,423
Interest-bearing bank borrowings	779,830#	–	–	779,830#
Lease liabilities *(Note)*	–	34,498	37,564	72,062
Tax payable	–	25,190	–	25,190
Financial liabilities at FVPL	–	329,371	–	329,371
	4,223,956	2,050,559	37,564	6,312,079

	On demand HK$'000	Less than 1 year HK$'000	Total HK$'000
2018			
Accounts payable	4,888,190*	193,932	5,082,122
Financial liabilities included in other payables and accruals	–	71,437	71,437
Interest-bearing bank borrowings	471,405#	–	471,405#
Tax payable	–	7,232	7,232
	5,359,595	272,601	5,632,196

* Balance includes bank balances held on behalf of clients under the current asset section of the consolidated statement of financial position of HK$3,193,340,000 (2018: HK$4,879,449,000).

Included in interest-bearing bank borrowings were certain of the Group's bank loans in the amount of HK$778,900,000 (2018: HK$469,920,000), of which the loan agreements contain repayment on demand clauses giving the banks the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Had the banks not called in the loan, the scheduled repayment dates of interest-bearing bank borrowing were less than 1 year from the end of the reporting period (2018: within 1 year from the end of the reporting period).

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 leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2.3.

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Price risk

Price risk is the risk that the fair values or future cash flows due to changes in market prices. The Group was exposed to price risk through its financial instruments at fair value through profit or loss (notes 18 and 25) and financial instruments at fair value through other comprehensive income (note 19) as at 31 December 2019.

The following table demonstrates the sensitivity to every 1% change in the fair values of the investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in fair value %	Increase/ (decrease) in profit before taxation HK$'000	Increase/ (decrease) in equity* HK$'000
2019			
Unlisted investments:			
Investments at fair value through profit or loss:			
— Investment funds	1	37	–
	(1)	(37)	–
— Debt securities	1	21,858	–
	(1)	(21,858)	–
Financial assets at fair value through other comprehensive income			
— Debt securities	1	–	5,994
	(1)	–	(5,994)
Financial liabilities at fair value through profit or loss:			
— Structured note issued	1	(3,135)	–
	(1)	3,135	–
— Short position in debt securities	1	(159)	–
	(1)	159	–
2018			
Unlisted investments:			
Investments at fair value through profit of loss:			
— Investment funds	1	37	–
	(1)	(37)	–
— Debt securities	1	5,986	–
	(1)	(5,986)	–

* Excluding retained profits

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The gearing ratio is reviewed and assessed regularly by the board of directors. The gearing ratios as at the end of the reporting periods were as follows:

	2019 **HK$'000**	2018 HK$'000
Interest-bearing bank borrowings	**778,900**	469,920
Total equity	**3,919,317**	2,208,110
Gearing ratio	**19.9%**	21.3%

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000 *(Note)*
Non-current assets		
Other assets	**9,258**	70
Interests in subsidiaries	**765,839**	765,839
	775,097	765,909
Current assets		
Amounts due from subsidiaries	**3,706,023**	1,118,357
Prepayments, deposits and other receivables	**17,049**	11,797
Tax receivable	**–**	810
Cash and bank balances	**8,791**	9,447
Total current assets	**3,731,863**	1,140,411
Current liabilities		
Amounts due to subsidiaries	**797,519**	310,438
Other payables and accruals	**69,107**	43,784
Tax payable	**59**	–
Interest-bearing bank borrowings	**778,900**	313,280
	1,645,585	667,502
Net current assets	**2,086,278**	472,909
NET ASSETS	**2,861,375**	1,238,818
EQUITY		
Share capital	**2,782,477**	1,200,457
Other reserves	**78,898**	38,361
TOTAL EQUITY	**2,861,375**	1,238,818

Approved and authorised for issue by the board of directors on 23 March 2020.

Chen Xiaosheng	**Qiu Yizhou**
Director	*Director*

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.3.

A summary of the Company's reserves is as follows:

	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	656	80,612	81,268
Total comprehensive income for the year	–	4,861	4,861
Dividend paid	–	(47,768)	(47,768)
At 31 December 2018	**656**	**37,705**	**38,361**
Total comprehensive income for the year	**–**	**71,760**	**71,760**
Dividend paid	**–**	**(31,223)**	**(31,223)**
At 31 December 2019	**656**	**78,242**	**78,898**

The Company's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

39 EVENT AFTER THE REPORTING PERIOD

The proposed final dividend for the year set out in note 11 to the financial statement has been approved by the directors on 23 March 2020 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

In 2020, the outbreak of COVID-19 raised the uncertainty towards the business environment and operations of the Group. The Group will closely monitor the impacts and devise the contingency measures accordingly.

If necessary, the Group will promptly carry out contingency measures to mitigate the potential impacts. The Group will continue to review the contingency measures and evaluate risk management effectiveness. In view of the rapid spread of COVID-19, it is not appropriate to estimate the potential impacts on the Group's financial performance at present stage due to the possible significant fluctuations.

40 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.3.

SHENWAN HONGYUAN (H.K.) LIMITED
申 萬 宏 源（香 港）有 限 公 司

Level 19, 28 Hennessy Road, Hong Kong
香港軒尼詩道28號19樓

Tel 電話: (852) 2509 8333
Fax 傳真: (852) 3525 8368
Website 網址: www.swhyhk.com

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC™ C007445