西南證券 (600369 SH)
控股公司

西證國際

Southwest Securities International Securities Limited
西證國際證券股份有限公司*

Stock Code 股份代號 : 812

Annual Report 年報
2016

* For identification purpose only 僅供識別

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS	*Executive Directors* Mr. WU Jian *(Chairman)* Mr. PU Rui *(Chief Executive Officer)* Mr. ZHANG Chunyong Mr. XU Mingdi Ms. LIANG Yiqing *Independent Non-executive Directors* Professor WU Jun Mr. MENG Gaoyuan Mr. GUAN Wenwei
AUDIT COMMITTEE	Mr. MENG Gaoyuan *(Chairman)* Professor WU Jun Mr. GUAN Wenwei
REMUNERATION COMMITTEE	Professor WU Jun *(Chairman)* Ms. LIANG Yiqing Mr. MENG Gaoyuan Mr. GUAN Wenwei
NOMINATION COMMITTEE	Mr. WU Jian *(Chairman)* Professor WU Jun Mr. MENG Gaoyuan Mr. GUAN Wenwei
AUTHORISED REPRESENTATIVES	Mr. PU Rui Mr. LUO Yi
JOINT COMPANY SECRETARIES	Mr. LUO Yi Miss FUNG Suk Han
REGISTERED OFFICE	Clarendon House 2 Church Street Hamilton HM11 Bermuda

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG	Rooms 1601, 1606-08 16/F., Central Plaza 18 Harbour Road Wanchai Hong Kong
BERMUDA PRINCIPAL SHARE REGISTRAR	MUFG Fund Services (Bermuda) Limited The Belvedere Building 69 Pitts Bay Road Pembroke HM08 Bermuda
BRANCH SHARE REGISTRAR IN HONG KONG	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
AUDITOR	Pan-China (H.K.) CPA Limited *Certified Public Accountants* 11/F, Hong Kong Trade Centre 161-167 Des Voeux Road Central Hong Kong
LEGAL ADVISER AS TO HONG KONG LAW	Loong & Yeung Solicitors Room 1603, 16/F China Building 29 Queen’s Road Central Hong Kong
LISTING INFORMATION	The Stock Exchange of Hong Kong Limited Stock Code: 812
WEBSITE	www.swsc.hk

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WU Jian（吳堅）, aged 52, has been appointed as an Executive Director of the Company since 27 February 2015, and as the Chairman of the Board and the chairman of the Nomination Committee since 1 November 2016. Mr. Wu graduated from 山西財經大學 (Shanxi University of Finance and Economics*) in the PRC. He graduated from MBA Institute of Chongqing University with MBA degree in February 2001. Mr. Wu served in China Securities Regulatory Commission Chongqing Office consecutively as the deputy commissioner of division of investigation and enforcement department and commissioner of the listed company supervision department during 1997 to 2005. Mr. Wu was appointed as the deputy general manager of 重慶渝富資產經營管理集團有限公司 (Chongqing Yufu Assets Management Group Co., Ltd.*) from December 2005 to November 2013 and he was responsible for investment management. Mr. Wu was also appointed as the chief executive of 重慶股權轉讓中心有限責任公司 (Chongqing Share Transfer Center Co., Ltd.*), a subsidiary of 西南證券股份有限公司 (Southwest Securities Co., Ltd.*) (SSE stock code: 600369) ("SWSC") since October 2013. Mr. Wu served in SWSC as a director during December 2006 to January 2014. He was appointed as the vice president of SWSC since February 2014. He is currently a director of Southwest Securities International Investment Limited, a substantial shareholder of the Company. Mr. Wu has over 20 years of experience in investment and securities market.

Mr. PU Rui（蒲銳）, aged 43, has been appointed as an Executive Director and the Chief Executive Officer of the Company since 27 February 2015. Mr. Pu obtained his Master Degree in economics majoring in Monetary Banking（貨幣銀行學）from 西南財經大學 (Southwestern University of Finance and Economics) in the PRC in June 1998. Mr. Pu served in 中國證券監督管理委員會四川監管局 (China Securities Regulatory Commission Sichuan Office) consecutively as deputy commissioner of the listed company supervision department one（上市公司監管一處）, commissioner of the listed company supervision department two（上市公司監管二處）and commissioner of the division of investigation and enforcement department two during August 1998 to September 2012. He had also been the assistant to mayer of Suining government of the PRC during May 2007 to May 2008. Mr. Pu served in SWSC consecutively as the member of the party committee（黨委委員）, assistant to chief executive（總裁助理）and vice president（副總裁）since October 2012 and he is responsible for assisting the chief executive to manage the securities sales department, credit transaction department, institutional sales department, wealth management centre and operations management department. He is currently a director and the general manager of Southwest Securities International Investment Limited, a substantial shareholder of the Company. He has abundant experience in investment, finance and securities market business.

EXECUTIVE DIRECTORS (Continued)

Mr. ZHANG Chunyong（張純勇）, aged 51, has been appointed as an Executive Director of the Company since 27 February 2015. Mr. Zhang obtained his Bachelor Degree in Medicine from 四川醫學院 in the PRC in April 1985 and obtained a Master Degree in Medicine from 第三軍醫大學 (Third Military Medical University*) in the PRC in July 1989. Mr. Zhang served in 重慶市金融工作辦公室 (Chongqing Financial Services Office*) as the commissioner of the listed companies department and securities department during July 2003 to April 2007. He was the deputy chief executive of SWSC since July 2007. He has also been a director of 西證股權投資有限公司 (Southwest Securities Private Equity Investment Co., Ltd.*), 西證創新投資有限公司 (SWSC Innovation Investment Co., Ltd*) and 西證重慶股權投資基金管理有限公司 (SWSC Chongqing Investment Fund Management Co., Ltd*) since April 2013, March 2013 and July 2013 respectively. He has also been the chairman of 重慶西證渝富股權投資基金管理有限公司 (Chongqing SWSC Yufu Capital Equity Investment Fund Management Co., Ltd*), 西南期貨有限公司 (Southwest Futures Co., Ltd.*) and 重慶西證小額貸款有限公司 (Chongqing SWSC Micro-credit Co., Ltd*) since May 2013, December 2013 and August 2014 respectively. He is currently a director of Southwest Securities International Investment Limited, a substantial shareholder of the Company. Mr. Zhang has over 13 years of experience in finance, fund management and securities market supervision.

Mr. XU Mingdi（徐鳴鏑）, aged 47, has been appointed as an Executive Director of the Company since 27 February 2015. Mr. Xu obtained his Bachelor Degree in economics from 東北財經大學 (Dongbei University of Finance and Economics*) in the PRC in July 1991 and completed postgraduate course in accounting from 中央財經大學 (Central University of Finance and Economics*) in the PRC in October 2002. Mr. Xu served in SWSC consecutively as the assistant to president（總裁助理）, vice president（副總裁）, secretary to the board of directors（董事會秘書）since November 2001. Mr. Xu has been a director of 西證創新投資有限公司 (SWSC Innovation Investment Co., Ltd*) since March 2013. He is currently a director of Southwest Securities International Investment Limited, a substantial shareholder of the Company. Mr. Xu has over 15 years of experience in securities.

Ms. LIANG Yiqing（梁一青）, aged 53, has been appointed as an Executive Director and a member of the Remuneration Committee of the Company since 27 February 2015. Ms. Liang obtained her diploma in financial accounting from 重慶商學院 (Chongqing Institute of Commerce*) in the PRC in June 1996. She completed her postgraduate studies majoring in economic management in 中國社會科學院研究生院 (Graduate School of Chinese Academy of Social Sciences*) in the PRC in September 2002. Ms. Liang served in SWSC consecutively as the assistant to the chairman of the Labour Union（工會主席助理）, general manager of party relationship human resources department（黨群人事部總經理）, general manager of human resources department（人力資源部總經理）, secretary to Commission for Discipline Inspection（紀律檢查委員會書記）, deputy secretary of the party committee（黨委副書記）since December 1999. She has also been the supervisor of 西證股權投資有限公司 (Southwest Securities Private Equity Investment Co., Ltd.*) and 西證重慶股權投資基金管理有限公司 (SWSC Chongqing Investment Fund Management Co., Ltd*) since March 2010 and July 2013 respectively. She is also the chairman of supervisor committee（監事會主席）of 重慶西證渝富股權投資基金管理有限公司 (Chongqing SWSC Yufu Capital Equity Investment Fund Management Co., Ltd*) since May 2013. She has abundant experience in human resources area.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor WU Jun（吳軍）, aged 63, has been appointed as an Independent Non-executive Director and the chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee of the Company since 27 January 2015. Professor Wu has been appointed as an independent director of SWSC since 16 March 2009 to present. He is also a professor in and a tutor of the Doctor of Philosophy students of Finance in 對外經濟貿易大學 (University of International Business and Economics*) ("UIBE"). He was also appointed as an independent director in 深圳市深信泰豐（集團）股份有限公司 (Shenzhen Shenxin Taifeng Group Co. Ltd*), whose shares are listed on the Main Board of Shenzhen Stock Exchange (Stock code: 000034) from June 2008 to June 2014 and 浙江紹興瑞豐農村商業銀行股份有限公司 (Zhejiang Shaoxing Ruifeng Rural Commercial Bank*) from January 2011 to present. Professor Wu graduated from 雲南財貿學院 (Yunnan Finance Institution*) in July 1981 majoring in Finance, and finished his doctorate in currency and banking in 中國人民銀行總行金融研究所 (The Financial Research Institute of People's Bank of China*) in 1995. Professor Wu has extensive knowledge in economics and finance, and has strong organizational skill. He has been engaged in teaching and research in finance in Yunnan Finance Institution, 中國金融學院 (China Finance College*) and UIBE for 36 years. He is strong at the research skill in finance theory, its revolution and application.

Mr. MENG Gaoyuan（蒙高原）, aged 45, has been appointed as an Independent Non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee of the Company since 27 January 2015. Mr. Meng has been qualified as an accountant in the PRC since 1999. He has also been qualified as a certified public valuer and a registered land valuer since 1998 and 2006 respectively. Mr. Meng served in 重慶康華會計師事務所有限責任公司 (Chongqing Kanghua Certified Public Accountants*) consecutively as a department senior manager（部門高級經理）and deputy general manager since September 1998. Mr. Meng graduated from 江西財經學院 (Jiangxi University of Finance and Economics*) in the PRC with a Bachelor Degree majoring in Finance, Accounting and Auditing in July 1994. He obtained a Master of Business Administration from 重慶理工大學 (Chongqing University of Technology*). He has abundant experience in accounting, audit and finance.

Mr. GUAN Wenwei（關文偉）, aged 48, has been appointed as an Independent Non-executive Director and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company since 19 September 2016. Mr. Guan graduated from Zhongshan University（中山大學）with a Bachelor of Laws (LL.B.) Degree in 1991. He obtained a Master of Laws (LL.M.) Degree from Peking University（北京大學）in 2001, a Master of Arts (M.A.) Degree (Asia Pacific Policy Studies) and a Ph.D in Law from the University of British Columbia in 2004 and 2009 respectively. Mr. Guan served as a court clerk, junior judge in the High People's Court of Guangdong Province, sessional lecturer in the Faculty of Law of the University of British Columbia, visiting assistant professor in the School of Law of City University of Hong Kong during the period from July 1991 to July 2009. He has been an assistant professor in the School of Law of City University of Hong Kong since July 2009. He was qualified as a lawyer in the PRC since 2000 and has become an arbitrator of South China International Economic and Trade Arbitration Commission since 2015.

SENIOR MANAGEMENT

Mr. LUO Yi（羅毅）, aged 36, is the Vice President of the Group, Joint Company Secretary and Authorised Representative of the Company. He is currently in charge of corporate finance department, China business development department, equity capital market department and fixed income capital department of the Group. He was appointed as an Executive Director, a member of the Remuneration Committee and Executive Committee of the Company for the period from 27 January 2015 to 27 February 2015. Mr. Luo graduated from Carleton University in Canada, with a Bachelor of Arts Degree majoring in Economics in June 2004. He obtained a Master of Arts degree from the University of Hong Kong in December 2006. He has obtained a license issued by the Securities and Futures Commission under the Securities and Futures Ordinance to carry out Type 6 Regulated Activity (Advising on Corporate Finance) since 2008, and has become a member of the Chinese People's Political Consultative Conference of Guangzhou City since 2014. Mr. Luo had served in GF Capital (Hong Kong) Limited consecutively as the senior manager from June 2007 to August 2009. He had also served in China Merchants Securities (HK) Co., Limited as the executive director of the investment banking department from September 2009 to January 2013. Mr. Luo was appointed as the director of the institutional client department of SWSC, the controlling shareholder of the Company, from July 2013 to February 2015.

Mr. ZHANG Yi（張弋）, aged 43, is the Vice President of the Group. He is currently in charge of administration department, information technology department, legal & compliance cum internal audit department and risk control department of the Group. He was appointed as an Executive Director and a member of the Executive Committee of the Company for the period from 27 January 2015 to 27 February 2015. Mr. Zhang graduated from 機電與控制工程學院 (College of Mechatronics and Control Engineering) of 深圳大學 (Shenzhen University) in the PRC majoring in Mechanic Manufacturing & Automation in July 1996. Mr. Zhang has been the vice general manager of the department of strategic development of SWSC since 2012. He was a general manager of the department of stock exchange of 西南證券深圳蛇口後海路證券營業部 (SWSC's branch in Shenzhen Shekou Hou Hai Road).

Mr. LIN Peng（林芃）, aged 51, is the Vice President of the Group. He is also a director of the main subsidiaries of the Company. Mr. Lin joined the Group in October 2011. He was appointed as an Executive Director and a member of the Executive Committee of the Company from 15 October 2012 to 27 January 2015. He is currently in charge of the brokerage business department, market research and product development department and asset management business department of the Group. He has over 24 years' experience in banking and finance as well as financial servicing industry. Prior to joining the Group, Mr. Lin was an executive director and the chief operating officer of Finet Group Limited, and also worked for Infocast Limited as the senior vice president and chief financial officer. Mr. Lin has served with multinational enterprises and multi-industries in China, Hong Kong and North America. He has extensive knowledge in securities trading, corporate finance, merger and acquisition, bond issuance, direct investments, and financial servicing. Mr. Lin holds a Bachelor's Degree in finance from Xiamen University in the PRC and a Master's Degree in business administration from Ivey School of Business, University of Western Ontario.

SENIOR MANAGEMENT (Continued)

Ms. TAM Kar Bo, Carrie（譚嘉寶）, aged 47, is the Vice President and Financial Controller of the Group. Ms. Tam joined the Group in 2011 as the Financial Controller. She was appointed as a member of Executive Committee of the Company from 15 October 2012 to 27 January 2015. She is currently in charge of finance and account department, settlement department, company secretary department, human resources as well as corporate communication and customer relation department of the Group. Ms. Tam has worked for international accountancy firm and well-known securities houses for over 20 years and is experienced in the field of auditing and accounting in financial services industry. Ms. Tam obtained a Bachelor's Degree of Arts in Accountancy and a Master's Degree in Professional Accountancy in The Hong Kong Polytechnic University. She is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

JOINT COMPANY SECRETARIES

Mr. LUO Yi, the biographical details of whom are set out under "SENIOR MANAGEMENT" above.

Miss FUNG Suk Han（馮淑嫻）, aged 43, is the Joint Company Secretary of the Company. She joined the Group in October 2010. Miss Fung has over 19 years' experience in company secretarial field. She is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She holds a Master Degree in Business Administration from The Open University of Hong Kong.

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Director(s)") of Southwest Securities International Securities Limited (the "Company" or "SWSI"), I present the annual report and audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2016 (the "Review Period").

In 2016, the world changed swiftly and not without surprises, and the "Black Swan" made its appearance in the global economy all too often. Against such a backdrop, the Chinese economy grew slower but overall steady. The country's GDP increased by 6.7% year-on-year, still within the 6.5% to 7% growth range targeted by the Chinese government. Compared with the past, a "New Normal" has gradually emerged in the economy and the previous "extensive" growth pattern is being replaced by an "intensive" one, with efforts put into supply-side structural reform and the aim to achieve stable and high quality growth. During the year, the stock markets in China moved in cadence with the political and economic tides in the country and overseas. Affected by external conditions, Renminbi remained weak, and the onshore RMB to USD exchange rate had kept sliding towards the "7:1" psychological barrier during the year. At that, investors changed their strategy from "aggressive" to "conservative" and massive capital was poured into safe haven assets, which indirectly stimulated capital flow from Mainland China into the Hong Kong market.

The Hong Kong stock market started weak and strengthened subsequently in 2016. In the first half of the year, the circuit-breaker mechanism in Mainland China wreaked havoc and sent the Hong Kong stock market to its worst of the year. The Hong Kong stock market gradually warmed up again subsequently, and in that same period, incidents like the US Federal Reserve postponing raising interest rate and the "Shenzhen-Hong Kong Stock Connect" was given the green light had helped to improve overall market sentiment. However, towards the year end, at Donald Trump's surprise win in the US presidential election and the Fed's decision to raise interest rate, the Hong Kong stock market started to slip again. After all the ups and downs during the year, the Hang Seng Index closed at 22,000.56 at the year end, up slightly by 0.39% for the year. The overall trading in the stock market was less active at the impact of the economic environment. However, the numbers of listing of international companies in Hong Kong and GEM Board IPOs were the highest in the past 10 years, which indicated that Hong Kong continues to be a key platform for enterprises to access the international capital market.

CHAIRMAN'S STATEMENT

Generally speaking, affected by the uncertain external economic environment and shrinkage of stock market transactions, the Group did not perform as well as expected. It incurred a net loss of HK$166,923,000 during the Review Period *(Between 1 July 2015 and 31 December 2015: net profit of HK$13,625,000)*. However, the Group actively adjusted its structure and direction of business development, reformed its systems, optimised its business processes and enhanced risk management and control during the period. The Group applied its internal and external edges during the Review Period and made a number of business achievements. In terms of the corporate finance arm, the Group was the sole sponsor of two listing projects on the Main Board of Hong Kong Exchanges and Clearing Limited ("HKEX") for two local companies, and had built up a pipeline of projects for rollout gradually in the future. On the asset management front, a member company of the Group launched its first fund product in June 2016 which formally started operation in October of the same year, with the aim to attract more investors with strong accumulated operating results, and ultimately bolster the entire asset management business segment. As for the proprietary trading business, with its business team restructured and investment strategies revised in the second half of 2016, it delivered positive results, and the Group expects the business to keep improving.

Looking ahead, economic globalization has made countries around the world coming together sharing a common destiny, which means a small change in one place could ripple and affect everybody. The uncertain global environment is going to present more variables to the Chinese economy. It is true that the Chinese economy faces certain downward pressure and difficulties, but the fact that it has been fundamentally sound all along has not changed. The Chinese government will continue on the main track of pushing for supply-side structural reform and speeding up the process of "de-leveraging" and SOE reform. At the same time, the Central Economic Work Conference has set the tone – "stable and neutral" – of the country's monetary policy for 2017, with a stronger emphasis on "prevention and control of financial risks". The Hong Kong stock market is expected to continue to fluctuate in the coming year bringing with it both challenges and opportunities. The interest rate hike in the US may cause the bond market to weaken with capital flowing into the stock market and the prevailing southbound capital stream will potentially benefit the Hong Kong stock market.

The Group is still optimistic about the Mainland economy and believes that with the official launch of the Shenzhen-Hong Kong Stock Connect, the mainland and Hong Kong financial markets will be further integrated and new development opportunities will continuously emerge. In the year ahead, the Group, as the only window for its parent SWSC to extend overseas reach, will strive to develop all its businesses, push to fully integrate internal and external resources and explore more potential customers and commercial opportunities, capitalising on the strong customer base of its parent company and its own leading economic and geographical advantages. It will also standardise all internal systems, with particular emphasis on risk management and control, thereby giving itself the systems and standards required for mounting the best offence and defence. For its corporate finance operation, the Group will enhance interaction with its parent, build its own complete industry chain by leveraging its parent's prominent influence in the mainland market and M&A capability. SWSI can then facilitate companies in south-western China in "going out" and "bringing in" as well as in participating in listing or financing activities in Hong Kong or even overseas. For its asset management operation, the Group will enlarge the amount of assets under management, perfect and enhance the capabilities of the investment and Research and Development teams that they may pave a wider path of development for the Group in the future. For its proprietary trading business, the Group will continue to optimise the relevant team and adhere to the directional approach in investing to match the investment principle with risk control at the core, for the purpose of generating profit in 2017. In addition, the Group is recruiting top financial talents in Hong Kong and is also increasing investment in network technology and transaction system to create a more advanced and convenient online transaction platform for investors.

In the foreseeable future, SWSI will provide comprehensive, professional and one-stop financial products and services to customers in the Greater China and Southeast Asia region, with the goal of becoming the preferred integrated financial service group in the region. Last but not least, I would like to express my gratitude to all staff members for their diligence and contribution, to the shareholders for their continuous trust and support, and also to the different parties in the community for interest and caring about SWSI!

WU Jian
Chairman

Hong Kong, 24 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

There were unpredictable changes in the global political landscape in 2016. The Brexit referendum and the US presidential election result defied mainstream expectation and the frequent visits by the "Black Swan" caused fluctuation in the financial market: the US stock market surged to historical high, the value of the US dollar rallied to 14-year high, while that of the British pound sunk to a 31-year low, and like dominos bond markets collapsed. As for the Chinese economy, it has gained a firmer footing and made progress with supply-side reform, but the investment sentiment in stocks continued to be weak. Although the PRC government has introduced a series of financial reform policies, investor jittery continued after the circuit-breaker mechanism triggered a plunge of the stock market at the beginning of 2016. In the second half year of 2016, with economic data being improved, the Shanghai Stock Exchange Composite Index warmed up slowly to the 3,300 point level. However, due to the continuous fluctuation of the RMB to USD exchange rate, the PRC government strengthened risk management at the end of 2016 and subsequently the stock market index descended from the peak. The Shanghai Stock Exchange Composite Index closed at 3,103.6 in 2016, representing a drop of 12.3% for the year, and the Shenzhen Stock Exchange Composite Index closed at 10,177 in 2016, down by 19.6% for the year.

External issues have impacted the Hong Kong stock market. Since February 2016, after a bad start because of the A-share circuit-breaker incident, the Hong Kong stock market went on a seven-month upward trend with the Hang Seng Index surging to the high of more than 24,000 points, with a variance of 5,700 points. With the US dollar staying strong after Donald Trump was elected as the US President, Hong Kong stocks have been under downward pressure. After the US Federal Reserve raised interest rates at the end of 2016, the first time in the past year, Hong Kong stocks declined. The Shenzhen-Hong Kong Stock Connect kicked off on 5 December 2016, however, the market did not respond to it as well as expected. The Hang Seng Index closed on 30 December 2016 at 22,000.56 points, up only a slight 0.39%, losing to most of the major market indices worldwide. In 2016, stock transactions remain sluggish with the average daily market turnover at only HK$66.92 billion *(2015: HK$105.63 billion)*.

Hong Kong's IPO market also paled against last year. According to the data of HKEX, a total of 126 companies have been listed in Hong Kong in 2016 (including six companies transferred from GEM), 12 less than in 2015. Proceeds from IPOs declined 25.8% year-on-year to HK$195.30 billion. In terms of the total fund raised from IPOs, at US$25.14 billion, HKEX still topped the world.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2016 is the Group's first full financial year after it was acquired by its parent company SWSC and changed the financial year end date. Facing complicated market conditions, the Group continued to work on optimising business, adjusting the structure of the organisation and consolidating its teams. At the same time, the Group dug deep into the customer resources of SWSC to unearth new business growth drivers and make sure all businesses will go back on the right track. Last year, the Group was the sole sponsor of two listings on the main board of The Stock Exchange of Hong Kong and had built up a pipeline of projects for rollout gradually in the future. Its corporate finance business thus has a foundation to thrive in the future and those projects are expected to bring sustainable stable returns to the Group. Asset management business was a new major focus of the Group last year. An indirect subsidiary of the Group launched its first fund product in July 2016 and operation of the fund in the form of a hedge fund began in October 2016, opening a new chapter for the Group in the development of asset management business.

During the Review Period, the Group pursued internal transformation and adjustment, while facing a rather volatile external market environment. Although it has worked hard at exploring new income streams and implemented strict cost control measures, its operating results still fell short of expectation. During the Review Period, the Group recorded revenue of HK$92.0 million *(for the six months ended 31 December 2015: HK$16.0 million)* and loss before tax of HK$167.2 million *(for the six months ended 31 December 2015: profit before tax of HK$18.3 million)*.

Brokerage and Margin Financing Business

Revenue brought by the Group's brokerage and margin financing business amounted to HK$80.7 million *(for the six months ended 31 December 2015: HK$42.6 million)*.

The notable shrinkage of turnover of the Hong Kong stock market in 2016, a drop of 36.6% from HK$105.63 billion in 2015 to HK$66.92 billion, dealt a blow to the Group's retail brokerage business. During the Review Period, the Group's average daily turnover was down by 47.6%, which in turn led to a year-on-year decline in commission income. However, benefited by the strong customer relationship network of SWSC, the Group was able to secure a large number of quality margin business customers, and as such its interest income from the business for the review doubled to HK$51.8 million *(for the six months ended 31 December 2015: HK$14.5 million)*. Currently, the Group's customer base is gradually shifting from constituting mainly Hong Kong customers to mainland customers. The Group will continue to explore new institutional customers and review its business model, as well as enhance business efficiency with risk control as the underlying principle. It will strive to find new profit growth drivers for the segment so that it may breakeven.

During the Review Period, the Group made provisions for impairment of HK$80.6 million for margin financing customers. This was mainly attributable to the decrease in market value of the stock collateral provided by customers. The Group will continue to adopt a cautious and conservative approach in handling shortfall margin loans, and strengthen credit risk management, tighten high-risk credit, pay close attention to liquidity position and require frontline staff to get to know their customers better and strengthen customer relationship.

BUSINESS REVIEW (Continued)

Corporate Finance

Revenue generated from the Group's corporate finance business increased markedly to HK$24.9 million during the Review Period *(for the six months ended 31 December 2015: HK$6.9 million)*.

The Group pushed ahead with developing and executing IPO projects, underwriting placing projects, offering independent financial advisory service and financial advisory service during the Review Period. The Group completed two IPO projects and filed listing application for some IPO projects, which are pending approval. Further, it has a pipeline of projects lined up for rollout in the future. The Group is committed to providing corporate finance services to quality SMEs with strong growth potential. To capitalise on the growing trend of mainland enterprises pursuing acquisitions in Hong Kong, the Group will strive to solicit more business by drawing on the strong M&A business capability of its parent company SWSC in Mainland China and the integrated resources of the two parties. In 2016, the Group established the Fixed Income Department and under its two divisions – the debt capital market department responsible for offshore bond issuance business and the fixed income team that operates offshore bond trading business.

The Group will, through sharing resources with its parent company, actively introduce more quality mainland enterprises to the Hong Kong capital market and provide professional corporate financing service to those enterprises as well as build the international platform for them aspiring to go global.

Wealth Management

The Group's wealth management business recorded a revenue of HK$5.6 million during the Review Period *(for the six months ended 31 December 2015: HK$1.2 million)*.

The Group set up the Southwest Securities International Wealth Management Centre in June 2016. Built on the foundation of its existing wealth management business and with related resources all in one pool, the centre is a one-stop financial service platform that boasts many advantages. After setting up the organisation structure and systems, the centre kicked off a series of business training sessions, including several on overseas financial products held at SWSC sales department in Mainland China and several on cross-border investment products held for Hong Kong licence holders. Regarding product management, a comprehensive product classification system was established, giving the Group a unique fund products portfolio, new investment products such as preference shares of mainland banks and hedge funds and also investment channel for structural notes were introduced to enrich its offerings and boost the Group's competitiveness in the market. Further, one-stop cross-border investment solutions were launched in collaboration with third party organisations such as insurance companies and banks to meet investment needs of institutional customers and build a channel for investment in overseas fixed income products.

BUSINESS REVIEW (Continued)

Wealth Management (Continued)

Given the pressure from the fluctuating RMB exchange rate, mainland investors have an increasing demand for asset allocation overseas. The Group took the opportunity to launch wealth management products such as funds, bonds and insurance, and achieved good sales. At the same time, to facilitate overseas business development of its mainland customers, the Group and its parent company, SWSC, had organised several overseas asset allocation exchange events, which had enabled it to gain a better understanding of mainland customers' needs and promoted the Group's product lines successfully. The events received positive feedback from participants.

In the future, with the continuous growth of the Group's customer base, demand for such as margin financing, various types of pledge, over-the-counter trading and short selling is expected to rise gradually and the demand for product variety will grow too. Heeding that, starting early 2016, the Group and SWSC have been collaborating and exploring and analysing the design and sales of cross-border financial products, with the aims of creating the first cross-border financial product exclusively available at the Southwest Securities International Wealth Management Centre, broadening cross-border sales channels, linking up domestic and overseas channels and enriching the existing product base, all to the end of developing its own wealth management products to offer and stopping being a sales agent. The said product has a basic structure now and is currently in assessment, approval and execution stages.

Proprietary trading

Proprietary trading business recorded loss amounting to HK$19.2 million for the Review Period *(for the six months ended 31 December 2015: loss of HK$34.7 million)*.

During the first half of 2016, the Hong Kong market adjusted extensively and lingered low as a result of a turbulent external environment and the highly volatile mainland stock market. The Company implemented position control on its proprietary portfolio and hedging of derivatives, etc. However, its proprietary investment still incurred loss for the Review Period. During the second half of 2016, the Group restructured proprietary investment team and changed investment strategy. The new investment strategy paid off, reducing loss substantially though a turnaround has not been achieved yet.

In 2017, the investments strategy of the proprietary trading team will be direction oriented. With market volatility anticipated, its focus will be on leading enterprises in different industries and its investment will be guided by the principles of minimising investment risks and strengthening risk control.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Other income and gains

During the Review Period, the Group's other income and gains amounted to HK$140.5 million *(for the six months ended 31 December 2015: HK$206.9 million)*.

The Group disposed of available-for-sale financial assets in the second half of 2015, which pushed up its other income and gains last year. In 2016, the Group's other income and gains mainly included interest income of HK$42.5 million from two held-to-maturity investments, which were acquired in the second half of 2015. Besides, the dividend income from available-for-sale financial assets held by the Group amounted to HK$2.0 million *(for the six months ended 31 December 2015: HK$2.2 million)*.

Staff benefit expenses

During the Review Period, the Group's staff benefit expenses were HK$74.3 million *(for the six months ended 31 December 2015: HK$38.8 million)*.

The number of employees and fixed costs of the Group remained stable during the Review Period. As part of the salaries of frontline staff is linked to their performance, their related salaries dropped along with the decline in business, and in turn the Group's staff benefit expenses also shrank. The Group also flexibly adjusted staff deployment matching business growth and resources allocation requirements.

Commission expenses

The Group's commission expenses during the Review Period were HK$12.2 million *(for the six months ended 31 December 2015: HK$7.8 million)*.

Commission expenses mainly include the commissions incurred in the brokerage business and wealth management business. The drop in commission expenses during the Review Period was from the decline in commissions paid to brokers because of the drop in revenue of the brokerage business. On the other hand, the proportion of commission expense relative to commission income was higher than the second half of 2015 because, to maintain steady growth of the brokerage business facing more and more intense competition, the Group strove to increase the commission rate to provide incentive to frontline staff.

Finance costs

The Group's finance costs for the Review Period totalled HK$119.5 million *(for the six months ended 31 December 2015: HK$62.8 million)*.

The Group issued RMB-denominated bonds in late May 2015, so the finance costs for the Review Period were mainly bond interest expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

"Seeking progress while maintaining stability" is the main theme of the Chinese economy in 2017. The government will take its supply-side reform to greater depth and the Chinese economy is expected to gradually revive. However, the international political and financial environment will be more complicated and will thus affect both the mainland and Hong Kong financial markets. Taking into account that uncertainties are looming over the Sino-US trade relationship after Donald Trump took over the US presidency, the persistent pressure on the RMB exchange rate caused by the US dollars and the tightening monetary policy of the US Federal Reserve has brought impact on the emerging markets. Downward pressure and fluctuation are anticipated for the Hong Kong stock market in 2017. However, with challenges often come opportunities, fluctuation of the RMB exchange rate will stimulate customer demand for overseas asset allocation and Chinese securities companies will compete for first opportunities in cross-border business. Hong Kong is going to be the main channel for mainland capital to gain value from overseas, thus financial products available in Hong Kong are expected to become more and more attractive to mainland investors. More and more mainland institutional investors will invest in the stock, fund and bond markets in Hong Kong via the Mutual Market Access mode, and more and more quality private enterprises from China will seek to go public in Hong Kong to raise fund as well as speed up alignment with the international capital market.

Heeding domestic and overseas market conditions, the Group will devise a clear positioning, put its cross-platform advantage to good use and grow its businesses, in size and strength. The Group will focus on developing corporate finance business and asset management business. Regarding the former, while making sure it serves only quality IPO projects, the Group plans to expand project loan business to achieve capital appreciation and use capital to propel more large scale projects. It will actively capture business opportunities presented by mainland companies looking for M&A targets in Hong Kong by applying its own resources and drawing on those of its parent company's M&A project team. The Group will identify potential demand of mainland enterprises to list in Hong Kong and promote the development of IPO projects jointly with the teams of the parent company. Efforts will be made in forming underwriting and placing teams, its own or together with other investment banks, and looking among listed companies for refinancing projects. As for asset management business, the Group launched its first hedge fund product in July 2016. It will continue to strengthen management of the fund and establish a competent investment research team to help it build a foundation for supporting business expansion in the future and development of more products. Furthermore, the Group is assisting the organisation of a large-scale private equity fund and its asset management division will be the fund manager, and the management fee to be generated will increase the Group's income. The division will also seek to expand substantially the scale of the assets it manages, so as to attract internationally renowned organisations to become its customers and also provide it with a solid foundation for developing and promoting business in the future. In addition, the investment strategies implemented by the Group's proprietary trading team have started to bear fruit, as such, the Group expects the business to keep improving.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS (Continued)

The Group will continue to optimise the connection among different departments to enhance administrative efficiency. It will also exert in establishing a talent pool and nurturing these talents, and perfecting its incentive system to attract talents for building competent and highly effective core business teams. Strengthening risk control will be another major focus of the Group and will be achieved via drawing up standardised risk assessment criteria that can strike a balance between strengthening risk management and enhancing business efficiency. In the year to come, the Group will continue to enhance resource sharing with its parent company SWSC and referrals between domestic and overseas businesses, make full use of the advantages of its cross-border platform, and pursue comprehensive development of overseas business in China.

Building on its past success and with an active yet pragmatic approach, the Group will promote the quick but steady growth of its businesses so that all of them may achieve breakeven as soon as possible. Striving to realise the goal of becoming a quality overseas capital platform of SWSC, the Group will enhance its connection and interaction with the parent company, hoping that it may serve quality SEMs in Greater China as their choice financing platform and preferred partner, and serve mainland investors as their best overseas asset management consultant. Such efforts will help promote the internationalisation of the Group and SWSC.

FINANCIAL REVIEW

Liquidity, financial resources and gearing ratio

As at 31 December 2016, the Group had total cash and bank balances including pledge deposits of HK$624.8 million *(at 31 December 2015: HK$476.3 million)*, while net current assets amounted to HK$1,790.0 million *(at 31 December 2015: HK$1,728.4 million)*. The current ratio as a ratio of current assets to current liabilities was 8.2 times *(at 31 December 2015: 8.0 times)*. The increase in net current assets was mainly attributable to the reclassification of debt portion of the Convertible Bonds from "Held-to-maturity investments" to "Available-for-sale financial assets" and from "Non-current assets" to "Current assets", while the increase in cash and bank balances was mainly caused by the increase in net cash from operating activities.

At the end of the Review Period, the gearing ratio was 705.8% *(at 31 December 2015: 430.3%)*. Gearing ratio represents the ratio of total borrowings to the total equity of the Group.

The Group monitored its capital structure in order to ensure the compliance of the capital requirements under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) for its licensed subsidiaries and to support the development of new business. All licensed corporations within the Group complied with their respective liquid capital requirements during the Review Period and up to the date of this report.

FINANCIAL REVIEW (Continued)

Banking facilities and charges on assets

As at 31 December 2016, the Group had no bank loans outstanding *(at 31 December 2015: Nil)* and had an aggregate banking facilities of HK$677.2 million *(at 31 December 2015: HK$148.4 million)*. The drawdown of certain banking facilities of HK$326.0 million *(at 31 December 2015: HK$142.9 million)* is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the Review Period, the Group pledged no investments in listed securities *(at 31 December 2015: HK$6.3 million)* and fixed deposits of HK$1.2 million *(at 31 December 2015: HK$2.0 million)* for the facilities.

Material acquisitions, disposals and significant investments

During the Review Period, there were no material acquisitions and disposals of investments *(for the six months ended 31 December 2015: the Group disposed certain listed equity investments and realised a long-term investment gain of HK$95.2 million)*.

Contingencies

The Group has no material contingent liabilities as at 31 December 2016 *(at 31 December 2015: Nil)*.

Commitments

In August 2015, the Group has entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Company agrees to convert RMB100.0 million to HK$113.0 million (i.e. pay RMB100.0 million and receive HK$113.0 million).

In June 2015, the Group has entered into a three-year cross-currency swap agreement with a bank in the United Kingdom with initial exchange amounts of RMB1.5 billion and HK$1.9 billion. Pursuant to the cross-currency swap agreement, the Group is obliged to make semi-annual interest payments to the bank. The amount to be paid is calculated on the final exchange amount of HK$1.9 billion with reference to the agreed annual rate of 4.7%. The Group in return is entitled to receive semi-annual interest on the final exchange amount of RMB1.5 billion at 6.45% per annum. Upon maturity of the cross-currency swap, the Group agrees to convert the final exchange amount of HK$1.9 billion to RMB1.5 billion (i.e. pay HK$1.9 billion and receive RMB1.5 billion). The cross-currency swap is settled on gross basis.

Exposure to fluctuations in exchange rates and related hedges

As at 31 December 2016, the Group has RMB exposure arising from the issuance of bonds. Considering the major operating cash flow is in Hong Kong dollars and to mitigate the relevant currency risks, the Group had entered into a three-year cross-currency swap as mentioned in the paragraph of "Commitments" in this report.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 December 2016, the Group had a total of 105 employees *(at 31 December 2015: 87 employees)*. The Group operates different remuneration schemes for account executives and other supporting staff respectively. Account executives are remunerated on the basis of on-target-earning packages comprising base pay and allowances, commission and/or bonus. The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

The Group provides training programs for the staff to enhance their skills and knowledge in products, regulations and compliance. Most of the in-house trainings are qualified for claiming Continuous Professional Training hours for the licensed persons.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Good corporate governance practices improve transparency of the Company, optimize the Company's performance, and help to create a corporate environment conducive to the efficient and sustainable growth. The Company strives to maintain a sound corporate governance system which could add value to the stakeholders.

During the year ended 31 December 2016 (the "Year"), the Company has applied the principles and complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules during the Year. The Company has made specific enquiry with each Director and was confirmed that all Directors have complied with the required standard set out in the Model Code throughout the Year. Employees and consultants who are privy to inside information are required to follow the Model Code.

BOARD OF DIRECTORS

The Board Composition

As at 31 December 2016, the Board comprises five Executive Directors and three Independent Non-executive Directors, namely:–

Executive Directors:	Mr. WU Jian *(Chairman)*
	Mr. PU Rui *(Chief Executive Officer)*
	Mr. ZHANG Chunyong
	Mr. XU Mingdi
	Ms. LIANG Yiqing
Independent Non-executive Directors:	Professor WU Jun
	Mr. MENG Gaoyuan
	Mr. GUAN Wenwei

Details of the biographies of the current Directors are set out under the section "DIRECTORS AND SENIOR MANAGEMENT" in this report.

During the Year, Mr. YU Weijia resigned as the Chairman and Executive Director of the Company and Mr. PU Rui ("Mr. Pu") temporarily carried out the duties of Chairman with effect from 29 August 2016. Mr. WU Jian ("Mr. Wu") was appointed as the Chairman of the Company with effect from 1 November 2016. Mr. GUAN Wenwei was appointed as the Independent Non-executive Director of the Company in place of Mr. LAM Kwok Cheong with effect from 19 September 2016.

BOARD OF DIRECTORS (Continued)

The Board Composition (Continued)

Directors were appointed for a specific term where all Directors were appointed for a period of 3 years. At least one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at least once every three years. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment.

During the Year, the Company arranged for appropriate cover on Directors' and officers' liability insurance policy to indemnify the Directors and officers for liabilities arising from the corporate activities. The coverage and the amount insured under such policy are reviewed annually by the Company. No legal actions were made against any of the Directors in relation to their duties performed for the Company during the Year.

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business, with the ultimate goal of maximizing the shareholders' value and long-term success of the Company while the day-to-day management of business and operations are delegated to the Chief Executive Officer, respective Board committees and senior management of the Group.

To the best knowledge of the Directors, there are no relationships among the Board members, including financial, business, family or other material/relevant relationships.

Independent Non-executive Directors

During the Year, the Board has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules in having 3 Independent Non-executive Directors (representing one-third of the Board) from time to time. The Independent Non-executive Directors, all of whom are independent of the management of the Group's businesses, are highly experienced professionals with substantial experience in areas such as legal, accounting or financial management.

The Company has received annual written confirmation from each Independent Non-executive Director of his independence to the Group and considers that all the Independent Non-executive Directors were acting independently throughout the Year.

BOARD OF DIRECTORS (Continued)

Directors' Continuing Professional Development

Directors' training is an ongoing process. All Directors are encouraged to attend the seminars and courses on relevant topics when count towards continuous professional development training.

Pursuant to Provision A.6.5 of the CG Code, Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. According to the records maintained by the Company, during the Year, all current Directors, namely Mr. Wu Jian, Mr. Pu Rui, Mr. Zhang Chunyong, Mr. Xu Mingdi, Ms. Liang Yiqing, Professor Wu Jun, Mr. Meng Gaoyuan and Mr. Guan Wenwei, have participated in appropriate continuous professional development activities by way of attending training, reading articles, newspapers, journal and/or updates relevant to the Company's business or to the Directors' duties and responsibilities.

Board meetings

The Board meets regularly for discussing and determining the strategies of the Group, setting directions and monitoring the performance of the Group. Notice of not less than 14 days are given to all Directors in convening all regular meetings. Each Director can access to the advices and services of the Joint Company Secretaries and is invited to include any matters in the agenda of the regular meetings. Agenda and materials for discussion in the meetings are circulated to all Directors at least 3 days prior to the date of the meetings.

Any Directors, who have declared to have a conflict of interest in the proposed transactions or issues to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

Senior management may be invited to attend the meetings to make presentations and answer the Board's enquiries. All draft and finalized minutes of each meeting are circulated to all Directors for comment within reasonable time after the meeting has been held.

During the Year, the Board held 4 meetings and the attendance of each Director is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of the Chairman and Chief Executive Officer of the Company are currently held by Mr. Wu and Mr. Pu respectively. The roles of Chairman and Chief Executive Officer are segregated and there are no relationships between Mr. Wu and Mr. Pu. The Chairman provides leadership for the Board and ensures that there is clear division of responsibilities at the board level. The Chief Executive Officer is responsible for overseeing the day-to-day management of the Company, supervising the businesses of the Group and ensuring that the Board committees work smoothly and effectively.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Company currently has three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All committees have been provided with sufficient resources to discharge their respective duties and all committee members may seek external professional advices, if necessary, at the costs of the Group.

Audit Committee

The Audit Committee currently comprises all 3 Independent Non-executive Directors, namely Mr. MENG Gaoyuan, who acts as the chairman, Professor WU Jun and Mr. GUAN Wenwei.

The duties of the Audit Committee include, inter alias, monitoring the integrity of financial statements and the accounting policies and practices, making recommendation to the Board on the appointment, reappointment and removal of external auditor, reviewing the Company's financial controls, risk management and internal control systems. The Audit Committee meets at least twice a year to discuss and review the financial information, the risk management and internal control systems and relevant matters. The proceedings of the Audit Committee meetings are the same as the Board meetings. Terms of reference of the Audit Committee is currently available on the HKExnews website and the Company's website.

During the Year, the Audit Committee has reviewed the audit/review planning memorandums, the results for the financial period ended 31 December 2015 and the interim period for the six months ended 30 June 2016, financial reporting and compliance procedures, compliance and internal control report, risk management and internal control system, the remuneration of external auditor, the adequacy of resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget.

The Company's annual results for the Year have been reviewed by the Audit Committee.

The Audit Committee held 4 meetings during the Year and the attendance of each member is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

Remuneration Committee

The Remuneration Committee currently comprises all 3 Independent Non-executive Directors, namely Professor WU Jun, who acts as the chairman, Mr. MENG Gaoyuan and Mr. GUAN Wenwei, and an Executive Director, namely Ms. LIANG Yiqing.

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

The responsibilities and authorities of the Remuneration Committee are clearly stated in its terms of reference, including but not limited to recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management and review and approval of the compensation package to the Executive Directors and the senior management. The Board together with the Remuneration Committee monitor the performance of the Executive Directors and the senior management. Such division of responsibilities ensures a balance of power. The Remuneration Committee shall meet at any time when necessary. Terms of reference of the Remuneration Committee is currently available on the HKExnews website and the Company's website.

During the Year, the Remuneration Committee has reviewed and discussed the remuneration of the Directors and senior management. The Remuneration Committee has also approved the discretionary bonus of the senior management of the Group by reference to their respective levels of responsibilities and performance, industry benchmarks, prevailing market conditions and the Group's financial performance. No Director was involved in deciding his/her own remuneration.

The Remuneration Committee held 1 meeting during the Year and the attendance of each member is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

Nomination Committee

The Nomination Committee currently consists of 4 members, including an Executive Director, namely Mr. WU Jian, who acts as the chairman, and all 3 Independent Non-executive Directors, namely Professor WU Jun, Mr. MENG Gaoyuan and Mr. GUAN Wenwei.

The main duties of the Nomination Committee include, inter alias, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of Independent Non-executive directors and making recommendations to the Board on the appointment and removal of Directors. Terms of reference of the Nomination Committee is currently available on the HKExnews website and the Company's website.

During the Year, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, assessed the independence of Independent Non-executive Directors and made recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Nomination Committee held 1 meeting during the Year, and the attendance of each member is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

BOARD COMMITTEES (Continued)

Corporate Governance Function

No corporate governance committee has been established and the Board is responsible for, amongst other things, the development and review of the policies and practices on corporate governance of the Group and monitoring the compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the corporate governance compliance with the Code and disclosure in the annual report.

The corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

Summary of the Board Diversity Policy

The Company has adopted a board diversity policy (the "Board Diversity Policy") setting out the objectives and the factors to be considered for achieving the diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. All Board appointments will be based on meritocracy and competence, and the candidates will be considered against certain objective criteria such as gender, age, cultural and educational background, ethnicity, professional qualifications, areas of experience, skill, knowledge and length of services, etc. The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the same as appropriate. The Board Diversity Policy is currently available on the Company's website.

ATTENDANCE SUMMARY

The following table shows the attendance of each individual member of the Board and the Board committees at the regular Board meetings, the respective Board committee meetings, the annual general meeting held on 17 June 2016 ("2016 AGM") during the Year:

		Attendance/Number of meetings held during the Year				
Name of members of the Board/ the Board Committees	**Note**	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**	**2016 AGM**
Executive Directors:						
Mr. YU Weijia *(Chairman)*	(a)	3/3	N/A	N/A	1/1	1/1
Mr. WU Jian *(Chairman)*		2/4	N/A	N/A	N/A	0/1
Mr. PU Rui *(Chief Executive Officer)*		4/4	N/A	N/A	N/A	1/1
Mr. ZHANG Chunyong		0/4	N/A	N/A	N/A	0/1
Mr. XU Mingdi		1/4	N/A	N/A	N/A	0/1
Ms. LIANG Yiqing		3/4	N/A	1/1	N/A	1/1
Independent Non-executive Directors:						
Professor WU Jun		4/4	4/4	1/1	1/1	1/1
Mr. MENG Gaoyuan		4/4	4/4	1/1	1/1	1/1
Mr. LAM Kwok Cheong	(b)	4/4	4/4	1/1	1/1	1/1
Mr. GUAN Wenwei	(c)	N/A	N/A	N/A	N/A	N/A

ATTENDANCE SUMMARY (Continued)

Notes:

(a) Mr. YU Weijia resigned as the Chairman and Executive Director with effect from 29 August 2016.

(b) Mr. LAM Kwok Cheong resigned as an Independent Non-executive Director with effect from 19 September 2016 and ceased to act as a member of each of the Audit Committee, Remuneration Committee and Nomination Committee on the same date.

(c) Mr. GUAN Wenwei was appointed as an Independent Non-executive Director with effect from 19 September 2016 and was also appointed as a member of each of the Audit Committee, Remuneration Committee and Nomination Committee on the same date.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges the responsibility for preparing the accounts which gives a true and fair view, appropriate accounting policies are selected and applied consistently and judgment and estimates are made prudently and reasonably on a going concern basis.

The reporting responsibilities of the Company's external auditor in relation to the financial reporting are set out under the section "INDEPENDENT AUDITOR'S REPORT" in this annual report.

AUDITOR'S REMUNERATION

The re-appointment of Pan-China (H.K.) CPA Limited ("Pan-China HK") as the external auditor of the Group was approved by the shareholders of the Company (the "Shareholders") at 2016 AGM. The fee paid/payable to Pan-China HK amounted to HK$1,200,000 and HK$150,000 for audit service and other services rendered to the Group for the year ended 31 December 2016 respectively.

INTERNAL CONTROL

The Legal & Compliance Department ("L&C") of the Company is responsible for an adequate internal control system to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the consolidated financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than elimination of risks associated with business activities.

INTERNAL CONTROL (Continued)

The Group's risk management mechanism is also embodied by the three lines of defence for risk management. All executing units serve as the main responsible parties for their respective business risks and are taken as the front line and also the first line of defence for risk management. L&C and the Group's Risk Control Department ("GCM") together constitute the second line of defence for risk management. Different from the business supporting units, L&C and GCM perform their management functions independently of the business units. Charged with the major duty of independent oversight of risks, L&C is responsible for managing compliance risks, whereas GCM is tasked with overall management of financial risks. The Internal Audit Department instead serves as the third line of defence.

For the year ended 31 December 2016, the Audit Committee, as delegated by the Board, has reviewed the adequacy and effectiveness of the Group's internal controls, including financial, operational and compliance controls and risk management. It has also considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programs and budgets.

In addition, the Internal Auditor of the Group conducts regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of the Internal Auditor on the effectiveness of the Group's internal control system and reports to the Board on such reviews.

The Board also annually reviews the effectiveness of the system of internal control of the Group and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of this annual report is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets. The resources, qualifications and experience of staff of the Group's accounting and financial functions, and their training programs and budget are adequate.

INTERNAL AUDIT

The Group has an independent internal audit team, which plays a major role in monitoring the corporate governance of the Group and providing objective assurance to the Board that a sound internal control system is maintained and operated by the management. The head of the internal audit team reports regularly to senior management and the Audit Committee on audit matters. By adopting a risk-based approach to evaluate risk level on control environment, the internal audit team makes their audit schedules annually in consultation with, but independent of, the management, and the audit plan is submitted to the Audit Committee for approval. On a half-yearly basis, the head of the internal audit team will present a report and express an opinion to the Audit Committee on the internal control environment of the Group. The annual audit work plan covers major activities and processes of the Group's operating business. Moreover, ad-hoc reviews will be performed on specific areas of concern identified by the Audit Committee and the management.

RISK MANAGEMENT

During the year, the senior management acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's risk control. The risk control is implemented to minimize the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business.

The senior management is primarily responsible for the design, implementation and maintenance of the risk control to safeguard the Shareholders' investment and assets of the Group.

The senior management monitors the business activities closely and reviews regular risk control reports. Proper controls are in place for the recording of complete, accurate and timely management information.

The procedures of the Group's risk management and internal control systems are as follows:

For risk management

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

For internal control:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

The aforesaid departments responsible for the internal controls and risk management systems shall report to the Board, and the Board acknowledges that it is responsible for the Group's overall risk management and internal control systems and reviewing their effectiveness. Nonetheless, such internal controls and risk management 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.

DISSEMINATION OF INSIDE INFORMATION

The Group has complied with the relevant requirements for disseminating inside information as defined under the SFO so as to ensure inside information is promptly identified and escalated. Directors and senior management of the Group received relevant trainings to ensure inside information remain confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

COMPANY SECRETARY

Mr. Luo Yi and Miss Fung Suk Han are the joint Company Secretaries of the Company. Both of them have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the Year.

COMMUNICATION WITH SHAREHOLDERS

The Group has been devoted to maintaining effective communications with the Shareholders and the general public with an aim to improve the transparency of the Group and to provide them with channels to appraise the position of the Group. During the Year, 2016 AGM was held and the notice of 2016 AGM was given to the Shareholders at least 20 clear business days before the meeting. The Chairman of the Board, the chairmen of the audit, remuneration and nomination committees; and other members of the Board and the external auditor were all present at 2016 AGM to answer the questions from the Shareholders. Each substantially separate issue was dealt with in a separate resolution so that the Shareholders were able to comprehend the matter easily.

Annual and interim reports and any significant events of the Company fall to be disclosed in accordance with the disclosure requirements under the Listing Rules and other applicable regulatory requirements have been published in a timely manner through the websites of the Company and HKExnews.

The Company has adopted a Shareholders' Communication Policy and will review it on a regular basis to ensure its effectiveness. The purpose of this policy is to ensure the Shareholders be provided with prompt and equal access to information about the Company (including but not limited to its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the Shareholders to assess the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company. The Shareholders' Communication Policy is currently posted on the Company's website.

SHAREHOLDERS' RIGHTS

The Company holds an annual general meeting every year and may hold a general meeting known as a special general meeting whenever necessary. Pursuant to the Bye-laws 58 of the Company, Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing a written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner.

Proposals at Shareholders' meetings can be put forward by the members of the Company holding at the date of the submission of the proposals not less than one-tenth (10%) of such of the paid-up capital of the company as at the date of the submission carries the right of voting at general meetings of the Company. The submission of the proposals must be made within 3 business days after a notice of the Shareholders' meeting have been served to all registered Shareholders by the Board. The proposals must be written and must state the objects of the proposals, and must be signed by the proposers, and mailed and deposited at Rooms 1601, 1606-08, 16/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for attention of the company secretary of the Company; and may consist of several documents in like form, each signed by one or more proposers. The Company will verify the requisition and upon confirmation that the requisition is proper and in order, the Board will update the resolutions by serving sufficient notice in accordance with the statutory requirements to all registered Shareholders, provided that the proposers have deposited a sum of money reasonably sufficient to meet the Company's expenses involved in publishing supplementary circular and updating related resolutions. Alternatively, if the requisition has been verified as not in order, the proposer will be advised of this outcome and accordingly, no resolution will be updated as requested.

The Group values feedback from Shareholders on its efforts to promote transparency and foster investor relationships. Shareholders' enquiries, comments and suggestions to the Board or the Company are welcome and can be addressed to the Company Secretary by mail to Rooms 1601, 1606-08, 16/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

INVESTOR RELATIONS

During the Year, there was no change in the Company's memorandum of association and bye-laws and these documents can be found in the websites of the Company and HKExnews.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

The Group has an open policy to encourage suggestions given by stakeholders through different communication channels and platforms. To conduct the Group's materiality assessment in identifying and understanding the sustainability issues and material interests of stakeholders, the Group has engaged its stakeholders, including employees and shareholders. Stakeholders are selected based on stakeholder influence and stakeholder dependence on the Group. Stakeholders with high influence and high dependence on the Group are selected by the management of the Group to express their views and concerns on major social and environment issues. The stakeholder engagement has been conducted through online survey. The Group has reviewed the feedback from its stakeholders and examined its long-term development plan to determine which issues are classified as "material" in this report.

For this report, the Group has identified intellectual property rights protection, anti-corruption policies and legal compliance on operating practices as material concerns to stakeholders. After assessing the feedback from internal and external stakeholders through an online survey, the Group has reviewed the sustainability strategies, practices and measures undertaken in the financial year of 2016 and highlighted the material and relevant aspects throughout this report so as to align with the stakeholders' expectations.

SOCIAL SUSTAINABILITY

OPERATING PRACTICES

Supply Chain Management

As a socially responsible enterprise, it is critical and vital to maintain and manage a sustainable and reliable supply chain. The Group's supply chain management is consistent to its sustainability in establishing a mutual trust and understanding with its business partners. Its main suppliers are the insurance companies, custodian banks, overseas exchange participates, fund houses in Hong Kong and overseas.

In selecting suppliers, comprehensive assessment is performed over different criteria including but not limited to reputation, track record of high corporate standards, expertise, capacity creditability, business stability and product quality. Approved suppliers are certified and licensed by local regulators and authorities. To avoid any disruptions of supply chain, the Group maintains a close dialogue with the suppliers. Meetings are held periodically with the suppliers to share market information and product update. The Group expects its suppliers are of high quality and operate in compliance with applicable local environmental laws, ordinances and regulations. By selecting reliable supplier, the Group is committed to conduct business with the suppliers which are socially responsible to meet the ethical expectations. For any non-compliance with the expected standards of the Group, the selected suppliers are expected to take remedial actions immediately to rectify the problems. The Group closely monitors the implementation of the remedial measures to ensure that they are carried out properly and effectively.

SOCIAL SUSTAINABILITY (Continued)

OPERATING PRACTICES (Continued)

Product Responsibility

As a professional financial services provider, the Group's business activities comply with the requirements of various regulators such as Hong Kong Exchanges and Clearing Limited, Securities and Futures Commission ("SFC"), Hong Kong Independent Commission Against Corruption, Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association and the relevant rules and regulations to maintain the proper conduct in the financial markets. The Group also strictly adheres to the applicable laws and regulations relating to product responsibility in Hong Kong, including:

- Securities and Futures Ordinance;
- Personal Data (Privacy) Ordinance;
- Companies Ordinance;
- Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance;
- Prevention of Bribery Ordinance;
- Insurance Companies Ordinance;
- Drug Trafficking (Recovery of Proceeds) Ordinance;
- Organised and Serious Crimes Ordinance;
- United Nations (Anti-Terrorism Measures) Ordinance; and
- Mandatory Provident Fund Schemes Ordinance.

SOCIAL SUSTAINABILITY (Continued)

OPERATING PRACTICES (Continued)

Product Responsibility (Continued)

Products and Services Quality

The Group has set up internal procedures and manuals such as Compliance Manual, Operational Manual for Insurance Business, Sales Manual and Measures on Risk Management Reporting（操作風險事件報告管理辦法）to ensure that its sales products and services comply with the requirement of the aforesaid rules and regulations. The Group is committed to providing clear and balanced information to clients. Product features, terms and conditions, and any associated risks are clearly communicated by the Group's licensed employees through emails and telephones (with recording function) to ensure clients can make an informed decision. Clients who are interested in the Group's services would sign the client agreement with the acknowledgment on the terms and conditions including the associated risks. The Group applies Anti-Money Laundering database to perform "Know Your Customer" procedures and risk assessment procedures of clients. This enhances the Group's understanding on their financial background, trading experience and risk tolerant level to provide suitable products and/or services. Group's products and services are in line with the requirements of ISO 9001 for quality management to ensure that their products and services consistently meet customer's requirements.

Online transaction system is applied to support the provision of products and services via internet. Monitoring function is available for checking the financing status of individual client, so that more timely suggestion on products and services can be provided. A dual-wire network is applied to the online system to avoid any loss suffered by the clients due to wire-network failures or delays in transactions. Backup server is standby to prevent any data loss. A comprehensive emergency plan has been set up so that relevant departments would conduct emergency drills regularly. This ensures proper measures are taken efficiently to minimise any potential client losses.

Advertising

Marketing staff should obtain the written approval of the relevant department head and the Legal and Compliance Department ("L&C") before publication of advertisement and sales literature. Advertisements should not contain information, words or phrases that may reasonably give investors the impression that they can make a profit or that profit is guaranteed. Advertisements of the Group should not include any statement, promise or forecast which is false, misleading or deceptive. Information provided by the Group to the clients is committed to be true, accurate and not misleading and makes disclosure of all relevant and material information in its dealings with the clients which complies with the relevant laws and regulations such as Securities and Futures Ordinance and Insurance Companies Ordinance.

SOCIAL SUSTAINABILITY (Continued)

OPERATING PRACTICES (Continued)

Product Responsibility (Continued)

Complaint Handling Procedures

The Group strives to provide a prompt response to clients' complaints and opinions. Through service hotline, designated email account, agents and government authorities, the Group obtains first-hand and intimate knowledge on the trends of clients' needs and enhances its brand awareness. L&C is responsible for replying the client on acknowledgement of the complaint within short period, identify the issues and make corrections after investigation. After internal discussion, a formal reply will be issued to client within a short time frame from the date of complaint. Inspection report will be prepared to record the complaint and share among the Group to prevent any recurrence of the same issues. If there are significant matters, the Group will notify relevant party(ies) in accordance with the rules and regulations of SFC and other relevant regulatory units. The Group is certified at ISO10002 through a transparent complaint handling process.

Clients' Data Protection

The Group emphasises the importance of protecting the privacy of the clients and is committed to the compliance of the Personal Data (Privacy) Ordinance and other relevant codes of practice issued by the Privacy Commissioner for Personal Data at all times in collection, use and holding of client information. Compliance manual has set out the specific processes for handling and protecting client data. The Group owes a contractual obligation of confidentiality to the clients in terms of their information, and therefore treats the transaction record and personal information of the clients and former clients as private and confidential, subject to disclosure requirements under the relevant laws, rules and regulations that the Group is required to comply with.

Information collected would only be used for the purpose for which it has been collected and clients would be told about how the data collected would be used. The Group prohibits the provision of consumer information to a third party without authorisation from the clients. Clients remain the rights to review and revise their data, and also remain the right to opt out from any direct marketing activities. If there are any requests for client information or the business, L&C will be consulted to ensure the appropriateness of disclosure under the law and policies. All of these measures strengthen the Group product offerings and service quality, and consequently enable it to stay competitive in the market.

Intellectual Property Rights

The Group manages and protects its intellectual property rights through registration in local authorities. The Group obtains proper licenses on software and information that are used in business operation. Any duplication or downloading of information, software and images on the internet should be approved by relevant department.

SOCIAL SUSTAINABILITY (Continued)

OPERATING PRACTICES (Continued)

Anti-corruption

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the laws and regulations relating to anti-corruption and bribery irrespective of the area or country where the Group is conducting business. The Group has formulated and strictly enforced the anti-corruption policies as stipulated in Prevention of Bribery Guideline（防貪指引）that the Group will not tolerate any form of corruption. All employees are expected to discharge their duties with integrity and self-discipline. They should abstain from engaging in any activities related to bribery, extortion, fraud and money-laundering which may exploit their positions against the Group's interests in the course of employment. Declaration should be made by the employees in writing to L&C for any financial interests, directly or indirectly, in any business which competes with the Group or with which the Group has business dealings. Breaching of the rules will be disciplined. Such employee may be subject to termination of employment and may be prosecuted under Prevention of Bribery Ordinance.

Whistle-blowers can report verbally or in writing to their immediate supervisor or L&C with full details and supporting evidence of suspected misconduct or malpractice. The Group advocates a confidentiality mechanism to protect the whistle-blowers without fear of threats. Where criminality is suspected after consulting L&C, a report is made to the relevant regulators or law enforcement authorities when L&C considers necessary.

EMPLOYMENT AND LABOUR PRACTICES

Employment

The Group treasures talent as its most valuable asset and key for driving success and maintaining sustainable development. The Group strives to provide its staff with a safe and suitable platform for career development and advancement.

The Group's human resources policies strictly adhere to the applicable employment laws and regulations in Hong Kong, including:

- Employment Ordinance;
- Employees' Compensation Ordinance;
- Minimum Wage Ordinance;
- Mandatory Provident Fund Schemes Ordinance;
- Disability Discrimination Ordinance;

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Employment (Continued)

- Family Status Discrimination Ordinance;
- Race Discrimination Ordinance; and
- Sex Discrimination Ordinance.

During the Year, the Group has complied with the aforesaid laws. This ensures that the Group provides fair welfare and benefits, and a fair working environment to its employees. The Group's Human Resources Department reviews and updates relevant company policies regularly in accordance with the latest laws and regulations.

Compensation

Talent acquisition is vital to the Group's business future development. To attract high-calibre workforce, the Group offers competitive and fair remuneration and benefits based on individuals' performance, professional qualifications and experience. The Group also makes reference to market benchmarks and the Group's financial performance. In order to motivate and reward existing management and employees, the Group conducts regular compensation review according to the overall market environment, inflation, profitability of the Group and employee performance in the past to determine the staff salary adjustment to ensure that they are recognised by the Group appropriately with regard to their working efforts and contributions.

Working Hours and Employees' Benefits

The working hours and rest period for employees determined by the Group are in line with local employment laws and employment contracts with employees.

The Group strives to implement family-friendly employment policies in order to provide a supportive and pleasant workplace for the employees. In addition to statutory holidays stipulated by the employment law of the local government, employees may also be entitled to additional leave entitlements such as marriage leave and examination leave. The Group believes that the win-win situation can be achieved by mutual understanding between employers and employees in striking a balance between their families and work. In the financial year of 2016, the Group was recognised as Family-Friendly Employer under 2015/16 Family-Friendly Employers Award Scheme by Home Affairs Bureau and Family Council.

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Employment (Continued)

Equal Opportunity and Anti-discrimination

As an employer that supports equal opportunity, the Group is committed to creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all human resources and employment decisions. For instance, training and promotion opportunities, dismissals and retirement are determined irrespective of their gender, race, age, disability, family status, marital status, sexual orientation, religion beliefs, nationality or any other non-job related factors in all business units. The Group enforces zero tolerance to any workplace discrimination, harassment or victimisation in accordance with relevant government legislation, ordinances and regulations. If there is any violation of anti-discrimination incidents, employees can report to Human Resources Department. Human Resources Department is responsible for strictly complying with local and corporate regulations on assessing, dealing with, recording and taking disciplinary actions on such events.

Staff Relations and Communications

In terms of internal coaching and communication, effective two-way communication between general staff and managerial staff is highly encouraged. Employees maintain timely and smooth communication with the management and colleagues within the Group through the office automation system, emails, training, website and meetings. The interactive communication system benefits the Group's decision-making process and results in a barrier-free employer-employee relationship. In addition, the Group hosted a series of activities for the employees in the financial year of 2016, such as gathering, spring lunch and health seminar. These events have helped the employees relieve stress, and served to strengthen the Group's corporate culture of the spirit of solidarity and cohesion among its employees.

Health and Safety

To provide and maintain good working conditions and a safe and healthy working environment, the Group's safety and health policies are in line with various laws and regulations stipulated by the Government of Hong Kong, including the Occupational Safety and Health Ordinance and Employees' Compensation Ordinance.

The Group has established a comprehensive mechanism to ensure the workplace safety by incorporating a range of occupational health and safety measures for all of its employees in the office. The Group prohibits smoking and drinking liquor in workplace, carries out the disinfection treatment of carpets and pest control and sets up first-aid boxes with an aim to maintain a clean, tidy, smoke-free, non-toxic, non-hazardous, healthy and safe working environment in the office. Besides, the Group held occupational health trainings to enhance the employees' health awareness. The Group targets to achieve an accident-free workplace environment.

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Development and Training

The Group offers different training and development opportunities to its staff in order to strengthen work-related skills and knowledge and improve operational efficiency and productivity. The Group has a training room in the office, which is equipped with professional training facilities for organising training programs to the staff. The Group emphasises on staff's personal development. Internal and external training programs are provided to the staff to strengthen work-related skills and knowledge on products, regulations, compliance procedures and market updates such as anti-money laundering and new regulatory updates. Besides, the Group encourages its staff to be aware of the importance on work-life balance which has offered health trainings and activities throughout the year.

Directors' trainings are offered regularly to encourage the Group's Directors to attend the seminars and courses on relevant topics as continuing professional development. Most of the Group's training programs are qualified for Continuous Professional Training hours for licensed employees, which encourage the staff to retain professional qualifications. Employees sitting for public or professional examinations may entitle to examination leave or subsidies upon management approval.

Labour Standards

The Group strictly abides by the Employment Ordinance of Hong Kong and other related labour laws and regulations in Hong Kong to prohibit any child and forced labour employment. To combat against illegal employment on child labour, underage workers and forced labour, prior to confirmation of employment, the Group's human resources staff requires job applicants to provide valid identity documents to ensure that the applicants are lawfully employable. The Human Resources Department is responsible for monitoring and ensuring compliance with the latest and relevant laws and regulations that prohibit child labour and forced labour.

COMMUNITY

Community Investment

With the spirit of "Taking from the community, and giving back to the community"（取之於社會，用之於社會）, the Group places great emphasis on cultivating social responsibility awareness among its staff and encourages them to participate in diversified and charitable community activities.

The Group uses its resource to support the community in various ways. With the establishment of the Group's volunteer team from different departments, the Group has encouraged its employees and their families to participate in various voluntary events and support people in need. For example, the Group has sponsored its staff and their family members to participate in social activities such as the "Walks for Millions" to encourage them in establishing physical and mental health and promoting social harmony. The Group has also participated "The 2016 Community Chest Dress Casual Day" to perform its corporate social responsibility.

COMMUNITY (Continued)

Community Investment (Continued)

By actively undertaking socially responsible initiatives, the Group has worked with local charities to actively build a harmonious relationship within the community such as visiting elderly homes and sending gifts to the elderly with The Free Methodist Church of Hong Kong (香港循理會) in the financial year of 2016. The Group has obtained various awards and certifications as below in recognition of the continuous contribution to the community:

- "Caring Company" (商界展關懷) by The Hong Kong Council of Social Service (香港社會服務聯會) for the ninth consecutive year. The scheme is building strategic partnership between the businesses and non-profit organisations to promote corporate social responsibility. Each year, the Group sets up targets or new elements to demonstrate good corporate citizenship, such as employee activities or volunteer activities are held on a regular basis to enhance employee awareness of corporate social responsibility and encourage them to care for the community.

- Certificates of Appreciation for "Corporate Volunteer Matching Scheme" (企業義工配對計劃) by The Community Chest (the "Chest"). Through the Chest, the Group can participate in the voluntary services for the Chest member social welfare agencies. Looking ahead, the Group will continue to contribute more resources by taking part in charity and sponsoring activities.

- Bronze Award for Volunteer Service (Organization) (義務工作嘉許狀-銅狀) by Social Welfare Department. The Group participated in the volunteer activities which were organised by the Social Welfare Department for the fifth consecutive year. The award promotes the enterprises and their employees in Hong Kong to actively participate in volunteer activities and contribute to a caring community. When the enterprise accumulates specific number of hours devoting in volunteer activities, Social Welfare Department will verify and issue a certificate for appreciation to the enterprise.

These awards are the great encouragement to the Group's participation in voluntary works.

ENVIRONMENTAL SUSTAINABILITY

In recent decades, environmental protection issues are becoming more and more important as a result of global climate change, air and water pollution caused by human activities. The Group has been paying great attention to protecting the environment and taking the responsibilities to curb global warming. The Group strives to protect the environment by integrating a range of environmental initiatives across its business and commits to minimise the environmental impact of the Group's business operation by reinforcing environmental awareness and implementing measures for use of resources in responsible manner, energy saving and waste management.

ENVIRONMENTAL SUSTAINABILITY (Continued)

Emissions

As a financial service provider, the Group's business does not have significant impact on the environment in terms of discharges into water and land, air and greenhouse gas emissions and hazardous and non-hazardous waste. The Group endeavours to operate in an environmental sustainable manner to make contributions to curb global climate change.

To ensure the minimization of the impact of the Group's business to the environment, the Group has adopted and implemented policies in environmental protection procedures to enable it to commit to the long-term sustainability of the environment and communities in which it operates. During the Year, the Group has complied with all relevant environmental laws and regulations that have a significant impact on the Group's business where the Group is operating, which includes the Air Pollution Control Ordinance; Water Pollution Control Ordinance; Hazardous Chemicals Control Ordinance; and Waste Disposal Ordinance.

Wastewater and Solid Waste Produced

The wastewater and solid waste generated from the Group are mainly the domestic sewage and garbage by its staff from daily operation activities in office. The Group continuously encourages its staff to make contribution on carbon emission reduction and energy saving by various measures such as recycling the toner cartridges for copiers and printers and using LED spot lights or down lights and T5 fluorescent tubes regularly. The Group is dedicated to protecting the environment by taking every simple action if feasible.

Green House Gas ("GHG") Emission

The GHG emission from the Group is mainly from its electricity consumed by daily operation in office. To reduce the amount of carbon emission, the Group implements several practical measures on saving energy as further described in the next section "Use of Resources". With sound awareness on saving energy, along with the effective implementation of the corresponding policies and measures by employees, the Group targets to reach a positive reduction of carbon emission progressively.

Hazardous and non-hazardous waste

In view of its business nature, the Group is not aware of any significant generation of hazardous waste.

Use of Resources

The Group strives to save energy and resources through persistent implementation of internal policies in order to ensure that resources are consumed in an efficient and responsible manner. To ensure green policies are adopted in daily operations, the Group has issued written guideline in respect of paper saving, energy saving and recycling of office stationery. The guideline has been circulated regularly for the staff to follow.

ENVIRONMENTAL SUSTAINABILITY (Continued)

Use of Resources (Continued)

Electricity Consumption

All of the electricity consumption of the Group directly comes from the lighting, air-conditioners, computers and other office equipment in the office. The Group is committed to electricity saving in daily operation by the following measures:

- Switch off all idle copy machines, fax machines, computers and lights before the last staff leave the office;
- Keep the office equipment clean (such as refrigerator, air-conditioner and paper shredder) and ensure that they run efficiently;
- Add timer to water dispenser to save energy consumption;
- Turn off office equipment like paper shredder, cheque writer or fan whenever they are not in use; and
- Unplug chargers when they are not in use.

Water Consumption

Water consumption by the Group is entirely generated from the domestic use during working hours. In order to promote better utilisation of water resources and save water, the Group has executed the following measures during daily operation:

- Remind staff to turn off water tap after use in order to save water through notice; and
- Present “Saving Water Resource” posters in prominent places to encourage water conservation.

THE ENVIRONMENT AND NATURAL RESOURCES

The main natural resources consumed by the Group include paper from office printing machines and the daily use of tissues by staff. The Group has taken a step forward in improving the efficiency use of nature resources. The Group has put great efforts to implement the following simple actions in order to minimise the impacts to the environment from the daily operation of the Group:

- Apply an office automation system to reduce the use of paper forms and documents;
- Set double-sided printing/copying as default setting for printers;
- Recycle used stationery whenever possible;
- Record the consumption of each staff by the use of access card for printing or copying for control purpose;
- Preview documents to adjust page layout or margins before printing with an aim to save papers;
- Print out the exact amount of copies to avoid wastage;
- Use office automation system, emails or notice board for internal documentation;
- Send and use e-copies of agenda and minutes for meetings whenever possible/appropriate;
- Save and avoid waste of tissues; and
- Use the back side of old documents for printing or as draft paper.

Furthermore, the Group devotes to enhance employees' awareness of environmental protection by implementing various environmental policies and holding environmental protection activities such as tree–planting. During the year, the Group took part in the World Wildlife Fund's "Earth Hour", which encouraged the staff to turn off the non-essential lights at a designated time for the sake of energy saving and carbon emission reductions. The Group has been awarded "Hong Kong Awards for Environmental Excellence" by Environmental Campaign Committee from 2011 to 2016 which the Group has been recognized in all-round and outstanding environmental performance within the designated sectors.

The Group sets up annual target in environmental protection by providing an environmental-friendly environment in the business operation. The Group also encourages responsible departments to participate in external environmental seminars to raise their awareness about the environment and strive for environmental awards.

DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2016 by business segment is set out in note 4 to the consolidated financial statements. The activities of the Group are mainly carried out in Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59.

The Directors do not recommend the payment of a final dividend *(for the six months ended 31 December 2015: Nil)*.

BUSINESS REVIEW

Business review of the Group for the year ended 31 December 2016 is set out in the Chairman's Statement and Management Discussion and Analysis on pages 9 to 20 of this report respectively.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2016, as far as the Board and the management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2016, there were no material and significant dispute between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operating in compliance with the applicable environmental laws as well as protecting the environment by minimizing the negative impact of the Group's existing business activities on the environment. Details are set out in the Environmental, Social and Governance Report on pages 32 to 43 of this report.

RESERVES

Movements in reserves of the Group and of the Company during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on page 60 and note 35(b) to the consolidated financial statements of this report respectively.

As at 31 December 2016, the reserves of the Company available for distribution to Shareholders amounted to HK$Nil *(at 31 December 2015: HK$Nil)*.

DONATIONS

During the year ended 31 December 2016, the Group made charitable and other donations amounted to HK$20,600 *(for the six months ended 31 December 2015: HK$6,000)*.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 10 to the consolidated financial statements.

SHARES ISSUED

Details of the Company's shares issued during the year ended 31 December 2016 are set out in note 25 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 134 of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2016.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors:	Mr. WU Jian *(Chairman) (appointed as the Chairman of the Board on 1 November 2016)*
	Mr. YU Weijia *(Chairman) (resigned on 29 August 2016)*
	Mr. PU Rui *(Chief Executive Officer)*
	Mr. ZHANG Chunyong
	Mr. XU Mingdi
	Ms. LIANG Yiqing
Independent Non-executive Directors:	Professor WU Jun
	Mr. MENG Gaoyuan
	Mr. GUAN Wenwei *(appointed on 19 September 2016)*
	Mr. LAM Kwok Cheong *(resigned on 19 September 2016)*

In accordance with Bye-laws 86(2) and 87 of the Company's Bye-laws, Mr. WU Jian, Professor WU Jun, Mr. MENG Gaoyuan and Mr. GUAN Wenwei will, retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

DIRECTORS (Continued)

Directors of Subsidiaries

Other than the Directors named under "DIRECTORS" above, the persons who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report included Mr. LUO Yi, Mr. ZHANG Yi, Mr. LIN Peng, Ms. WONG Lai Ping, Vicky, Mr. CHEUNG Wai Yin, Mr. NIP Yiu Chuen, Ms. LAU Yim Ling, Elaine, Mr. YING Yan Kei and Brian Douglas Burkholder.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's memorandum of association and bye-laws, subject to the statutes, every Directors shall be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of their office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the Directors.

DIRECTORS' SERVICE CONTRACTS

Save as disclosed above, none of the Directors has entered into nor is proposing to enter into a service contract with the Company or its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out in the section "DIRECTORS AND SENIOR MANAGEMENT" on pages 4 to 8 of this report.

RELATED PARTY TRANSACTIONS

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are set out in note 28 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as those disclosed under "RELATED PARTY TRANSACTIONS" above, no contracts of significance in relation to the Group's businesses to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2016, none of the Directors, the chief executives and their associates of the Company had any interests and short positions in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules on the Stock Exchange.

EQUITY-LINKED AGREEMENTS

Apart from those disclosed in the "Share Option Schemes" below or in note 26 to the consolidated financial statements, no equity-linked agreements were entered into during the year or subsisted at end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed in the "Share Option Schemes" below and in note 26 to the consolidated financial statements, at no time during the year ended 31 December 2016 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under the age of 18 to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

2004 Share Option Scheme

The 2004 share option scheme (the "2004 Share Option Scheme") was adopted on 30 January 2004. The summary of the 2004 Share Option Scheme is as follows:

1. The purposes of the 2004 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, Directors, consultants, business associates and advisors and to promote the success of the Group.

2. The participants of the 2004 Share Option Scheme include all employees, executive or non-executive directors, consultants, business associates and advisors of the Company or any of its subsidiaries.

3. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.

4. Share options may be exercised in accordance with the terms of the 2004 Share Option Scheme at any time during a period not less than one year and not more than ten years from the date of grant of the relevant option.

DIRECTORS' REPORT

SHARE OPTION SCHEMES (Continued)

2004 Share Option Scheme (Continued)

5. No consideration for the grant of an option is required to be paid upon acceptance of the option.

6. The exercise price for the shares shall be determined by the Board of Directors, but shall not be less than the highest of (i) the closing price of each share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares.

7. The 2004 Share Option Scheme was terminated on 12 November 2013. Options granted under the 2004 Share Option Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of 2004 Share Option Scheme.

8. The total number of shares issuable upon exercise of outstanding options are nil as at the year-end date.

Details of the share options during the year ended 31 December 2016 under the 2004 Share Option Scheme are as follows:

	Number of shares issuable under the options						
	As at 01/01/2016 *('000)*	**Lapsed during the year** *HK$*	**As at 31/12/2016** *('000)*	**Exercise price** *HK$*	**Grant date**	**Exercise period**	**Closing price per share immediately before the grant date** *HK$*
Continuous contract employee(s)	200	(200)	–	0.8880	04/01/2011	04/01/2012-03/01/2021	0.840
Total	**200**	(200)	–				

Note: No share options were granted, exercised or cancelled during the year ended 31 December 2016.

2013 Share Option Scheme

At the annual general meeting of the Company held on 12 November 2013, the shareholders of the Company approved the adoption of a new share option scheme (the "2013 Share Option Scheme"). The summary of the 2013 Share Option Scheme is as follows:

1. The purposes of the 2013 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants, business associates and advisors and to promote the success of the Group.

SHARE OPTION SCHEMES (Continued)

2013 Share Option Scheme (Continued)

2. The participants of the 2013 Share Option Scheme include all employees, executive or non-executive directors, consultants, business associates and advisors of the Company or any of its subsidiaries.

3. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.

4. Share options may be exercised in accordance with the terms of the 2013 Share Option Scheme at any time during a period not less than one year and not more than ten years from the date of grant of the relevant option.

5. No consideration for the grant of an option is required to be paid upon acceptance of the option.

6. The exercise price for the shares shall be determined by the Board of Directors, but shall not be less than the highest of (i) the closing price of each share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares.

7. The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption.

8. During the year ended 31 December 2016, no share option was granted, exercised, cancelled or lapsed under the 2013 Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the persons (other than Directors and chief executive of the Company whose interests or short positions have been disclosed above) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and to the best knowledge of the Company are as follows:

Interests in long positions in the shares of the Company

Name of Shareholders	*Note*	Capacity and nature of interest	Number of ordinary shares held	Approximate % of holding
Southwest Securities International Investment Limited ("SSII")	*1*	Beneficial owner	1,811,796,822	74.22%
Southwest Securities Co. Ltd ("SWSC")	*1*	Interest of controlled corporation	1,811,796,822	74.22%

Note:

1. SSII is wholly-owned by SWSC. SWSC is therefore deemed, or taken to be, interested in all shares which SSII is interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2016, the Company has not been notified of any substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under Section 336 of the SFO.

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

Change of information of the Directors, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:–

- Mr. YU Weijia resigned as the Chairman of the Board, an Executive Director and the chairman of nomination committee of the Company with effect from 29 August 2016.

- Mr. GUAN Wenwei was appointed as the Independent Non-executive Director and a member of each of the audit committee, remuneration committee and nomination committee of the Company in place of Mr. LAM Kwok Cheong with effect from 19 September 2016.

- Mr. WU Jian was appointed as the Chairman of the Board and the chairman of nomination committee of the Company with effect from 1 November 2016.

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda that would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the percentage of the Group's turnover attributable to the Group's largest client and the five largest clients in aggregate were 24.0% and 51.7% respectively. None of the Directors of the Company; or any of their associates; or any shareholders (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) has any beneficial interest in any of the Group's five largest customers.

The Group has no major supplier due to the nature of principal activities of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The main risks for the Group include interest rate risk, credit risk, foreign exchange risk, liquidity risk and equity price risk. Details of the main risks and risk management are set out in note 30 to the consolidated financial statements.

The principal risks and uncertainties facing the Group for the year ended 31 December 2016 can be found in the Chairman's Statement and the Management Discussion and Analysis on pages 9 to 20 of this report.

DIRECTORS' REPORT

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by Pan-China (H.K.) CPA Limited, who retire and, being eligible, offer itself for re-appointment in the forthcoming AGM.

By order of the Board

WU Jian
Chairman

Hong Kong, 24 March 2017

PAN-CHINA (H.K.) CPA LIMITED Certified Public Accountants

天健(香港)會計師事務所有限公司

To the shareholders of
Southwest Securities International Securities Limited
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Southwest Securities International Securities Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 133, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Key audit matters

Valuation of derivative financial liability – Cross-currency swap

As disclosed in note 20 to the consolidated financial statements, as at 31 December 2016, the Group had a cross-currency swap entered into with a bank to swap the Renminbi Bonds principal and the relevant interest payments into Hong Kong dollars. The swap had been classified as a derivative and measured at fair value at the end of each reporting period. As at 31 December 2016, the fair value of the cross-currency swap classified as a derivative liability amounted to HK$186,900,000, with a fair value loss of HK$59,715,000 being recognised in profit or loss for the year ended 31 December 2016.

The management of the Company had engaged an independent valuer to estimate the fair value of the cross-currency swap, which was determined using the discounted cash flow method. The valuation requires significant management judgement. Accordingly, we have identified the fair value measurement of cross-currency swap as a key audit matter.

How our audit addressed the key audit matter

Our procedures in relation to management's estimate of the fair value of the cross-currency swap included:

We read the terms of the cross-currency swap and valuation report prepared by the independent valuer engaged by the Group. We discussed with the independent valuer the appropriateness of assumptions and inputs being used in determining the fair value of the cross-currency swap and performed substantive testing on certain inputs. Also, we evaluated the independent valuer's competence, capabilities and objectivity in relation to this engagement.

KEY AUDIT MATTERS (Continued)

Key audit matters (Continued)

Recoverability of certain margin loan receivables

During the year ended 31 December 2016, an impairment loss on certain individual margin clients was made amounting to HK$80,575,000. The carrying amounts of these margin loan receivables after provision for impairment amounted to HK$37,204,000, net of provision amount of HK$80,575,000. As explained in note 17(b)(ii) to the consolidated financial statements, these individually impaired margin clients related to customers that were long outstanding. Having considered the collectability of accounts receivable from these margin clients taking into account the value of collaterals, the management of the Company concluded that impairment was necessary.

We have identified the recoverability of certain margin loans as a key audit matter because of the significant management judgement required in performing the impairment assessment and significance of the amount involved.

How our audit addressed the key audit matter (Continued)

Our procedures in relation to management's impairment assessment of certain margin loan receivables included:

(i) discussed with management in relation to the recoverability of these accounts receivable;

(ii) discussed with management the impairment policy and how much impairment loss should be recognised;

(iii) assessed the reasonableness of the impairment assessment made by management, including the evaluation of the sufficiency of impairment amount taking into account subsequent settlements and the value of the collaterals of these receivables.

OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report, other than the consolidated financial statements and our auditor’s report thereon (“Other Information”).

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 DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the Directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors of the Company 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. Our report is made solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda (as amended), and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

From the matters communicated with the 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 director on the audit resulting in this independent auditor's report is Lee Ping Kai.

Pan-China (H.K.) CPA Limited
Certified Public Accountants

Lee Ping Kai
Practising Certificate number: P02976
11/F., Hong Kong Trade Centre,
161-167 Des Voeux Road Central, Hong Kong

Hong Kong, 24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	**1/1/2016 – 31/12/2016 HK$'000**	1/7/2015 – 31/12/2015 HK$'000
Revenue	3	**92,038**	16,024
Other income and gains	5	**140,495**	206,877
Employee benefit expenses	6a	**(74,298)**	(38,829)
Depreciation		**(5,147)**	(2,007)
Commission expenses		**(12,173)**	(7,811)
Fair value change on derivative component of convertible bonds	12	**(9,405)**	–
Fair value change on derivative financial assets	16	**5,250**	601
Fair value change on derivative financial liabilities	20	**(59,715)**	(73,619)
Other operating expenses		**(124,740)**	(20,171)
Finance costs	6c	**(119,491)**	(62,760)
(Loss) Profit before tax	6	**(167,186)**	18,305
Income tax credit (expense)	8	**263**	(4,680)
(Loss) Profit for the year/period attributable to equity shareholders of the Company		**(166,923)**	13,625
Other comprehensive loss			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		**(542)**	(580)
Change in fair value on available-for-sale financial assets	13	**(5,117)**	(38,981)
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets	13	**–**	(95,246)
Other comprehensive loss for the year/period, net of tax		**(5,659)**	(134,807)
Total comprehensive loss for the year/period attributable to equity shareholders of the Company		**(172,582)**	(121,182)
(Loss) Earnings per share			
– Basic *(HK cents)*	9	**(6.838)**	0.558
– Diluted *(HK cents)*	9	**(6.838)**	0.558

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Attributable to equity shareholders of the Company							
	Note	Share capital HK$'000	Investment revaluation reserve HK$'000	Share premium HK$'000	*Capital reserve HK$'000	Foreign exchange reserve HK$'000	Accumulated losses HK$'000	Total reserve HK$'000	Total HK$'000
At 1 July 2015		244,121	127,275	214,319	40,836	886	(98,604)	284,712	528,833
Profit for the period		–	–	–	–	–	13,625	13,625	13,625
Exchange difference on translation of financial statements of foreign operations		–	–	–	–	(580)	–	(580)	(580)
Change in fair value on available-for-sale financial assets	13	–	(38,981)	–	–	–	–	(38,981)	(38,981)
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets	13	–	(95,246)	–	–	–	–	(95,246)	(95,246)
Other comprehensive loss for the period, net of tax		–	(134,227)	–	–	(580)	–	(134,807)	(134,807)
Total comprehensive (loss) income for the period		–	(134,227)	–	–	(580)	13,625	(121,182)	(121,182)
At 31 December 2015		244,121	(6,952)	214,319	40,836	306	(84,979)	163,530	407,651

		Attributable to equity shareholders of the Company							
	Note	**Share capital HK$'000**	**Investment revaluation reserve HK$'000**	**Share premium HK$'000**	***Capital reserve HK$'000**	**Foreign exchange reserve HK$'000**	**Accumulated losses HK$'000**	**Total reserve HK$'000**	**Total HK$'000**
At 1 January 2016		**244,121**	**(6,952)**	**214,319**	**40,836**	**306**	**(84,979)**	**163,530**	**407,651**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**(166,923)**	**(166,923)**	**(166,923)**
Exchange difference on translation of financial statements of foreign operations		**-**	**-**	**-**	**-**	**(542)**	**-**	**(542)**	**(542)**
Change in fair value on available-for-sale financial assets	13	**-**	**(5,117)**	**-**	**-**	**-**	**-**	**(5,117)**	**(5,117)**
Other comprehensive loss for the year, net of tax		**-**	**(5,117)**	**-**	**-**	**(542)**	**-**	**(5,659)**	**(5,659)**
Total comprehensive loss for the year		**-**	**(5,117)**	**-**	**-**	**(542)**	**(166,923)**	**(172,582)**	**(172,582)**
At 31 December 2016		**244,121**	**(12,069)**	**214,319**	**40,836**	**(236)**	**(251,902)**	**(9,052)**	**235,069**

* The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the ordinary shares of these subsidiaries in issue as at 30 June 2001 which were converted into deferred non-voting share capital on 11 January 2002.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

	Note	At 31/12/2016 HK$'000	At 31/12/2015 HK$'000
Non-current assets			
Property, plant and equipment	10	**15,017**	7,261
Intangible assets	11	**–**	–
Held-to-maturity investments	12	**–**	350,486
Available-for-sale financial assets	13	**84,535**	70,455
Other non-current assets	14	**4,670**	5,124
		104,222	433,326
Current assets			
Held-to-maturity investments	12	**111,170**	–
Available-for-sale financial assets	13	**233,477**	–
Loans and advances		**41**	70
Financial assets at fair value through profit or loss	15	**396,717**	447,088
Derivative financial assets	16	**5,851**	601
Accounts receivable	17	**391,477**	895,496
Deposits, prepayments and other receivables	18	**276,628**	156,171
Pledged deposits	19	**1,247**	2,028
Cash and bank balances	19	**623,543**	474,255
		2,040,151	1,975,709
Current liabilities			
Derivative financial liabilities	20	**187,230**	102,129
Accounts payable	21	**20,777**	103,943
Other payables and accrued charges	22	**42,140**	35,864
Tax payable		**–**	5,326
		250,147	247,262
Net current assets		**1,790,004**	1,728,447
Total assets less current liabilities		**1,894,226**	2,161,773
Non-current liabilities			
Bonds payable	23	**1,659,157**	1,754,122
NET ASSETS		**235,069**	407,651
Capital and reserves			
Share capital	25	**244,121**	244,121
Reserves		**(9,052)**	163,530
TOTAL EQUITY		**235,069**	407,651

The consolidated financial statements on pages 59 to 133 were approved and authorised for issue by the Board of Directors on 24 March 2017 and are signed on its behalf by:

WU Jian
Director

PU Rui
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	**1/1/2016 – 31/12/2016 HK$'000**	1/7/2015 – 31/12/2015 HK$'000
OPERATING ACTIVITIES			
(Loss) Profit before tax		**(167,186)**	18,305
Adjustments for:			
Depreciation		**5,147**	2,007
Fair value change on derivative component of convertible bonds		**9,405**	–
Fair value change on derivative financial liabilities		**59,715**	73,619
Fair value change on derivative financial assets		**(5,250)**	(601)
Gain on disposal of available-for-sale financial assets		**–**	(95,246)
Impairment loss on accounts receivable		**81,275**	–
Reversal of allowance for doubtful debts		**(35)**	–
Exchange gain		**(94,082)**	(96,440)
Interest income		**(42,516)**	(10,586)
Interest expenses		**119,491**	62,760
Dividend income		**(2,019)**	(2,181)
Changes in working capital:			
Decrease in other non-current assets		**454**	1,347
Decrease in loans and advances		**29**	113
Decrease (Increase) in financial assets at fair value through profit or loss		**50,371**	(256,332)
Decrease (Increase) in accounts receivable		**422,779**	(685,370)
Increase in deposits, prepayments and other receivables		**(114,389)**	(145,142)
Increase in derivative financial liabilities held for trading		**330**	–
(Decrease) Increase in accounts payable		**(83,166)**	59,783
Increase in other payables and accrued charges		**5,920**	10,098
Cash generated from (used in) operations		**246,273**	(1,063,866)
Hong Kong Profits Tax paid		**(5,063)**	(1,097)
Interest received		**2,496**	3,206
Interest paid		**(7)**	(3)
Net cash generated from (used in) operating activities		**243,699**	(1,061,760)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	**1/1/2016 – 31/12/2016 HK$'000**	1/7/2015 – 31/12/2015 HK$'000
INVESTING ACTIVITIES			
Dividend received		**2,019**	2,181
Interest received from held-to-maturity investments		**23,493**	2,842
Acquisitions of held-to-maturity investments		**–**	(357,103)
Acquisitions of available-for-sale financial assets	*13*	**(19,197)**	(76,160)
Interest received from cross-currency swap, net		**25,056**	15,539
Proceeds from disposal of available-for-sale financial assets		**–**	95,282
Payment for purchase of property, plant and equipment		**(13,160)**	(4,355)
Net cash generated from (used in) investing activities		**18,211**	(321,774)
FINANCING ACTIVITIES			
Interest paid on bonds issued		**(112,861)**	(60,390)
Net cash used in financing activities		**(112,861)**	(60,390)
Net increase (decrease) in cash and cash equivalents		**149,049**	(1,443,924)
Cash and cash equivalents at the beginning of the year/period		**476,283**	1,920,787
Effect on exchange rate changes		**(542)**	(580)
Cash and cash equivalents at the end of the year/period	*19*	**624,790**	476,283

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

CORPORATE INFORMATION

Southwest Securities International Securities Limited (the "Company") is a company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company of the Company is Southwest Securities International Investment Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by Southwest Securities Co., Ltd. ("SWSC"). SWSC is the ultimate holding company of the Company, which is incorporated in the People's Republic of China (the "PRC") with limited liability and its shares are listed on the Shanghai Stock Exchange.

Change of financial year end date

The financial year end date of the Company and its subsidiaries, other than 西證諮詢服務(深圳)有限公司 and 西證(大連)投資管理有限公司, of which the financial year end date is 31 December, was changed from 30 June to 31 December with effect from the financial period ended 31 December 2015. The reason for the change is to coincide with the financial year end date of SWSC, and thereby facilitating the preparation of SWSC's consolidated financial statements. As a result of the change, the current financial year covered a twelve-month period ended on 31 December 2016 and the last financial period covered a six-month period from 1 July 2015 to 31 December 2015. The comparative amounts for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and related notes are not entirely comparable.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated 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 (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis except for certain available-for-sale financial assets and financial assets/liabilities at fair value through profit or loss, which are measured at fair value as explained in the accounting policies set out below.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the consolidated financial statements for the six months ended 31 December 2015.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2016. The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKASs 16 and 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKASs 16 and 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27	*Equity Method in Separate Financial Statements*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKFRS	*Annual Improvements to HKFRSs 2012 – 2014 Cycle*

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2016. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impacts of these amendments are described below.

a) Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that an entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. The amendments also give guidance on the bases of aggregating and disaggregating information for disclosure purposes. The amendments emphasize that an entity should consider whether to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Furthermore, the amendments require that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

The application of these amendments has had no effect on the Group's consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

b) Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue-based amortisation is not an appropriate basis for amortisation of an intangible asset. The amendments states that such a presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

With regard to the Group's property, plant and equipment, the Group did not use revenue-based depreciation method and hence the amendments have not have any impact on the Group's financial position and financial performance. Rather, the Group has been using the straight-line method for depreciation for its property, plant and equipment.

c) Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments define a bearer plant that is a living plant that:

a) is used in the production or supply of agricultural produce;

b) is expected to bear produce for more than one period; and

c) has a remote likelihood of being sold as agricultural produce except for incidental scrap sales.

The amendments require that biological assets that meet the definition of a Bearer Plant should be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

d) Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The amendments mainly clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The consolidation exception set out in the amendments will not be applicable to the Company and hence the application of these amendments has had no impact on the Group's consolidated financial statements.

e) Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards should be applied. The amendments also require that a joint operator to disclose the relevant information required by HKFRS 3 and other standards for business combinations. The amendments require prospective application; prospectively in annual periods beginning on or after 1 January 2016. The Group did not have any such transactions in the current year and hence the application of these amendments has had no impact on the Group's consolidated financial statements.

f) Annual Improvements to HKFRSs 2012 - 2014 Cycle

The annual improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarized below.

Firstly, the amendments to HKFRS 5 introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply.

Secondly, the amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

f) Annual Improvements to HKFRSs 2012 - 2014 Cycle (Continued)

Thirdly, the amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. The Group did not have any defined benefit scheme.

The application of these amendments has had no effect on the Group's consolidated financial statements.

Basis of consolidation of the consolidated financial statements

The consolidated financial statements comprise financial statements of the Company and all of its subsidiaries for the year ended 31 December 2016 *(for the six months ended 31 December 2015)*. During the six months ended 31 December 2015, there is a change of financial year end date from 30 June to 31 December. The reason thereof is set out in the paragraph "change of financial year end date". The financial statements of the subsidiaries are prepared for the same reporting year/period as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Subsidiaries

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. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, the investments in subsidiaries are stated at cost less impairment losses. The carrying amounts of the investments in subsidiaries are reduced to their recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary.

Goodwill on acquisition of subsidiary is recognised as a separate asset and is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

On the other hand, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as an income from bargain purchase.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Leasehold improvements	Over the unexpired term of lease
Furniture and fixtures	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicle	5 years

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Other intangible assets

The Group holds two trading rights on the Stock Exchange and two trading rights on The Hong Kong Futures Exchange Limited (the "Futures Exchange"). One trading right on the Stock Exchange was purchased during the year ended 30 June 2003 while the remaining three trading rights are recorded at zero book value. The useful life of the trading right acquired in 2003 is estimated to be ten years, and its cost had been fully amortised.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or it expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

1) Held-to-maturity investments

   Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

   Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

2) Embedded derivatives

   Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risk and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (Continued)

3) Investments in convertible bonds

The component parts of the convertible bonds are classified separately as debt component and conversion option derivative.

At the date of acquisition of the convertible bonds, the debt and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the acquisition of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the tenor of the convertible bonds using the effective interest method.

4) Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include those held for trading and those designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on the financial assets.

Financial assets or financial liabilities are classified as held for trading if they are (i) acquired or incurred principally for the purpose of selling or repurchasing in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets or financial liabilities are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a Group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (Continued)

5) Loans and receivables

Loans and receivables including accounts receivable, other receivables, loans and advances, pledged deposits and cash and bank balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the loans and receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

6) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

7) Financial liabilities at amortised cost

The Group's financial liabilities include accounts payable, other payables and accrued charges, and bonds payable. All financial liabilities are measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

8) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within other payables and accrued charges at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated). Subsequently, it is measured at the higher of (i) the amount initially recognised, less accumulated amortisation, and (ii) the amount of the provision, if any, that is required to settle the commitment at the end of the reporting period.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the accounts receivable and loans receivable are considered uncollectible, it is written off against the allowance account.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired and is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate.

If in a subsequent period, an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is impaired, a cumulative loss comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss in profit or loss, is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss in respect of available-for-sale financial instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Trust accounts

Trust accounts maintained by the Group to hold clients' monies are treated as off-statement of financial position items and offset against accounts payable amounted to HK$193,915,000 *(at 31 December 2015: HK$385,737,000)*.

In the course of the conduct of the regulated activities of ordinary business, subsidiaries which are licensed corporations, act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated statement of financial position, and the corresponding amounts classified under accounts payable are treated as items not recognised in the consolidated statement of financial position.

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For classification in the consolidated statement of financial position, cash equivalents represent assets similar in nature to cash and which are not restricted to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Commission income on dealing in securities, futures contracts and options is recognised on the transaction dates when the contracts are executed.

Commission income on sale of unit trusts, investment-linked and insurance products is recognised in the period when services are rendered.

Underwriting commission income, sub-underwriting commission income, placing commission income and sub-placing commission income are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed.

Corporate finance advisory fees income are recognised when the services are rendered and on the basis of the stage of completion of each individual project.

Insurance broking fees and investment immigration consulting services fees income are recognised when the services are rendered.

Net results from proprietary trading comprise all gains and losses from changes in fair value of (net of accrued coupon) and dividend income attributable to the financial instruments held for trading.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at that end of the reporting period;

- Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rate;

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity.

Upon disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, other intangible assets, certain available-for-sale financial assets and other non-current assets may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

The accounting policy for recognition and reversal of the impairment loss for goodwill is stated in the accounting policy for goodwill in the earlier part of this note.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leases

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Employee benefits

Short term employee benefits

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

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payments

The Group's net obligation in respect of long service payments under the Employment Ordinance is the amounts of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefits.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

A related party is a person or entity that is related to the Group.

(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 of the parent of the Group.

(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. If the Group is itself such a plan, the sponsoring employers are also 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 parent of the Group.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

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

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

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Future changes in HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued a number of the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 9	*Financial Instruments*[2]
HKFRS 15 and amendments to HKFRS 15	*Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]

[1] *Effective for annual periods beginning on or after 1 January 2017*
[2] *Effective for annual periods beginning on or after 1 January 2018*
[3] *Effective for annual periods beginning on or after 1 January 2019*
[4] *Effective for annual periods beginning on or after a date to be determined*

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to make disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The Directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the Directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets, b) impairment of financial assets and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 9 Financial Instruments (Continued)

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

With regard to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group is still in the process of assessing the impact of HKFRS 9. The Directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

HKFRS 15 Revenue from Contracts with Customers and the clarifications to HKFRS 15

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 15 Revenue from Contracts with Customers and the clarifications to HKFRS 15 (Continued)

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group is still in the process of assessing the impact of HKFRS 15. The Directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 16 Leases (Continued)

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

The Group is in the process of assessing the impact of HKFRS 16. The Directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

2. ACCOUNTING JUDGMENTS AND ESTIMATES

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

2. ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty

1) *Impairment allowances on loans and accounts receivable*

The provisioning policy for impairment allowances of the Group is based on the evaluation by management of the collectability of the loans and accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers are to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. At the end of the reporting period, the carrying amount of accounts receivable after provision for impairment amounted to HK$391,477,000 *(at 31 December 2015: HK$895,496,000),* net of provision amount of HK$81,394,000 *(at 31 December 2015: HK$154,000).*

2) *Impairment of investments and receivables*

The Group assesses annually if investments and receivables have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the entities and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

3) *Held-to-maturity investments*

The Directors have reviewed the Group's held-to-maturity investments as at 31 December 2016 in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. At the end of the reporting period, the aggregate carrying amount of the held-to-maturity investments was HK$111,170,000 *(at 31 December 2015: HK$350,486,000)*. As set out in note 12, the reclassification of the convertible bonds from "Held-to-maturity investments" to "Available-for-sale financial assets" is an isolated event by the judgment of the Directors, the remaining held-to-maturity investments, i.e. the guaranteed notes, still remained classified as held-to-maturity investments at 31 December 2016.

4) *Fair values of the derivative component of convertible bonds held by the Group*

During the six months ended 31 December 2015, the Group had acquired the convertible bond issued by XinRen Aluminum Holdings Limited, details of which have been disclosed in note 12 to these consolidated financial statements. As of 31 December 2015, the fair values of the conversion options embedded in the Convertible Bonds were calculated using Binomial tree pricing model. Key assumptions used to determine the fair value are disclosed in note 12.

2. ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

4) *Fair values of the derivative component of convertible bonds held by the Group* (Continued)

During the year ended 31 December 2016, as the delisting of XinRen Aluminum Holdings Limited from the Main Board of the Singapore Exchange Securities Trading Limited, the management of the Company considered that there is no observable market data to assess the fair value of the Convertible Bonds, consequently, the fair value of the conversion options embedded in the Convertible Bonds became nil balance from the date of delisting and as at 31 December 2016. The loss on change in fair value (including exchange difference) of conversion options embedded in the Convertible Bonds approximately of HK$9,405,000 for the year ended 31 December 2016 *(for the six months ended 31 December 2015: Nil)* is recognised in the profit or loss.

5) *Fair value estimation on derivative financial assets and liabilities*

Other than the future contracts classified as held for trading, of which the fair value was based on the quoted price in active market, the Group's derivative financial instruments have been valued based on the discounted cash flow which is the estimated amount that the issuer would receive or pay to terminate the foreign currency forward contract and cross-currency swap agreement at the end of reporting period, taking into account observable interest rates and exchange rates.

In estimating the future cash flows of the cross-currency swap, the Directors considered that RMB to HKD exchange rate with reference to on-shore Renminbi (CNY) as market observable inputs under the discounted cash flow method is appropriate in light of the Group's circumstances.

At the end of the reporting period, the fair value of the derivative financial assets and liabilities are HK$5,851,000 and HK$187,230,000 respectively *(at 31 December 2015: HK$601,000 and HK$102,129,000 respectively).*

6) *Impairment of debt component of convertible bonds and guaranteed notes*

The Group periodically reviews its debt component of convertible bonds and guaranteed notes to assess whether impairment losses exist. In determining whether impairment losses should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Group has individually evaluated the debt component of convertible bonds and guaranteed notes for impairment after taking into account the latest financial position and other information available of the issuers in default of interest payment, if applicable, to determine the net present value of expected future cash inflow. If the financial conditions of the issuers were to deteriorate, resulting in an impairment of their ability to make repayments, additional impairment losses may be required. As at 31 December 2016, the carrying amount of debt component of convertible bonds and guaranteed notes are HK$233,477,000 *(at 31 December 2015: HK$223,141,000)* and HK$111,170,000 *(at 31 December 2015: HK$117,950,000)* respectively. There were no allowance for impaired debts as at 31 December 2016 and 31 December 2015.

3. REVENUE

The principal activities of the Group comprise:

- broking index, commodity and currency futures, options and securities, unit trusts, investment-linked and insurance products for its clients;
- provision of margin financing, underwriting and placements, corporate finance advisory services, asset management services, insurance broking services and money lending; and
- trading in securities, equity index, commodity and currency futures contracts on its own account.

	Note	**1/1/2016 – 31/12/2016 HK$'000**	1/7/2015 – 31/12/2015 HK$'000
Brokerage commission income:			
– securities dealing		**10,885**	13,846
– underwriting and placing commission income		**15,648**	13,327
– futures and options dealing		**2,382**	921
– distribution of investment-linked and insurance products		**706**	380
Advisory and insurance broking fee income:			
– corporate finance advisory		**24,909**	2,403
– commitment fee income		**–**	4,480
– insurance broking		**4,898**	847
Interest income:			
– margin financing		**51,780**	14,480
– loans and advances		**2**	2
Proprietary trading:			
– net results from proprietary trading	*(i)*	**(19,172)**	(34,662)
		92,038	16,024

3. REVENUE (Continued)

Note:

		1/1/2016 – 31/12/2016 HK$'000	1/7/2015 – 31/12/2015 HK$'000
(i)	Net results from proprietary trading		
	Bond interest income	**271**	–
	Net loss on trading equities	**(17,691)**	(40,548)
	Net loss on fund investments	**(5,773)**	(5,740)
	Net loss on bond investments	**(4,100)**	–
	Net profit on derivatives	**2,009**	10,065
	Dividend income from trading listed securities	**6,112**	1,561
		(19,172)	(34,662)

4. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments based on the Group's internal reporting in respect of these segments. For the purposes of resource allocation and assessment of segment performance, the Directors monitor the results attributable to each reportable segment on the following basis:

– Segment revenue represents revenue generated from external customers; and

– Segment results represent the profit earned or loss incurred by each segment without allocation of central administration costs, depreciation, gain on disposal of available-for-sale financial assets and income tax credit or expense.

Segment assets and liabilities are not disclosed as they are not considered as crucial for resources allocation and thereby not being regularly provided to the Directors.

4. SEGMENT INFORMATION (Continued)

Reportable operating segments

The Directors consider brokerage and margin financing, wealth management, corporate finance and proprietary trading are the Group's major operating segments. The principal activities of these divisions are as follows:

Brokerage and margin financing	Provision of brokerage services in trading in securities, futures contracts and options and margin financing services, and underwriting and placements
Wealth management	Provision of brokerage services in distribution of mandatory provident fund products, and investment-linked products and insurance products
Corporate finance	Provision of corporate finance advisory services
Proprietary trading	Proprietary trading in securities, futures and options, fund investments, dividend income and bond interest income

	For the year ended 31 December 2016					
	Brokerage and margin financing *HK$'000*	Wealth management *HK$'000*	Corporate finance *HK$'000*	Proprietary trading *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Revenue	80,695	5,604	24,909	(19,172)	2	92,038
Commission expenses	(5,490)	(2,215)	(1,255)	(3,213)	–	(12,173)
Segment results	(73,416)	(3,613)	(11,966)	(54,371)	42,607	(100,759)
Unallocated expenses, represented central administration costs						(23,088)
Depreciation						(5,147)
Unallocated finance costs						(38,192)
Income tax credit						263
Loss for the year						(166,923)

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

	For the six months ended 31 December 2015					
	Brokerage and margin financing *HK$'000*	Wealth management *HK$'000*	Corporate finance *HK$'000*	Proprietary trading *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Revenue	42,574	1,227	6,883	(34,662)	2	16,024
Commission expenses	(5,577)	(902)	–	(1,191)	(141)	(7,811)
Segment results	5,428	(5,102)	(1,611)	(52,377)	22,827	(30,835)
Unallocated expenses, represented central administration costs						(15,052)
Depreciation						(2,007)
Unallocated finance costs						(29,047)
Gain on disposal of available-for-sale financial assets						95,246
Income tax expense						(4,680)
Profit for the period						13,625

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the year ended 31 December 2016 and the six months ended 31 December 2015, the Group's revenue is mainly derived from customers in Hong Kong.

The geographical location of the non-current assets, other than financial instruments ("specified non-current assets"), is based on the physical location of the assets. The principal specified non-current assets of the Group were also located in Hong Kong. Accordingly, no analysis by geographical segment was provided.

4. SEGMENT INFORMATION (Continued)

Major customers

At the end of the year/period, the following respective external customers contributed more than 10% of total revenue of the Group. The total revenue of the Group did not include the net results from proprietary trading.

	1/1/2016 – 31/12/2016 *HK$'000*	1/7/2015 – 31/12/2015 *HK$'000*
Customer A from brokerage and margin financing segment	**N/A***	11,294
Customer B from brokerage and margin financing segment	**26,719**	10,072

The revenues from both customers were attributable to the provision of brokerage and margin financing.

* Customer A did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2016.

5. OTHER INCOME AND GAINS

	Note	**1/1/2016 – 31/12/2016 *HK$'000***	1/7/2015 – 31/12/2015 *HK$'000*
Other income			
Dividend income from available-for-sale financial assets		**2,019**	2,181
Handling income		**960**	999
Interest income		**42,516**	10,586
Sundry income		**192**	494
		45,687	14,260
Other gains			
Exchange gain	*(i)*	**94,773**	97,371
Gain on disposal of available-for-sale financial assets	*(13)*	**–**	95,246
Reversal of allowance for doubtful debts		**35**	–
		94,808	192,617
		140,495	206,877

Note:

(i) Include an amount of HK$101,006,000 for the year ended 31 December 2016 *(for the six months ended 31 December 2015: HK$103,195,000)* representing an exchange gain arising on retranslation to Hong Kong dollars at the spot rate at the end of the year/period in respect of bonds payable denominated in RMB. Detailed information is set out in note 23.

6. (LOSS) PROFIT BEFORE TAX

	1/1/2016 – 31/12/2016 HK$'000	1/7/2015 – 31/12/2015 HK$'000
(Loss) Profit before tax is arrived at after charging:		
(a) Employee benefit expenses		
Salaries, commission and allowances	**72,728**	38,096
Contributions to retirement benefit schemes *(Note 27)*	**1,570**	733
	74,298	38,829
(b) Other items		
Auditor's remuneration		
– Audit-related assurance services	**1,495**	800
– Other services	**154**	–
Impairment loss on accounts receivable	**81,275**	–
Operating lease payments on premises	**11,365**	5,657
(c) Finance costs		
Bank loan interest expenses	**2**	–
Bond interest expenses	**113,443**	59,746
Imputed interest expenses on bonds payable	**6,041**	3,011
Other interest expenses	**5**	3
	119,491	62,760

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The analysis of the aggregate amount of emoluments received or receivable by the Directors are as follows:

For the year ended 31 December 2016

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Employer's contributions to retirement benefit schemes HK$'000	Total HK$'000
Executive Directors:					
Yu Weijia *(Note i)*	–	–	–	–	–
Pu Rui	–	–	–	–	–
Wu Jian	–	–	–	–	–
Zhang Chunyong	–	–	–	–	–
Xu Mingdi	–	–	–	–	–
Liang Yiqing	–	–	–	–	–
Independent Non-executive Directors:					
Wu Jun	204	–	–	–	204
Meng Gaoyuan	204	–	–	–	204
Lam Kwok Cheong *(Note ii)*	180	–	–	–	180
Guan Wenwei *(Note iii)*	58	–	–	–	58
	646	–	–	–	646

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

For the period ended 31 December 2015:

Name of Director	Fees	Salaries	Discretionary bonuses	Employer's contributions to retirement benefit schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:					
Yu Weijia *(Note i)*	–	–	–	–	–
Pu Rui	–	–	–	–	–
Wu Jian	–	–	–	–	–
Zhang Chunyong	–	–	–	–	–
Xu Mingdi	–	–	–	–	–
Liang Yiqing	–	–	–	–	–
Independent Non-executive Directors:					
Wu Jun	102	–	–	–	102
Meng Gaoyuan	102	–	–	–	102
Lam Kwok Cheong *(Note ii)*	102	–	–	–	102
	306	–	–	–	306

Notes:

(i) Mr. Yu Weijia resigned as Executive Director on 29 August 2016.

(ii) Mr. Lam Kwok Cheong resigned as Independent Non-executive Director on 19 September 2016. The fee included the amount of HK$34,000 paid by the Company as the compensation for the early termination of the appointment.

(iii) Mr. Guan Wenwei was appointed as Independent Non-executive Director on 19 September 2016.

(b) Loans, quasi-loans and other dealings in favour of Directors

There are no loans, quasi-loans or other dealings in favour of the Directors of the Company or its holding company that were entered into or subsisted during the year ended 31 December 2016 *(for the six months ended 31 December 2015: Nil)*.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(c) Directors' material interests in transactions, arrangements or contracts

After due and careful consideration, the Directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company, its holding companies or its subsidiaries was a party and in which Directors or a connected entity of the Directors had a material interest, whether directly or indirectly, subsisted as at 31 December 2016 *(at 31 December 2015: Nil)* or at any time during the year ended 31 December 2016 *(for the six months ended 31 December 2015: Nil)*.

Five highest paid employees' emoluments

Of the five individuals with the highest emoluments, none *(for the six months ended 31 December 2015: Nil)* were Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the five *(for the six months ended 31 December 2015: five)* individuals, excluding Directors' emoluments, are as follows:

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
Salaries and other benefits	**7,700**	2,874
Discretionary bonus	**7,435**	5,389
Contributions to retirement benefit schemes	**89**	53
	15,224	8,316

	Number of individuals	
	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
The emoluments, excluding Directors' emoluments, fell within the following bands:		
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	3
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$2,500,000	**–**	–
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	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**1**	–
	5	5

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Five highest paid employees' emoluments (Continued)

No emoluments were paid by the Group to the Directors or any of the five highest paid individuals as (a) an inducement to join or upon joining the Group and (b) no compensation for loss of office other than the amount disclosed in note (a)(ii) above for the year ended 31 December 2016 and the six months ended 31 December 2015. There were no arrangements under which Directors waived or agreed to waive any remuneration for the year ended 31 December 2016 and the six months ended 31 December 2015.

8. INCOME TAX CREDIT (EXPENSE)

No provision for income tax had been made for the current year as the Company and its subsidiaries either incurred losses for taxation purpose or their estimated assessable profits for the year are wholly absorbed by unrelieved tax losses brought forward from previous years. The tax credit represents over-provision of Hong Kong Profits Tax in prior years. The current tax rate of Hong Kong Profits Tax is 16.5%.

During the six months ended 31 December 2015, Hong Kong Profits Tax has been provided in the consolidated financial statements at the rate of 16.5% on a subsidiary's estimated assessable profits arising from Hong Kong. Hong Kong Profits Tax has not been provided for other entities within the Group as they either incurred losses for taxation purpose or their estimated assessable profits for the period are wholly absorbed by unrelieved tax losses brought forward from previous years.

The income tax provision in respect of operations in the PRC, if applicable, is calculated at the applicable tax rates on the estimated assessable profits for the year/period based on existing legislation, interpretations and practices in respect thereof. PRC Enterprise Income Tax has not been provided as the operations in PRC either had no assessable profits or the estimated assessable profits for the year/period are wholly absorbed by unrelieved tax losses brought forward from previous years.

8. INCOME TAX CREDIT (EXPENSE) (Continued)

In the opinion of the Directors, the Group is not subject to taxation in any other jurisdictions.

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax		
– Current tax charge	**–**	(4,680)
– Over provision in prior years	**263**	–
	263	(4,680)
Reconciliation between tax expense and accounting (loss) profit at applicable tax rates:		
(Loss) Profit before tax	**(167,186)**	18,305
Income tax at applicable tax rate of 16.5% *(for the six months ended 31 December 2015: 16.5%)*	**(27,586)**	3,020
Tax effect on non-deductible expenses	**20,922**	1,890
Tax effect on non-taxable items	**(23,105)**	(18,420)
Unrecognised temporary difference	**(928)**	(457)
Utilisation of previously unrecognised tax losses	**(21)**	9
Tax effect on unrecognised tax losses	**30,731**	18,645
Effect of different tax rate of PRC subsidiaries	**(13)**	(7)
Over provision for tax in prior years	**(263)**	–
Total tax (credit) expense for the year/period	**(263)**	4,680

9. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share is based on the (loss) profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year/period.

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
(Loss) Profit attributable to equity shareholders of the Company	**(166,923)**	13,625

Number of shares	***'000***	*'000*
Weighted average number of ordinary shares in issue for the purpose of basic (loss) earnings per share	**2,441,220**	2,441,220
Effect of dilutive potential shares:		
Share option issued by the Company *(Note)*	**–**	2
Weighted average number of ordinary shares in issue for the purpose of diluted (loss) earnings per share	**2,441,220**	2,441,222
Basic (loss) earnings per share *(HK cents)*	**(6.838)**	0.558
Diluted (loss) earnings per share *(HK cents)*	**(6.838)**	0.558

Note:

There were no dilutive potential ordinary shares outstanding during the year ended 31 December 2016. Accordingly, the diluted loss per share is the same as basic loss per share.

Diluted earnings per share for the six months ended 31 December 2015 assumed the effect of exercise of share options outstanding during the six months ended 31 December 2015 since they would have a dilutive effect.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Computer equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Reconciliation of carrying amount – period ended 31 December 2015						
At 1 July 2015	3,576	185	134	1,018	–	4,913
Additions	1,670	338	46	1,615	686	4,355
Depreciation	(1,448)	(55)	(19)	(439)	(46)	(2,007)
At 31 December 2015	3,798	468	161	2,194	640	7,261
Reconciliation of carrying amount – year ended 31 December 2016						
At 1 January 2016	**3,798**	**468**	**161**	**2,194**	**640**	**7,261**
Additions	**34**	**21**	**24**	**13,081**	**–**	**13,160**
Disposals	**–**	**–**	**–**	**(257)**	**–**	**(257)**
Depreciation	**(3,180)**	**(122)**	**(44)**	**(1,664)**	**(137)**	**(5,147)**
At 31 December 2016	**652**	**367**	**141**	**13,354**	**503**	**15,017**
At 31 December 2015						
Cost	7,079	1,729	1,741	11,955	686	23,190
Accumulated depreciation and impairment losses	(3,281)	(1,261)	(1,580)	(9,761)	(46)	(15,929)
	3,798	468	161	2,194	640	7,261
At 31 December 2016						
Cost	**7,113**	**1,750**	**1,765**	**24,735**	**686**	**36,049**
Accumulated depreciation and impairment losses	**(6,461)**	**(1,383)**	**(1,624)**	**(11,381)**	**(183)**	**(21,032)**
	652	**367**	**141**	**13,354**	**503**	**15,017**

11. INTANGIBLE ASSETS

	Trading licenses *HK$'000*	**Goodwill** *HK$'000* *(Note)*	**Total** *HK$'000*
Reconciliation of carrying amount			
– period ended 31 December 2015			
At 1 July 2015 and 31 December 2015	–	–	–
Reconciliation of carrying amount			
– year ended 31 December 2016			
At 1 January 2016 and 31 December 2016	**–**	**–**	**–**
At 31 December 2015			
Cost	600	100	700
Accumulated amortisation	(600)	–	(600)
Accumulated impairment	–	(100)	(100)
	–	–	–
At 31 December 2016			
Cost	**600**	**100**	**700**
Accumulated amortisation	**(600)**	**–**	**(600)**
Accumulated impairment	**–**	**(100)**	**(100)**
	–	**–**	**–**

Note: Goodwill is allocated to the Group's cash-generating units identified according to operating and business segment.

12. HELD-TO-MATURITY INVESTMENTS

	Note	**At 31/12/2016** ***HK$'000***	At 31/12/2015 *HK$'000*
Convertible bonds	*(i)*		
– Debt component		**233,477**	223,141
– Derivative component		**–**	9,395
		233,477	232,536
Less: Reclassification to available-for-sale financial assets *(Note 13)*	*(i)*	**(233,477)**	–
		–	232,536
Guaranteed notes	*(ii)*	**111,170**	117,950
At 31 December		**111,170**	350,486
Less: Non-current portion		**–**	(350,486)
Current portion		**111,170**	–

Notes:

(i) On 2 October 2015, the Group entered into a subscription agreement with XinRen Aluminum Holdings Limited ("XinRen"), a company incorporated in Singapore whose shares were listed on the Main Board of the Singapore Exchange Securities Trading Limited, in relation to the subscription of convertible bonds in the principal amount of US$30,000,000, carries interest of 8% per annum and has a maturity date of 27 August 2020 (the "Convertible Bonds"). The Convertible Bonds are secured by a security package including a charge over certain assets and undertaking of the guarantors, share mortgages over each of the guarantors and equity pledges over four subsidiaries of XinRen in the PRC, certain bank accounts and security accounts and equipment mortgages.

The Group had the right exercisable to convert the whole or part of the outstanding principal amount of the Convertible Bonds held by the Group into such number of shares of XinRen as at the conversion price Singapore dollars ("SG$") 1.01 per share (using a fixed US$ to SG$ conversion rate of US$1=SG$1.326).

12. HELD-TO-MATURITY INVESTMENTS (Continued)

Notes: (Continued)

(i) (Continued)

The fair value of debt component of the Convertible Bonds on initial recognition is determined using the prevailing market interest rate of similar non-convertible debts and is carried at amortised cost subsequently. The effective interest rate is 12.20% per annum. The fair values of the conversion options embedded in the Convertible Bonds are calculated using Binomial tree pricing model. The inputs to the model at the respective dates were as follows:

	Note	**At 31/12/2016 *(Note c)***	At 31/12/2015	At initial recognition
Stock price		**–**	SG$0.400	SG$0.0435
Exercise price		**–**	SG$1.010	SG$1.010
Expected volatility	*(a)*	**–**	46.78%	46.74%
Risk-free rate	*(b)*	**–**	1.68%	1.59%
Expected dividend yield		**–**	1.85%	1.79%
Option life		**–**	4.66 years	4.82 years

Notes:

a) Expected volatility is the based price volatility of XinRen for the period from 27 October 2010 (First listing date) up to date of issuance or up to the end of the reporting period.

b) Risk-free rate is determined by reference to the US Generic Government Bond Yields.

c) Since the fair value of the conversion option embedded in the Convertible Bonds became nil balance when XinRen was delisted from the Main Board of the Singapore Exchange Securities Trading Limited, the disclosure of the information is not applicable.

In the opinion of the Directors, the fair values of the conversion options embedded in the Convertible Bonds of XinRen at the date of initial recognition and 31 December 2015 calculated using Binomial tree pricing model was HK$9,395,000.

Debt portion of the Convertible Bonds is classified as “Held-to-maturity investments” at initial recognition.

On 24 May 2016, all the issued and paid-up ordinary shares of XinRen were acquired by an offeror through a voluntary conditional cash offer (the “Acquisition”). Subsequent to the completion of the Acquisition, XinRen was delisted from the Main Board of the Singapore Exchange Securities Trading Limited on the same day (the “Delisting”).

12. HELD-TO-MATURITY INVESTMENTS (Continued)

Notes: (Continued)

(i) (Continued)

Since the Delisting of XinRen, the management of the Company considered that there is no observable market data to assess the fair value of the derivative component of the Convertible Bonds. Consequently, the fair value of the conversion options embedded in the Convertible Bonds became nil balance from the date of Delisting and as at 31 December 2016. The loss on change in fair value (including exchange difference) of conversion options embedded in the Convertible Bonds of HK$9,405,000 for the year ended 31 December 2016 *(for the six months ended 31 December 2015: Nil)* is recognised in the profit or loss.

Moreover, having considered the lack of liquidity of the conversion shares following the Delisting, the management of the Company are of the view that to dispose the Convertible Bonds will enable the Group to realise the investment and use the net proceeds from the disposal for general corporate purposes.

On 30 December 2016, the Group entered into a sale and purchase agreement to dispose of the Convertible Bonds in the principal amount of US$30,000,000 (equivalent to approximately HK$234,000,000) for a cash consideration of not exceeding US$31,172,000 (equivalent to approximately HK$243,141,600). Completion of the disposal of the Convertible Bonds is conditional upon the fulfillment of the following conditions: i) compliance with all requirements of the Listing Rules; ii) necessity to obtain all necessary consent, authorizations, approvals including but not limited to the approval from the shareholders of the Company; iii) no default having taken place or event of default having occurred and continuing; iv) each of the warranties made by the Company being correct; v) the registrar and the common security agent of the Convertible Bonds having accepted or otherwise completed the “know your client” process with respect to the purchaser; and vi) the registrar and the common security agent of the Convertible Bonds having acknowledged that the relevant transfer documents and information in relation to the transaction under the sale and purchase agreement are in place and they will implement the transfer (including but not limited to issuance of a new bond certificate in the name of the purchaser and enter the name of the purchaser into the convertible bond register) upon receipt of the executed transfer documents. The details were set out in the Company’s announcement dated 30 December 2016 available in the websites of the Company and Hong Kong Exchanges and Clearing Limited.

In relation to the proposed disposal of the Convertible Bonds, in the opinion of the Directors, Convertible Bonds is expected to be realised within twelve months after the end of the reporting period. Accordingly, the debt portion of the Convertible Bonds is reclassified from “Non-current assets” to “Current assets” at 31 December 2016. As a result of a change in intention, it is no longer appropriate to classify an investment as “held-to-maturity investments” and reclassified as “available-for-sale financial assets” and remeasured at fair value.

Subsequent to the end of the reporting period, all conditions were satisfied and the disposal was completed in February 2017. The consideration of HK$241,779,000 was received in February 2017 and the loss was HK$1,377,000.

12. HELD-TO-MATURITY INVESTMENTS (Continued)

Notes: (Continued)

(ii) On 5 August 2015, the Group entered into a subscription agreement with HNA Tourism Finance Limited ("HNA"), a company incorporated in the PRC, in relation to the subscription of guaranteed notes in the principal amount of RMB100,000,000, carries interest of 9.25% per annum and has a maturity date of 12 August 2017 (the "Guaranteed Notes"). Interest on the Guaranteed Notes is receivable semi-annually in arrears. The effective interest is 9.25% per annum. The guarantor of the Guaranteed Notes is HNA Tourism Group Co., Ltd., a company incorporated in the PRC.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Non-current portion

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Unlisted equity securities, at cost	*(i)*	**14,268**	14,268
Impairment losses		**(13,021)**	(13,021)
		1,247	1,247
Equity securities – listed in Hong Kong at fair value	*(ii)*	**83,288**	69,208
		84,535	70,455

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
At the beginning of the year/period		**70,455**	128,558
Additions		**19,197**	76,160
Disposals	*(iii)*	**–**	(95,282)
Change in fair value transferred to other comprehensive income		**(5,117)**	(38,981)
At the end of the year/period		**84,535**	70,455

Notes:

(i) The unlisted equity securities represent the Group's investments in three *(at 31 December 2015: three)* private entities.

Given the equity securities are unlisted, the range of fair value estimated is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed, the Directors are of the opinion that their fair values cannot be reliably measured and hence they are measured at cost less impairment at the end of each reporting period.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(a) Non-current portion (Continued)

Notes: (Continued)

(ii) Fair values are determined with reference to quoted market bid prices on the Stock Exchange at the end of each reporting period.

(iii) During the year, the Group has not disposed of listed securities.

During the six months ended 31 December 2015, the Group disposed of certain listed equity securities on-market at a total consideration of HK$95,282,000. As a result, a gain on disposal of available-for-sale financial assets amounted to HK$95,246,000 was reclassified from investment revaluation reserve upon disposal to profit or loss as reclassification adjustment.

(b) Current portion

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Debt component of the Convertible Bonds reclassified from held-to-maturity investments at fair value *(Note 12)*	*(i)*	**233,477**	–

Note:

(i) The amount was remeasured at fair value at the date of reclassification and as at 31 December 2016 with reference to the consideration as stipulated in the sale and purchase agreement dated 30 December 2016.

14. OTHER NON-CURRENT ASSETS

	At 31/12/2016 *HK$'000*	At 31/12/2015 *HK$'000*
Reserve fund deposits with the Futures Exchange	**1,594**	1,511
Statutory deposits with the Stock Exchange	**2,100**	1,953
Statutory deposits with the Securities and Futures Commission ("SFC")	**100**	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	**776**	1,460
Admission fees paid to the Hong Kong Securities Clearing Company Limited	**100**	100
	4,670	5,124

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Held for trading			
Equity securities			
– Listed in Hong Kong	*(i) and (iv)*	**340,875**	286,482
– Listed outside Hong Kong	*(i)*	**2,186**	106,106
		343,061	392,588
Bond investment listed outside Hong Kong	*(ii)*	**26,568**	–
Unlisted fund investments	*(iii)*	**27,088**	54,500
		396,717	447,088

Notes:

(i) Fair values of the listed equity securities are determined with reference to quoted active market bid price on the respective stock exchange at the end of each reporting period.

(ii) Fair value of the listed bond investment is determined with reference to quoted active market bid price on the respective stock exchange at the end of each reporting period.

(iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly are listed securities) of the funds.

(iv) The Group has not pledged any listed equity securities of aggregate carrying amount at 31 December 2016 to a bank as collateral for the banking facilities granted *(at 31 December 2015: HK$6,301,000)*.

16. DERIVATIVE FINANCIAL ASSETS

	At 31/12/2016 *HK$'000*	At 31/12/2015 *HK$'000*
Derivatives – Foreign currency forward contract	**5,851**	601

In August 2015, the Group entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Group agrees to convert RMB100,000,000 to HK$112,994,000 (i.e. pay RMB100,000,000 and receive HK$112,994,000).

The gain on change in fair value of the foreign currency forward contract of HK$5,250,000 was recognised in the profit or loss for the year ended 31 December 2016 *(for the six months ended 31 December 2015: HK$601,000)*. Forward price available at the reporting date is used to estimate the fair value of the foreign currency forward contract as at the reporting date.

17. ACCOUNTS RECEIVABLE

	Note	**At 31/12/2016 HK$'000**	At 31/12/2015 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
– securities cash clients	*(b)(i)*	**5,127**	6,223
– securities margin clients	*(b)(ii)*	**280,766**	833,747
– securities subscription clients	*(b)(iii)*	**–**	11,824
– securities and options clearing houses and brokers	*(b)(iii)*	**98,868**	36,540
– futures clients	*(b)(iv)*	**20**	–
– futures clearing house and brokers	*(b)(iv)*	**3,604**	5,393
Accounts receivable arising from the provision of corporate finance advisory services	*(b)(v)*	**2,669**	1,384
Accounts receivable arising from the provision of investment-linked and insurance products broking services	*(b)(vi)*	**423**	385
		391,477	895,496

Notes:

(a) Settlement terms

The settlement terms of accounts receivable arising from the ordinary course of business of broking in securities are one to three trading days after the transaction dates.

Accounts receivable arising from the subscription of initial public offer ("IPO") of listed companies in Hong Kong on behalf of clients are settled upon the share allotments of such listed companies.

Accounts receivable arising from the ordinary course of business of broking in index, commodity and currency futures contracts and options represent the margin deposits maintained with futures clearing house, options clearing house or brokers to meet the margin requirements of open contracts. Margin calls from clearing house and brokers are settled on a daily basis. The excess amounts over the required margin deposits stipulated are repayable on demand.

Accounts receivable arising from the provision of corporate finance advisory services and investment-linked and insurance products broking services are repayable within 30 days.

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis

(i) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand subsequent to settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. No ageing analysis is disclosed as in the opinion of Directors, the ageing analysis does not give additional value in view of the nature of broking business.

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from securities cash clients had been made *(at 31 December 2015: HK$Nil)*.

(ii) Accounts receivable from securities margin clients are secured by their pledged securities, repayable on demand and bear interests at commercial rates. Credits are extended to securities margin clients subject to the marginable value of the listed securities pledged with the Group. The margin ratios are reviewed and determined periodically. At the end of the reporting period, fair value of marketable securities pledged by securities margin clients was HK$923,628,000 *(at 31 December 2015: HK$2,936,491,000)*.

No ageing analysis is disclosed as in the opinion of Directors, the ageing analysis does not give additional value in view of the nature of broking business.

The gross carrying amount of accounts receivable and the movements in the provision for impairment loss of accounts receivable from securities margin clients were as follows:

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
Gross amount of accounts receivable:		
At the end of the year/period	**361,341**	833,747
Accumulated impairment losses:		
At the beginning of the year/period	**–**	–
Impairment loss recognised	**80,575**	–
At the end of the year/period	**80,575**	–
Net carrying amount of accounts receivable	**280,766**	833,747

At 31 December 2016, the gross amount of certain margin loans amounted to HK$117,779,000 *(at 31 December 2015: HK$115,573,000)* were due from certain individual margin clients. During the year ended 31 December 2016, an aggregate impairment loss for these specific margin clients was recognised amounting to HK$80,575,000 *(for the six months ended 31 December 2015: HK$Nil)*. The impairment amount was determined, in accordance with the loan impairment policy of the Group; taking into account of the volatility of share price of the collaterals, the Group used the lowest transaction price of the collaterals in the preceding 52-week period to determine the amount of the impairment loss. These individually impaired margin clients relate to customers that were in default on payments and only a portion of the accounts receivable is expected to be recovered. The remaining balances of loans and advances that were not impaired relate to a large number of diversified customers for whom there was no recent history of default or are secured by securities collateral pledged by the customers to the Group that are sufficient to cover the loans amount at the end of the reporting period.

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis (Continued)

(iii) At the end of the reporting period, accounts receivable from securities subscription clients were not yet due and were required to be settled on the allotment date determined under the relevant market practices or exchange rules.

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not yet due and repayable on demand.

The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, clients' monies deposits not otherwise dealt with in the consolidated financial statements amounted to HK$6,381,000 *(at 31 December 2015: HK$3,529,000)*.

(iv) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK$4,430,000 *(at 31 December 2015: HK$3,681,000)*, which was not dealt with in the consolidated financial statements. At the end of the reporting period, accounts receivable from futures clients, futures clearing house and brokers were all overdue within 30 days and repayable on demand.

The gross carrying amount of accounts receivable and the movements in the provision for impairment of accounts receivable from futures clients, futures clearing house and brokers were as follows:

	Note	**1/1/2016 – 31/12/2016 HK$'000**	1/7/2015 – 31/12/2015 HK$'000
Gross amount of accounts receivable:			
At the end of the year/period		**3,743**	5,547
Accumulated impairment losses:			
At the beginning of the year/period		**154**	154
Reversal of allowance for doubtful debts		**(35)**	–
At the end of the year/period		**119**	154
Net carrying amount of accounts receivable	*(c)*	**3,624**	5,393

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis (Continued)

(v) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of corporate finance advisory services, based on the contract terms, was as follows:

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Current		**180**	824
Overdue:			
Within 30 days		**1,020**	–
31 – 90 days		**1,168**	–
91 – 180 days		**120**	60
Over 180 days		**881**	500
	(c)	**3,189**	560
		3,369	1,384

The gross carrying amount of accounts receivable and the movements in the provision for impairment of accounts receivable from corporate finance advisory services were as follows:

	Note	**1/1/2016 – 31/12/2016 *HK$'000***	1/7/2015 – 31/12/2015 *HK$'000*
Gross amount of accounts receivable:			
At the end of the year/period		**3,369**	1,384
Accumulated impairment losses:			
At the beginning of the year/period		**–**	–
Impairment loss recognised		**700**	–
At the end of the year/period	*(c)*	**700**	–
Net carrying amount of accounts receivable		**2,669**	1,384

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis (Continued)

(vi) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of investment-linked and insurance products broking services were as follows:

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Current		**143**	204
Overdue:			
Within 30 days		**70**	33
31 – 90 days		**38**	34
91 – 180 days		**4**	56
Over 180 days		**168**	58
	(c)	**280**	181
		423	385

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from the provision of investment-linked and insurance products broking services had been made *(at 31 December 2015: HK$Nil)*.

(c) Accounts receivable that are not impaired

At the end of the reporting period, accounts receivable from the futures clearing house and brokers, customers of corporate finance advisory and investment-linked and insurance products broking services with carrying amount of HK$6,393,000 *(at 31 December 2015: HK$6,134,000)* are past due but not impaired. The management of the Group is of the opinion that no provision for impairment is necessary in respect of the overdue amount as all the balances have been fully settled subsequently or were being settled according to the agreed repayment schedules. The Group does not hold any collateral or other credit enhancements over these balances other than accounts receivable from securities margin clients.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there were no history of default and the management believes that the amounts are recoverable.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31/12/2016 HK$'000	At 31/12/2015 HK$'000
Deposits, prepayments and other receivables	**29,073**	10,603
Deposit with bank in respect of cross-currency swap*	**247,555**	145,568
	276,628	156,171

* Deposit with bank in respect of cross-currency swap agreement is due on June 2018. Details of information are set out in note 33.

19. CASH AND CASH EQUIVALENTS

	At 31/12/2016 HK$'000	At 31/12/2015 HK$'000
Pledged deposits	**1,247**	2,028
Cash and bank balances	**623,543**	474,255
Cash and cash equivalents in the consolidated statement of cash flows	**624,790**	476,283

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the end of the reporting period, trust monies not otherwise dealt with in the consolidated financial statements amounted to HK$193,915,000 *(at 31 December 2015: HK$385,737,000)*.

20. DERIVATIVE FINANCIAL LIABILITIES

	Note	At 31/12/2016 HK$'000	At 31/12/2015 HK$'000
Cross-currency swap *(Note 33)*	*(i)*	**186,900**	102,129
Futures contracts held for trading	*(ii)*	**330**	–
		187,230	102,129

Notes:

(i) In June 2015, the Group entered into a three-year cross-currency swap agreement with a bank in United Kingdom to swap the Renminbi Bonds principal with initial exchange amounts of RMB1,484,279,000 and HK$1,853,032,000.

20. DERIVATIVE FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

(i) (Continued)

Pursuant to the cross-currency swap agreement, the Group is obliged to make semi-annual interest payments to the bank in Hong Kong Dollar. The amount to be paid is calculated on the final exchange amount of HK$1,872,659,000 with reference to the agreed annual rate of 4.7%. The Group in return is entitled to receive semi-annual interest on the final exchange amount of RMB1,500,000,000 at the rate of 6.45% per annum. Upon maturity of the cross-currency swap, the Group agrees to convert the final exchange amount of HK$1,872,659,000 to RMB1,500,000,000 (i.e. pay HK$1,872,659,000 and receive RMB1,500,000,000). The cross-currency swap is settled on gross basis.

The cross-currency swap is accounted for by the Group as a derivative in accordance with HKAS 39 Financial Instruments: Recognition and Measurement.

During the reporting period, the loss on change in fair value of the cross-currency swap of HK$59,715,000 *(for the six months ended 31 December 2015: HK$73,619,000)* was recognised in the profit or loss.

(ii) The futures contracts are classified as held for trading. At 31 December 2016, the notional value amounting to HK$56,328,000 *(at 31 December 2015: HK$Nil)* and the fair value amounting to HK$330,000 *(at 31 December 2015: HK$Nil)*. Fair value was determined with reference to quoted active market price on the Hong Kong Futures Exchange. During the reporting period, the profit on change in fair value of futures contracts amounting to HK$2,009,000 *(for the six months ended 31 December 2015: Profit of HK$10,065,000)* was recognised in the profit or loss.

21. ACCOUNTS PAYABLE

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
– securities cash clients	*(i)*	**10,740**	8,079
– securities margin clients	*(i)*	**1,830**	19,117
– securities clearing house	*(i)*	**4,406**	64,363
– futures clients	*(ii)*	**3,598**	5,387
Accounts payable to brokers	*(i)*	**–**	6,561
Accounts payable arising from the provision of investment-linked and insurance products broking services	*(iii)*	**203**	436
		20,777	103,943

21. ACCOUNTS PAYABLE (Continued)

Notes:

Settlement terms

(i) The settlement terms of accounts payable arising from the ordinary course of business of broking in securities in respect of cash clients, margin clients, clearing house and brokers are one to three trading days after the transaction dates.

(ii) Accounts payable arising from the ordinary course of business broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading in futures contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.

(iii) Accounts payable arising from the provision of investment-linked and insurance products broking services are payable within 30 days.

At the end of the reporting period, accounts payable are stated net of clients' segregated assets of HK$204,726,000 *(at 31 December 2015: HK$392,947,000)*.

No ageing analysis is disclosed in respect of accounts payable. In the opinion of the Directors, an ageing analysis does not give additional value in view of the nature of broking business.

Interest with reference to savings rate of financial institutions is payable to accounts payable arising from the ordinary course of business of securities broking subject to their balances maintained with the Group. All other categories of accounts payable are non-interest-bearing.

22. OTHER PAYABLES AND ACCRUED CHARGES

	At 31/12/2016	At 31/12/2015
	HK$'000	*HK$'000*
Accrued charges	**31,486**	25,181
Interest payables	**10,019**	10,005
Other payables	**635**	678
	42,140	35,864

23. BONDS PAYABLE

	HK$'000
Carrying amount upon issuance	1,854,306
Imputed interest expenses for the period	3,011
Exchange realignment *(Note 5)*	(103,195)
Carrying amount at 31 December 2015 and 1 January 2016	**1,754,122**
Imputed interest expenses for the year	**6,041**
Exchange realignment *(Note 5)*	**(101,006)**
Carrying amount at 31 December 2016	**1,659,157**

On 28 May 2015, the Company issued bonds with aggregate principal amount of RMB1,500,000,000 (the "Bonds"). The Bonds bear interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the Bonds is payable semi-annually in arrears. The Bonds are listed on the Stock Exchange of Hong Kong and will be mature on 28 May 2018 with the outstanding principal and interest payable at the maturity date. At 31 December 2016, the fair value of the Bonds was RMB1,501,665,000 *(at 31 December 2015: RMB1,504,050,000)*.

The Bonds are carried at amortised cost using an average effective interest rate of 6.84% per annum at the end of each reporting period.

At the end of the reporting period, the Bonds were repayable as follows:

	At 31/12/2016 ***HK$'000***	At 31/12/2015 *HK$'000*
Within 1 year or on demand	**–**	–
After 1 year but within 2 years	**1,659,157**	–
After 2 years but within 5 years	**–**	1,754,122
	1,659,157	1,754,122
	1,659,157	1,754,122

24. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

	Assets		Liabilities	
	At 31/12/2016	At 31/12/2015	**At 31/12/2016**	At 31/12/2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation allowances	**–**	–	**(1,094)**	(247)
Tax losses	**1,094**	247	**–**	–
Deferred tax assets (liabilities)	**1,094**	247	**(1,094)**	(247)
Offset deferred tax assets and liabilities	**(1,094)**	(247)	**1,094**	247
Net deferred tax assets (liabilities)	**–**	–	**–**	–

Unrecognised deferred tax assets arising from

	At 31/12/2016	At 31/12/2015
	HK$'000	*HK$'000*
Deductible temporary differences	**215**	80
Tax losses	**638,718**	432,564
	638,933	432,644

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

25. SHARE CAPITAL

	At 31/12/2016		At 31/12/2015	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each				
At the beginning and end of the year/period	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid:				
At the beginning and end of the year/period	**2,441,220**	**244,121**	2,441,220	244,121

26. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 12 November 2013, the shareholders of the Company approved the adoption of a new share option scheme (the "2013 Share Option Scheme") and the termination of the share option scheme which was adopted by the Company on 30 January 2004 (the "2004 Share Option Scheme"). The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption. Options granted under the 2004 Share Option Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the 2004 Share Option Scheme.

During the year, no share option was granted under the 2013 Share Option Scheme *(for the six months ended 31 December 2015: Nil)*.

Movements in the number of share options outstanding during the year/period under the 2004 Share Option Scheme are as follows:

	Number of options *('000)*
Exercise price	**HK$0.888**
At 1 July 2015, 31 December 2015 and 1 January 2016	200
Lapsed	(200)
At 31 December 2016	**–**

At the end of the reporting period, the weighted average remaining contractual life of the Company's share options was nil *(at 31 December 2015: 5.01 years)*.

At 31 December 2015, all share options outstanding under 2004 Share Option Scheme are exercisable.

Details of the share option schemes are set out in the Directors' Report on pages 47 to 49.

27. RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution retirement scheme (the "ORSO Scheme") and a mandatory provident fund scheme (the "MPF Scheme") which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance.

27. RETIREMENT BENEFIT SCHEMES (Continued)

Contributions to the ORSO Scheme depend on employees' service years, and range from five to seven per cent of their basic salaries.

Employees under the ORSO Scheme are entitled fully to the employer's contributions upon completion of ten service years, or at a reduced scale upon completion of three to nine service years. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group's contributions.

Contributions to the MPF Scheme are calculated at five percent of the relevant income of each employee subject to a maximum amount of HK$1,500 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

The aggregate employer's contributions, which have been dealt with in profit or loss for the year/period amounted to:

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
Employer's contributions charged to profit or loss *(Note 6(a))*	**1,570**	733

28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, there were related party transactions entered into by the Group during the year/period, details of which are set out below:

Related party relationship	**Nature of transaction**	**1/1/2016 – 31/12/2016**	1/7/2015 – 31/12/2015
		HK$'000	*HK$'000*
Key management personnel, other than Directors	Salaries, commission and allowances	**12,047**	7,950
	Contributions to retirement benefit schemes	**124**	62
		12,171	8,012

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Financial assets at amortised cost		Available-for-sale financial assets		Financial assets at fair value through profit or loss		
At 31 December 2016	Held-to-maturity *HK$'000*	Loans and receivables *HK$'000*	At cost *HK$'000*	At fair value *HK$'000*	Derivative financial assets *HK$'000*	Held for trading *HK$'000*	Total *HK$'000*
Financial assets							
Held-to-maturity financial assets							
– Guaranteed notes	111,170	–	–	–	–	–	111,170
Available-for-sale financial assets	–	–	1,247	316,765	–	–	318,012
Other non-current assets	–	4,670	–	–	–	–	4,670
Loans and advances	–	41	–	–	–	–	41
Financial assets at fair value through profit or loss	–	–	–	–	–	396,717	396,717
Derivative financial assets	–	–	–	–	5,851	–	5,851
Accounts receivable	–	391,477	–	–	–	–	391,477
Deposits and other receivables	–	268,702	–	–	–	–	268,702
Cash and cash equivalents	–	624,790	–	–	–	–	624,790
	111,170	1,289,680	1,247	316,765	5,851	396,717	2,121,430

At 31 December 2016	Financial liabilities at fair value through profit or loss *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Financial liabilities			
Derivative financial liabilities	187,230	–	187,230
Accounts payable	–	20,777	20,777
Other payables and accrued charges	–	42,140	42,140
Bonds payable	–	1,659,157	1,659,157
	187,230	1,722,074	1,909,304

29. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

	Financial assets at amortised cost		Available-for-sale financial assets		Financial assets at fair value through profit or loss		
At 31 December 2015	Held-to-maturity	Loans and receivables	At cost	At fair value	Derivative financial assets	Held for trading	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets							
Held-to-maturity financial assets							
Convertible bonds							
– Debt component	223,141	–	–	–	–	–	223,141
Derivative Component	–	–	–	–	9,395	–	9,395
Guaranteed notes	117,950	–	–	–	–	–	117,950
	341,091	–	–	–	9,395	–	350,486
Available-for-sale financial assets	–	–	1,247	69,208	–	–	70,455
Other non-current assets	–	5,124	–	–	–	–	5,124
Loans and advances	–	70	–	–	–	–	70
Financial assets at fair value through profit or loss	–	–	–	–	–	447,088	447,088
Derivative financial assets	–	–	–	–	601	–	601
Accounts receivable	–	895,496	–	–	–	–	895,496
Deposits and other receivables	–	154,260	–	–	–	–	154,260
Cash and cash equivalents	–	476,283	–	–	–	–	476,283
	341,091	1,531,233	1,247	69,208	9,996	447,088	2,399,863

At 31 December 2015	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*
Financial liabilities			
Derivative financial liabilities	102,129	–	102,129
Accounts payable	–	103,943	103,943
Other payables and accrued charges	–	35,864	35,864
Bonds payable	–	1,754,122	1,754,122
	102,129	1,893,929	1,996,058

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: interest-rate risk, credit risk, foreign exchange risk, liquidity risk and equity price risk. The Group's overall risk control focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Risk Control Committee ("RCC") is responsible for establishing and reviewing credit policies and procedures to minimise systematic and non-systematic credit and financial risks of the Group. The RCC is also responsible for assessing the risk of long term investments and proprietary trading.

Interest-rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations. As mentioned in notes 20 and 33 to the consolidated financial statements, the Group has entered into a cross-currency swap to reduce the interest rate expenses of the Bonds.

The Group provides margin financing to clients. The Group determined the interest rate for loans and advances with appropriate premium to deal with interest-rate risk. Management considers that the Group has limited exposure to interest rate risk relating to the margin financing to the Group's securities margin clients and the loans and advances to entities as the changes in interest rates for these items are minimal.

Credit risk

The Group is exposed to credit risk for all financial assets that a client or counterparty in a transaction may default on settlement. The maximum exposure equals to the carrying amount of the accounts receivable less the market value of the underlying pledged securities. Details are set out in note 17 to the consolidated financial statements.

The Group has concentration of credit risk as 8% *(at 31 December 2015: 31%)* and 36% *(at 31 December 2015: 63%)* of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the brokerage and margin financing business segment, wealth management segment and corporate finance segment.

The Group's other financial assets, including bank balances, loans and advances, other non-current assets and deposits and other receivables have a maximum exposure of credit risk without taking account of any collateral held or other credit enhancements equal the carrying amounts of these instruments.

The Group's bank balances and deposit with bank in respect of cross currency swap are placed with credit-worthy financial institutions in Hong Kong, PRC and the United Kingdom.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of United States dollar ("US dollar") and Renminbi.

The Group considers the risk exposure to foreign currency fluctuation in US dollar would be minimal as long as the Hong Kong dollar remains pegged to the US dollar. The analysis is performed on the same basis for the six months ended 31 December 2015.

The Group has entered into a cross-currency swap to mitigate the effect of its foreign currency exposure arising from the fixed-rate Bonds payable denominated in Renminbi (note 23), in which the Group agrees to exchange, at specific intervals, Renminbi principal and interest of the Bonds payable into Hong Kong dollars.

The Group has entered into a foreign currency forward contract to manage the currency risks. Upon maturity of the foreign currency forward contract, the Group agrees to exchange the Renminbi contract amount into Hong Kong dollars at fixed rate.

Liquidity risk

The Group manages to maintain its liquidity position at a prudent and adequate level. The Directors monitor the cash flows daily to ensure sufficient funds are available. The senior management would also review the liquidity level in compliance with the statutory requirements for the licensed subsidiaries.

The remaining undiscounted contractual maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle, and the Group's derivative financial liabilities at the end of the reporting period, based on the remaining contractual maturities, is summarised below:

	At 31/12/2016					At 31/12/2015				
	Less than 3 months or on demand *HK$'000*	**3 to 12 months** *HK$'000*	**1-5 years** *HK$'000*	**Total** *HK$'000*	**Carrying amount** *HK$'000*	Less than 3 months or on demand *HK$'000*	3 to 12 months *HK$'000*	1-5 years *HK$'000*	Total *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities										
Accounts payable	**20,777**	**–**	**–**	**20,777**	**20,777**	103,943	–	–	103,943	103,943
Other payables and accrued charges	**32,121**	**10,019**	**–**	**42,140**	**42,140**	25,859	10,005	–	35,864	35,864
Bonds payable	**–**	**107,557**	**1,721,328**	**1,828,885**	**1,659,157**	–	114,117	1,940,425	2,054,542	1,754,122
Derivative financial liabilities										
Cross-currency swap					**186,900**					102,129
– Receipts	**–**	**(107,557)**	**(1,721,328)**	**(1,828,885)**		–	(114,117)	(1,940,425)	(2,054,542)	
– Payments	**–**	**88,015**	**1,916,667**	**2,004,682**		–	88,015	2,004,682	2,092,697	
Futures contracts	**330**	**–**	**–**	**330**	**330**	–	–	–	–	–
	53,228	**98,034**	**1,916,667**	**2,067,929**	**1,909,304**	129,802	98,020	2,004,682	2,232,504	1,996,058

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risks arising from individual equity investments classified as available-for-sale investments and financial assets at fair value through profit or loss as at 31 December 2016, details of which have been set out in notes 13 and 15 to the consolidated financial statements respectively. The Group's listed investments are mainly listed on the Stock Exchange, the Shenzhen Stock Exchange ("SZSE") and the Shanghai Stock Exchange ("SSE") and are valued at quoted market bid prices at the end of the reporting period.

The market equity index for the Stock Exchange, SZSE and SSE at the close of business of the nearest trading day in the year/period to the end of the reporting period, and its respective highest and lowest points during the year/period were as follows:

	For the year ended 31 December 2016		For the six months ended 31 December 2015	
	At 31/12/2016	**High/Low from 1/1/2016 to 31/12/2016**	At 31/12/2015	High/Low from 1/7/2015 to 31/12/2015
Hong Kong – Hang Seng Index	**22,001**	**24,100/18,320**	21,914	26,282/20,557
PRC – SZSE Component Index	**10,177**	**11,725/9,083**	12,665	13,755/9,291
PRC – SSE Composite Index	**3,104**	**3,734/2,656**	3,539	4,124/2,927

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the reasonably possible changes in the fair value of equity investments, with all other variables held constant had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The analysis is performed on the same basis for the six months ended 31 December 2015.

At the end of the reporting period, if the equity price had been 5% *(at 31 December 2015: 5%)* higher/lower with all other variables held constant, the Group's loss before tax would be decreased/ increased by HK$18,481,000 *(for the six months ended 31 December 2015: the Group's profit before tax were increased/decreased by HK$19,629,000)* as a result of changes in fair value of listed financial assets at fair value through profit or loss investments. Investment revaluation reserve would be increased/decreased by HK$4,164,000 *(at 31 December 2015: HK$3,460,000)* as a result of changes in fair value of listed available-for-sale investments. For sensitivity analysis on available-for-sale investments, no account has been taken on factors such as impairment which might impact on profit or loss.

31. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31 December 2016 and 31 December 2015 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair value measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 (lowest level): unobservable inputs for the asset or liability.

At 31 December 2016

	Total	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets measured at fair value				
Available-for-sale financial assets				
– Equity securities listed in Hong Kong	**83,288**	**83,288**	**–**	**–**
– Debt component of the Convertible Bonds	**233,477**	**–**	**233,477**	**–**
Financial assets at fair value through profit or loss				
– Equity securities listed in Hong Kong	**340,875**	**340,875**	**–**	**–**
– Equity securities listed outside Hong Kong	**2,186**	**2,186**	**–**	**–**
– Bond investment listed outside Hong Kong	**26,568**	**26,568**	**–**	**–**
– Unlisted fund investments	**27,088**	**–**	**27,088**	**–**
Derivative financial assets				
– Foreign currency forward contract	**5,851**	**–**	**5,851**	**–**
Liabilities measured at fair value				
Derivative financial liabilities				
– Cross-currency swap	**186,900**	**–**	**186,900**	**–**
– Futures contracts	**330**	**330**	**–**	**–**

31. FAIR VALUE MEASUREMENTS (Continued)

At 31 December 2015

	Total	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets measured at fair value				
Available-for-sale financial assets				
Equity securities listed in Hong Kong	69,208	69,208	–	–
Financial assets at fair value through profit or loss				
– Equity securities listed in Hong Kong	286,482	286,482	–	–
– Equity securities listed outside Hong Kong	106,106	73,475	639	31,992
– Unlisted fund investments	54,500	–	54,500	–
Derivative financial assets				
– Foreign currency forward contract	601	–	601	–
– Conversion options embedded in investments in Convertible Bonds	9,395	–	–	9,395
Liabilities measured at fair value				
Derivative financial liabilities				
– Cross-currency swap	102,129	–	102,129	–

Movements in Level 3 fair value measurements of financial assets

	Note	**1/1/2016 – 31/12/2016**	1/7/2015 – 31/12/2015
		HK$'000	*HK$'000*
Financial assets at fair value through profit or loss			
At the beginning of the year/period		**41,387**	5,246
Transfers to Level 1	*(i)*	**(31,992)**	(4,607)
Transfers to Level 2		**–**	(639)
Transfers from Level 1	*(i)*	**–**	31,992
Purchases *(Note 12)*		**–**	9,395
Net loss recognised in profit or loss *(Note 12)*		**(9,405)**	–
Exchange realignment		**10**	–
At the end of the year/period		**–**	41,387
Change in unrealised gain for the year/period included in profit or loss for assets held at the end of the year/period		**–**	1,549

31. FAIR VALUE MEASUREMENTS (Continued)

Movements in Level 3 fair value measurements of financial assets (Continued)

Note:

(i) Certain listed equity securities had been suspended for trading since October 2015. In the absence of active market, these investments' fair values of HK$31,992,000 as at 31 December 2015 were estimated on the basis of the quoted bid price before trading suspension, an analysis of the investees' prospects and other factors. These investments were transferred to Level 3 on the dates when the trading suspended. During the year ended 31 December 2016, these listed equity securities were resumed from suspension and transferred into Level 1 in March 2016.

Description of the valuation techniques and inputs used in Level 2 fair value measurement

The fair values of certain available-for-sale financial assets, certain equity securities listed outside Hong Kong, unlisted fund investments, derivative financial assets, derivative financial liabilities and cross-currency swap are determined by using valuation techniques and inputs using third-party pricing information without adjustment from the fund managers and the bank.

(a) Certain available-for-sale financial assets

Debt component of the Convertible Bonds was re-classified from held-to-maturity investments to available-for-sale financial assets and was remeasured at fair value. The fair value was determined with reference to the consideration as stipulated in the sale and purchase agreement dated 30 December 2016.

(b) Certain equity securities listed outside Hong Kong

Certain equity securities listed outside Hong Kong amounting to HK$Nil *(at 31 December 2015: HK$639,000)* purchased during the period was classified in Level 2 upon purchase. These listed equity securities temporarily suspended trading at the end of the year/period and resumed from suspension before the date of authorisation of the consolidated financial statements. In the absence of quoted bid price in an active market, the Group applied market approach in which the last traded prices before their trading suspension were used without adjustment as there has been no expected material gap-down between the date of suspension and resumption. To the extent that the significant inputs are observable, the Group categories these investments as Level 2.

(c) Unlisted fund investments

Note 15 to the consolidated financial statements provides detailed information about the valuation techniques used in the determination of the fair value of the unlisted fund investments.

31. FAIR VALUE MEASUREMENTS (Continued)

Description of the valuation techniques and inputs used in Level 2 fair value measurement (Continued)

(d) Derivative financial assets

Derivative financial assets, representing foreign currency forward contract, are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. To the extent that these significant inputs are observable, the Group categories these investments as Level 2.

(e) Derivative financial liabilities

(i) Derivative financial liabilities, representing cross-currency swap, are determined using the discounted cash flow method, of which key inputs are forward exchange rate and discounted rate, based on the independent valuer to estimate the fair value.

(ii) Derivative financial liabilities, representing foreign currency forward contract, are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. To the extent that these significant inputs are observable, the Group categories these investments as Level 2.

Valuation processes of the Group

The Directors determine the policies and procedures for both recurring and non-recurring fair value measurement. In estimating the fair value of an asset or a liability, the Directors use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Directors would engage third party qualified valuer to perform the valuation for significant assets and liabilities.

32. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to support the Group's growth and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions, future capital requirement of the Group and investment opportunities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2016 and the six months ended 31 December 2015.

32. CAPITAL MANAGEMENT (Continued)

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in securities and futures dealings and broking, corporate finance and investment advisory services, asset management and insurance broking services which are regulated entities under the Securities and Futures Commission, The Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association and subject to the respective minimum capital requirements.

The Group monitors capital using a gearing ratio, which is total borrowings divided by the total shareholders' equity. The Group's policy is to maintain the gearing ratio at a reasonable level. At the end of the reporting period, there were borrowings of HK$1,659,157,000 *(at 31 December 2015: HK$1,754,122,000)* for financing the operations of the Group which resulted in a gearing ratio of 705.8% *(at 31 December 2015: 430.3%)*.

33. COMMITMENTS

Commitments under operating leases

The Group leases a number of properties and other items under operating leases, which typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	At 31/12/2016 *HK$'000*	At 31/12/2015 *HK$'000*
Within one year	**20,509**	13,893
In the second to fifth year inclusive	**32,873**	4,572
	53,382	18,465

Commitments under foreign currency forward contract

In August 2015, the Company entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Company agrees to convert RMB100,000,000 to HK$112,994,000 (i.e. pay RMB100,000,000 and receive HK$112,994,000).

The foreign currency forward contract is accounted for by the Group in accordance with HKAS 39 accordingly and included in derivative financial assets set out in note 16 to the consolidated financial statements.

33. COMMITMENTS (Continued)

Commitments under cross-currency swap agreement

In June 2015, the Company entered into a three-year cross-currency swap agreement with a bank in the United Kingdom with initial exchange amounts of RMB1,484,279,000 and HK$1,853,032,000.

Pursuant to the cross-currency swap agreement, the Group is obliged to make semi-annual interest payments to the bank in Hong Kong Dollars. The amount to be paid is calculated on the final exchange amount of HK$1,872,659,000 with reference to the agreed annual rate of 4.7%. The Group in return is entitled to receive semi-annual interest on the final exchange amount of RMB1,500,000,000 at the rate of 6.45% per annum. Upon maturity of the cross-currency swap, the Group agrees to convert the final exchange amount of HK$1,872,659,000 to RMB1,500,000,000 (i.e. pay HK$1,872,659,000 and receive RMB1,500,000,000). The cross-currency swap is settled on gross basis.

The cross-currency swap is accounted for by the Group as a derivative in accordance with HKAS 39 accordingly and included in derivative financial liabilities set out in note 20 to the consolidated financial statements.

34. CONTINGENT LIABILITIES

The Company had issued corporate guarantee of HK$90,000,000 *(at 31 December 2015: HK$55,000,000)* and unlimited guarantee for a facility amounted to HK$560,000,000 *(at 31 December 2015: HK$65,500,000)* for banking facilities granted to subsidiaries from banks, which none of the amount was utilised *(at 31 December 2015: Nil)*.

The Company has not recognised any deferred income for the corporate guarantee given in respect of the banking facilities for subsidiaries as their fair value cannot be reliably measured and their transactions price was zero.

At the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantee.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company and the movements in its reserves are set out below:

	Note	**At 31/12/2016 HK$'000**	At 31/12/2015 HK$'000
Non-current assets			
Interests in subsidiaries	(a)	**602,866**	1,073,038
Held-to-maturity investments		**–**	350,486
Available-for-sale financial assets		**82,861**	68,754
		685,727	1,492,278
Current assets			
Held-to-maturity investments		**111,170**	–
Available-for-sale financial assets		**233,477**	–
Financial assets at fair value through profit or loss		**231,771**	447,082
Derivative financial assets		**5,851**	601
Deposits, prepayments and other receivables		**398,463**	207,913
Pledged deposits		**–**	783
Cash and bank balances		**423,328**	122,515
		1,404,060	778,894
Current liabilities			
Derivative financial liabilities		**186,900**	102,129
Other payables and accrued charges		**11,057**	11,066
		197,957	113,195
Net current assets		**1,206,103**	665,699
Total assets less current liabilities		**1,891,830**	2,157,977
Non-current liabilities			
Bonds payable		**1,656,761**	1,750,326
NET ASSETS		**235,069**	407,651
Capital and reserves			
Share capital		**244,121**	244,121
Reserves	(b)	**(9,052)**	163,530
TOTAL EQUITY		**235,069**	407,651

Approved and authorised for issue by the Board of Directors on 24 March 2017 and are signed on its behalf by:

WU Jian	**PU Rui**
Director	*Director*

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) Interests in subsidiaries

Interests in subsidiaries are stated at cost less accumulated impairment, if any.

(b) Movements of the reserves

	Investment revaluation reserve	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note ii)	*(Note i)*		
At 1 July 2015	85,258	214,079	65,059	(79,684)	284,712
Loss for the period	–	–	–	(28,737)	(28,737)
Other comprehensive loss for the period, net of tax					
Change in fair value on available-for-sale financial assets	(29,863)	–	–	–	(29,863)
Reclassification of investment revaluation reserve upon disposal	(62,582)	–	–	–	(62,582)
Other comprehensive loss for the period	(92,445)	–	–	–	(92,445)
Total comprehensive loss for the period	(92,445)	–	–	(28,737)	(121,182)
At 31 December 2015	(7,187)	214,079	65,059	(108,421)	163,530
At 1 January 2016	**(7,187)**	**214,079**	**65,059**	**(108,421)**	**163,530**
Loss for the year	**–**	**–**	**–**	**(167,500)**	**(167,500)**
Other comprehensive loss for the year, net of tax					
Change in fair value on available-for-sale financial assets	**(5,082)**	**–**	**–**	**–**	**(5,082)**
Other comprehensive loss for the year	**(5,082)**	**–**	**–**	**–**	**(5,082)**
Total comprehensive loss for the year	**(5,082)**	**–**	**–**	**(167,500)**	**(172,582)**
At 31 December 2016	**(12,269)**	**214,079**	**65,059**	**(275,921)**	**(9,052)**

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes: (Continued)

(b) Movements of the reserves (Continued)

(i) Contributed surplus

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation and the nominal amount of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company may not declare or pay a dividend, or make a distribution out of the contributed surplus, if there are reasonable grounds for believing that (i) it would, or would after the payment, be unable to pay its liabilities as they become due; or (ii) the realised value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(ii) Share premium

The share premium account of the Company of HK$214,079,000 *(at 31 December 2015: HK$214,079,000)* can be distributed in the form of fully paid bonus shares pursuant to the Companies Act 1981 of Bermuda (as amended).

(iii) Distributable reserves

At the end of the reporting period, in the opinion of the Directors, there is no reserve of the Company available for distribution to shareholders subject to the restriction stated above *(at 31 December 2015: Nil)*.

36. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Financial Management Limited ("SWSFM")	British Virgin Islands/ Hong Kong	US$10,000 (divided into 10,000 ordinary shares of US$1 each)	100%	100%	–	Investment holding and proprietary trading
Southwest Securities (HK) Asset Management Limited ("SWSAM")	Hong Kong/ Hong Kong	HK$34,000,000 ordinary shares and HK$6,000,000 non-voting deferred shares *(at 31 December 2015: HK$30,000,000 ordinary shares and HK$6,000,000 non-voting deferred shares)*	100%	–	100%	Provision of asset management services, distribution of unit trusts and mutual funds

36. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Capital Limited ("SWSCAP")	Hong Kong/ Hong Kong	HK$45,000,000 ordinary shares	100%	–	100%	Provision of corporate finance advisory services
Southwest Securities (HK) Finance Limited ("SWSFIN")	Hong Kong/ Hong Kong	HK$1,000 ordinary shares and HK$10,000 non-voting deferred shares	100%	–	100%	Provision of corporate and personal financing services
Southwest Securities (HK) Futures Limited ("SWSFUT")	Hong Kong/ Hong Kong	HK$20,000,000 ordinary shares and HK$10,000,000 non-voting deferred shares	100%	–	100%	Futures broking and proprietary trading
Southwest Securities (HK) Brokerage Limited ("SWSB")	Hong Kong/ Hong Kong	HK$775,000,000 ordinary shares and HK$25,000,000 non-voting deferred shares	100%	–	100%	Securities broking, margin financing and distribution of unit trusts and mutual funds
Southwest Securities (HK) Wealth Management Limited ("SWSWM") (formerly known as Tanrich Wealth Management Limited)	Hong Kong/ Hong Kong	HK$29,000,000 ordinary shares *(at 31 December 2015: HK$24,000,000 ordinary shares)*	100%	–	100%	Distribution of investment-linked products, mandatory provident fund products, provision of personal financial consulting and planning services and provision of insurance broking services
Southwest Securities (HK) Investments Limited ("SWSINV")	Hong Kong/ Hong Kong	HK$1 ordinary share	100%	–	100%	Investment holding
Southwest Securities (HK) Investment Management Limited ("SWSIM")	Hong Kong/ Hong Kong	HK$1,000,000 ordinary shares	100%	–	100%	Investment holding
Southwest Securities (HK) Promotion Limited ("SWSP")	Hong Kong/ Hong Kong	HK$300,000 ordinary shares	100%	–	100%	Provision of advertising services
Southwest Securities (HK) Properties Agency Limited ("SWSPA")	Hong Kong/ Hong Kong	HK$10,000 ordinary shares	100%	–	100%	Property agency
TOP Commodity Capital Management Limited ("TOPCCM")	Hong Kong/ Hong Kong	HK$150,000 ordinary shares	100%	–	100%	Investment holding
西證諮詢服務(深圳)有限公司	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK$5,000,000	100%	–	100%	Provision of corporate finance advisory services
西證(大連)投資管理有限公司	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK$6,000,000	100%	–	100%	Not yet commenced business

36. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Value Fund ("SWVF")#	Cayman Islands	10 non-participating voting management shares of US$0.01 par value and 30,000 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Investment holding
Southwest Value Master Fund ("SWVMF")#	Cayman Islands	10 non-participating voting management shares of US$0.01 par value, and 29,700 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Portfolio investment

In accordance with Articles of Association of each of SWSAM, SWSFIN, SWSFUT and SWSB, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (HK$0.01) per non-voting deferred share when the profit exceeds HK$100 Billion in any financial year.

SWVF and SWVMF were incorporated on 23 March 2016.

37. COMPARATIVE FIGURES

The last consolidated financial statements covered from 1 July 2015 to 31 December 2015 and the comparatives figures are extracted from the consolidated financial statements for the year ended 31 December 2015. These consolidated financial statements covered from 1 January 2016 to 31 December 2016 and therefore the comparative figures of the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes are not entirely comparable.

FIVE-YEAR SUMMARY

RESULTS:

	Financial year/period				
	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015	1/7/2013 – 30/6/2014	1/7/2012 – 30/6/2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**92,038**	16,024	56,245	69,912	55,175
Profit (Loss) before tax	**(167,186)**	18,305	12,941	(17,646)	(32,470)
Income tax credit (expense)	**263**	(4,680)	(1,650)	(93)	–
Profit (Loss) for the year/period	**(166,923)**	13,625	11,291	(17,739)	(32,470)
Attributable to:					
Equity shareholders of the Company	**(166,923)**	13,625	11,291	(17,739)	(32,470)

ASSETS AND LIABILITIES:

	Assets and liabilities at				
	31/12/2016	31/12/2015	30/6/2015	30/6/2014	30/6/2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**104,222**	433,326	140,010	113,097	96,358
Current assets	**2,040,151**	1,975,709	2,328,413	286,689	157,887
Total assets	**2,144,373**	2,409,035	2,468,423	399,786	254,245
Current liabilities	**(250,147)**	(247,262)	(85,284)	(236,770)	(92,481)
Non-current liabilities	**(1,659,157)**	(1,754,122)	(1,854,306)	–	–
Total liabilities	**(1,909,304)**	(2,001,384)	(1,939,590)	(236,770)	(92,481)
Net total assets	**235,069**	407,651	528,833	163,016	161,764
Current ratio	**8.16**	7.99	27.30	1.21	1.71
Gearing ratio	**706%**	430%	351%	115%	45%

Southwest Securities
International Securities Limited
西證國際證券股份有限公司