

PineStone 鼎石

Pinestone Capital Limited

鼎石資本有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

(Stock Code 股份代號: 804)

2018

INTERIM REPORT

中期業績報告



PineStone

鼎石

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Corporate Information

Board of Directors (The "Board") Executive Directors

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

Independent Non-Executive Directors

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Compliance Officer

Mr. Cheung Jonathan

Company Secretary

Mr. Au Kin Kee Kinson ACS ACIS

Authorised Representatives

Mr. Cheung Yan Leung Henry
Mr. Cheung Jonathan

Trading Stock Code

804

Registered Office

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

Headquarter and Principal Place of Business in Hong Kong

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

Hong Kong Branch Share Registrar & Transfer Office

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

Principal Banker

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

Auditor

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

Company's Website

www.pinstone.com.hk

Financial Highlights

- The Company recorded an unaudited revenue of approximately HK\$8.7 million for the six months ended 30 June 2018, representing a decrease of approximately 57% compared to the same period of the last correspondingly period (six months ended 30 June 2017: HK\$20.1 million). Such decrease was mainly attributable to a decrease of approximately HK\$11.2 million of interest income from securities-backed lending services, which was partially offset by an increase of approximately HK\$0.3 million in commission income of securities brokerage services.
- The Company recorded an unaudited profit attributable to the owners of the Company of approximately HK\$3.2 million for the six months ended 30 June 2018, which was approximately 70% lower than that of the corresponding period in 2017 (30 June 2017: HK\$10.6 million).
- The basic and diluted earnings per share for the six months ended 30 June 2018 were HK 0.07 cents (2017: HK 0.22 cents).
- The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: nil).

Unaudited Condensed Consolidated Interim Results for the Six Months Ended 30 June 2018

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2018, together with the comparative unaudited figures for the corresponding period in 2017, as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
REVENUE	3	8,730	20,121
Other income	5	2	1
Commission expense		(32)	–
Employee benefit expenses		(2,212)	(2,154)
Depreciation		(59)	(44)
Other operating expenses		(2,460)	(4,267)
Finance costs	7	(39)	(298)
PROFIT BEFORE INCOME TAX	6	3,930	13,359
Income tax expense	8	(724)	(2,724)
PROFIT FOR THE PERIOD		3,206	10,635
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		–	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3,206	10,635
		HK cents	HK cents
EARNINGS PER SHARE			
Basic and diluted	10	0.07	0.22

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	37	96
Intangible asset		500	500
Statutory deposits placed with stock exchange and clearing house		205	205
Deferred tax assets		1,484	1,484
		2,226	2,285
Current assets			
Trade receivables	12	204,351	173,705
Loan receivables		9,848	9,848
Other receivables, deposits and prepayments		919	1,000
Tax recoverable		474	1,197
Trust bank balances held on behalf of customers	13	11,671	16,469
Cash and bank balances		62,507	93,455
		289,770	295,674
Current liabilities			
Trade payables	14	11,222	16,515
Other payables and accruals		664	985
Borrowings	15	2,528	6,083
Tax payable		42	42
		14,456	23,625
Net current assets		275,314	272,049
Total assets less current liabilities/Net assets		277,540	274,334
CAPITAL AND RESERVES			
Share capital	16	4,910	4,910
Reserves		272,630	269,424
Total equity		277,540	274,334

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share capital HK\$'000	Share premium* HK\$'000	Capital reserves* HK\$'000	Retained profits* HK\$'000	Total HK\$'000
Six months ended 30 June 2017 (unaudited)					
At 1 January 2017	4,910	217,210	(4,866)	43,019	260,273
Profit for the period	-	-	-	10,635	10,635
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	10,635	10,635
As at 30 June 2017	4,910	217,210	(4,866)	53,654	270,908
Six months ended 30 June 2018 (unaudited)					
As at 1 January 2018	4,910	217,210	(4,866)	57,080	274,334
Profit for the period	-	-	-	3,206	3,206
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	3,206	3,206
As at 30 June 2018	4,910	217,210	(4,866)	60,286	277,540

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in)/from operating activities	(27,356)	18,024
Net cash from investing activities	2	1
Net cash (used in)/from financing activities	(3,594)	3,464
Net (decrease)/increase in cash and cash equivalents	(30,948)	21,489
Cash and cash equivalents at beginning of period	93,455	47,414
Cash and cash equivalents at end of period	62,507	68,903
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	62,507	68,903

Notes to the Financial Statements

1. Corporate Information

Pinestone Capital Limited (the “**Company**”) was incorporated as an exempted company in the Cayman Islands with limited liability on 14 January 2015. The shares of the Company were listed on the Growth Enterprise Market (“**GEM**”) on 12 June 2015 and were transferred to the Main Board (“**Main Board**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effective on 8 June 2017.

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

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

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

The condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. The unaudited condensed consolidated statements for the six months ended 30 June 2018 were approved and authorised for issue by the directors on 10 August 2018.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

Save as the adoption of the new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period, the accounting policies used in preparing these condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

In the current period, the Group has adopted the following amendments to HKFRSs issued by HKICPA for the first time that are relevant to the Group and are effective for the current period.

HKFRS 9 – Financial Instruments

HKFRS 9, was developed to make financial reporting for financial instruments more relevant and understandable. HKFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and that have contractual terms that give rise to cash flows that are solely payments of principal and interests on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortized cost.

Based on the current assessment, the Group considers that the initial application of HKFRS 9 does not have a significant impact on the Group’s consolidated financial statements.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies (continued) HKFRS 15 – Revenue from Contracts with Customers

HKFRS 15, issued in July 2014, establishes a new single revenue recognition framework. Under HKFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expected to be entitled in exchange for transferring goods or services to a customers. HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenues. HKFRS 15 requires the application of a 5 steps 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 each performance obligation

Step 5: Recognize revenue when each performance obligation is satisfied

Based on the current assessment, the Group considers that the initial application of HKFRS 15 does not have a significant impact on the Group's consolidated financial statements.

The Group has not adopted any new or revised standards that have been issued by the HKICPA but are not yet effective for the current accounting period.

The unaudited condensed consolidated financial statements are prepared under the historical cost basis.

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

Notes to the Financial Statements

3. Revenue

The Company together with its subsidiaries (the “Group”) is principally engaged in the provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services. Revenue from the Group’s principal activities recognised during the period is as follows:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue from contracts with customers		
Commission income from		
securities brokerage services	480	217
Income from placing and underwriting services	–	478
Handling fee	221	152
	701	847
Revenue from others		
Interest income from		
securities backed lending services	8,029	19,274
	8,730	20,121

4. Segment Information

(a) Operating segment information

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

Notes to the Financial Statements

4. Segment Information (continued)

(b) Geographical segment information

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

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

(c) Information about major customers

Major customers with their revenue individually accounted for 10% or more with the Group's revenue are set out below:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Customer I	2,725	2,616
Customer II	1,120	N/A
Customer III	1,025	N/A
Customer IV	896	N/A
Customer V	N/A	2,969
Customer VI	N/A	2,140
Customer VII	N/A	2,123
Customer VIII	N/A	2,108
Customer IX	N/A	2,066

N/A – Not applicable as revenue generated from these customers were individually accounted for less than 10% of the Group's revenue for the respective period.

Notes to the Financial Statements

5. Other Income

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Bank interest income	2	1

6. Profit Before Income Tax

The Group's profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Auditor's remuneration	279	278
Operating lease charges in respect of building	734	734

Notes to the Financial Statements

7. Finance Costs

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on borrowings	39	298

8. Income Tax Expense

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	724	2,724

The Group is subject to Hong Kong Profit Tax. Profit tax rate for the first HK\$2.0 million profit for qualify entity is calculated at 8.25% while the remaining profit is calculated at 16.5%.

9. Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Notes to the Financial Statements

10. Earnings Per Share

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

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Earnings		
Profit for the period attributable to owners of the Company	3,206	10,635
	Number of shares (thousands)	
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the period	4,910,000	4,910,000

Diluted earnings per share is same as the basic earnings per share as there have been no dilutive potential ordinary shares in existence during the periods.

11. Property, Plant and Equipment

During the six months ended 30 June 2018, the Group did not incur any expenditure on acquisition of property, plant and equipment (six months ended 30 June 2017: nil).

Notes to the Financial Statements

12. Trade Receivables

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Trade receivables arising from securities dealing and margin financing		
– Cash clients	–	–
– Margin clients	211,744	181,129
– Clearing House	31	–
	211,775	181,129
Less: Provision of Impairment	(7,424)	(7,424)
	204,351	173,705

Notes:

- (a) The settlement terms of trade receivables arising from the business of securities dealing are two business days after trade date.
- (b) No aging analysis is disclosed for trade receivables from margin clients as, in the opinion of the Directors, aging analysis is not meaningful in view of the business nature of securities dealing and margin financing. Margin loans due from margin clients are current and repayable on demand for those margin clients subject to margin calls. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. As at 30 June 2018, the total market value of securities pledged as collateral in respect of the receivables from margin clients are approximately HK\$445 million (31 December 2017: HK\$310 million). Margin loans as at 30 June 2018 are interest bearing at a fixed rate ranged from 0% to 24.0% per annum (31 December 2017: 12.5% to 24.0% per annum). Subject to certain conditions, the Group is allowed to repledge collateral from margin clients. There was no repledge of collateral from margin clients as at 30 June 2018 (31 December 2017: nil).
- (c) The Group has policy for impairment allowance which is based on the evaluation of collectability of accounts and on management's judgement, including the current creditworthiness and the past collection history of each client or receivable. As assessed by the directors, no additional impairment allowance is necessary in respect of trade receivables at 30 June 2018 (31 December 2017: HK\$7.4 million).

Notes to the Financial Statements

13. Trust Bank Balances Held on Behalf of Customers

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

14. Trade Payables

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Trade payables arising from securities dealing:		
– Cash clients	5,984	14,366
– Margin clients	5,238	2,102
– Clearing house	–	47
	11,222	16,515

The settlement terms of trade payables arising from the business of securities dealing are two business days after the trade date ("T+2"). Trade payables arising from securities trading during the "T+2" period are current whereas those which are outstanding after the "T+2" period are repayable on demand.

Margin and cash client payables as at 30 June 2018 and 31 December 2017 included balances payable to certain related parties. Further details of these balances are set out in note 19.

Notes to the Financial Statements

15. Borrowings

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Current liabilities		
Bank loans	2,528	6,083
	2,528	6,083

The Group's bank loans as at 30 June 2018 and 31 December 2017 are scheduled for repayment within one year after the end of the reporting period. In addition, the related loan agreements contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion.

The bank loans are interest-bearing at the bank's prime lending rate adjusted by certain basis points and are secured by the corporate guarantee executed by the Company. The average interest rate of the Group's bank loans as at 30 June 2018 was 2.1% (31 December 2017: 2.0-2.1%) per annum.

Notes to the Financial Statements

15. Borrowings (continued)

As at 30 June 2018, the bank loans were scheduled for repayment as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
On demand or within one year	2,528	6,083

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

16. Share Capital

On 2 June 2016, the Company issued a total of 110,000,000 ordinary shares at HK\$0.55 each by way of placing i.e. the Placing. The total number of issued shares of the Company upon completion of the Placing was increased to 4,910,000,000 ordinary shares of HK\$0.001 each. Since then, the total number of issued shares of the Company has remained the same as 4,910,000,000 ordinary shares.

Notes to the Financial Statements

17. Commitments

(a) Operating leases commitments – the Group as lessee

The Group leases an office under operating lease arrangement. The lease runs for an initial period of three years and is non-cancellable. The total minimum lease payment under the lease are due as follows:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Within one year	1,911	1,135
Later than one year and not more than five years	4,718	–
	6,629	1,135

(b) Capital commitments

The Group did not have any material capital commitments as at 30 June 2018 (31 December 2017: nil).

18. Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

Notes to the Financial Statements

19. Related Party Transactions

The Group has the following significant transactions with related parties.

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

Name of related party	Related party relationship	Type of transaction	Transaction amount	
			Six months ended	
			30 June	
			2018	2017
			HK\$'000	HK\$'000
Mr. Cheung Yan Leung Henry	Director	Brokerage income	22	3
Mr. Cheung Jonathan	Director	Brokerage income	2	–
Mr. Wong Wing Shing	Senior Management	Brokerage income	7	1

Notes to the Financial Statements

19. Related Party Transactions (continued)

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

Balances arising from securities dealing transactions included in trade payables.

Name of related party	Related party relationship	As at	As at
		30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Mr. Cheung Yan Leung	Director	2,440	1,090
Mr. Cheung Jonathan	Director	313	–
Ms. Chow Shuk Yi Zoe	Close family member of director (note)	989	110

(c) Compensation of senior management personnel

The remuneration of directors and other members of senior management during the periods was as follows:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Salaries, allowances and other benefits	1,469	1,299
Contributions to defined contribution retirement plan	44	40
	1,513	1,339

Note: Ms. Chow Shuk Yi Zoe is the spouse of Mr. Cheung Jonathan.

Management Discussion and Analysis

Business Review

The Group is principally engaged in providing bespoke services encompassing securities brokerage, securities-backed lending and placing and underwriting services. Since the Company's successful listing by way of placing (the "**Placing**"), there has been no significant change in the business operations of the Group.

During the period under review, we recognised commission income from our securities brokerage services, interest income from our securities-backed lending services as well as income from placing and underwriting services.

During the first half of 2018, the Hong Kong Stock Market continued to be volatile with the breakout of trade war disputes between China and the USA. For the first half of 2018, the Hong Kong Stock Market recorded a decrease of 1,073 points or approximately 3.6% from the open of the Hang Seng Index 30,028 points on 2 January 2018 to close at 28,955 points on 30 June 2018. The average daily turnover for the first six months of 2018 was HK\$126.6 billion, an increase of 67% when compared with HK\$76.0 billion for the same period last year.

Securities Brokerage

During the first six months ended 30 June 2018, our securities brokerage services had shown signs of improvement. Commission income from our securities brokerage increased to approximately HK\$0.5 million for the six months ended 30 June 2018, representing a surge of approximately 150% from approximately HK\$0.2 million of the corresponding period in 2017.

Securities-backed Lending Services

During the first six months ended 30 June 2018, our securities-backed lending services had been adversely affected by decreasing interest income. Interest income for securities-backed lending services was HK\$8.0 million, representing a decrease of approximately 59% from approximately HK\$19.3 million recorded for the corresponding period in 2017. Money lending services recorded an insignificant contribution for the six months ending 30 June 2018.

Management Discussion and Analysis

Business Review (continued)

Securities-backed Lending Services (continued)

Margin Financing Services

During the six months ended 30 June 2018, the size of our margin finance loan portfolio has been increased. We recorded an average month-end margin finance loan balance of approximately HK\$212.8 million, compared to an average of loan balance of approximately HK\$177.3 million for the six months ended 30 June 2017. During the period for the six months ended 30 June 2018, interest income from margin financing services decreased to approximately HK\$8.0 million, recording a decrease of 59% from approximately HK\$19.3 million recorded for the six months ended 30 June 2017.

Placing and Underwriting Business

The Group did not participate any placing and underwriting activities, for the six months ended 30 June 2018, compared to 3 activities in the corresponding period last year.

Net Profit for the period

The Group's consolidated net profit for the six months ended 30 June 2018 was approximately HK\$3.2 million (six months ended 30 June 2017: HK\$10.6 million), representing a decrease of approximately HK\$7.4 million or approximately 70% over the corresponding period last year. Such decrease was mostly attributable to the revenue decrease of approximately HK\$11.2 million in the securities-backed lending services (six months ended 30 June 2017: HK\$19.3 million) which was partially offset by an increase in commission income of securities brokerage of approximately HK\$0.3 million (six months ended 30 June 2017: HK\$0.2 million).

Outlook

The global economy continues to be volatile with the increasing political conflicts and the breakout of trade war between China and the US. With the emerging uncertainties on policy risk, tariff and interest rates, the Group will continue to closely monitor changes in the market, manage our positions and prudently adjust our risk exposures from time to time. With our solid market position, the Group will continue to build upon our foundation of client relationships, cultivate emerging prospects and capitalize on strategic opportunities to diversify our risk exposure and strengthen our business position for long term growth.

Management Discussion and Analysis

Financial Review Revenues

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue from contracts with customers		
Commission income from securities brokerage services	480	217
Income from placing and underwriting services	–	478
Handling fee	221	152
	701	847
Revenue from others		
Interest income from securities backed lending services	8,029	19,274
	8,730	20,121

The Group's revenue is mainly derived from (i) commission income from securities brokerage services; (ii) interest income from securities-backed lending services and (iii) income from placing and underwriting service respectively.

Total revenue for the six months ended 30 June 2018 was approximately HK\$8.7 million (six months ended 30 June 2017: HK\$20.1 million), representing a decrease of approximately HK\$11.4 million or 57% compared to the same period in 2017. The decrease was mostly attributable to the decrease of approximately HK\$11.2 million in interest income from securities backed lending services which was partially offset by an increase of approximately HK\$0.3 million of commission income from securities brokerage. Placing and underwriting services did not contribute during the period.

Commission income from securities brokerage increased by approximately HK\$0.3 million to approximately HK\$0.5 million for the six months ended 30 June 2018, compared to HK\$0.2 million for the corresponding period in 2017. Interest income from securities-backed lending services decreased to HK\$8.0 million for the six months ended 30 June 2018, representing a decrease of approximately 59% from HK\$19.3 million for the corresponding period ended 30 June 2017.

Management Discussion and Analysis

Financial Review (continued)

Employee benefits expenses

For the six months ended 30 June 2018, the Group recorded approximately HK\$2.21 million employee benefit expenses, representing an increase of approximately HK\$0.06 million from HK\$2.15 million of the corresponding period in 2017. Employee benefits expenses include staff salaries and allowances and benefits, directors' emoluments and contribution to defined contribution retirement scheme. The increment was due to directors' emoluments to the Directors and general salaries increment in the first half of 2018. As at 30 June 2018, the Group had a total of 14 employees, comparing with 15 employees as of 30 June 2017.

Other operating expenses

At approximately HK\$2.5 million, other operating expenses represented approximately 51% of the total expenses during the six months ended 30 June 2018 (30 June 2017: HK\$4.3 million). The decrease in other operating expenses is due to the one-off listing expense for administrative and compliance fees of approximately HK\$1.5 million incurred in relation to the Transfer of the shares of the Company being listed on the Main Board from GEM in 2017. Excluding such one-off expense, other operating expenses amount to HK\$2.5 million in 2018, representing a decrease of 11%, compared to 2017's HK\$2.8 million.

Income tax expense

Income tax expense for the six months ended 30 June 2018 were approximately HK\$0.7 million (six months ended 30 June 2017: HK\$2.7 million). Such decrease was in line with the drop in net profit during the six months ended 30 June 2018 compared to the corresponding period in the prior year.

Profit for the period

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	3,206	10,635
	3,206	10,635

Management Discussion and Analysis

Financial Review (continued)

Profit for the period (continued)

The Group recorded a net profit of approximately HK\$3.2 million which was approximately 70% lower than the corresponding period in 2017 (six months ended 30 June 2017: HK\$10.6 million). Such decrease was mainly attributable to a decrease in interest income of securities-backed lending services of approximately HK\$8.0 million as at 30 June 2018, representing a decrease of approximately 59% when compared to HK\$19.3 million as at 30 June 2017. Such decrease was partially offset by an increase of approximately HK\$0.3 million in commission income from securities brokerage as at 30 June 2018, which was approximately 150% increase from about HK\$0.2 million as at 30 June 2017. All expenses of the Group remained relatively stable when compared with the corresponding period in 2017.

Liquidity and Financial Resources and Capital Structure

The Group financed its operations mostly by shareholders' equity, bank loans, issuing of bonds and cash generated from operations.

Liquidity and Financial Resources

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Current assets	289,770	295,674
Current liabilities	14,456	23,625
Current ratio (<i>times</i>) (Note i)	20.0	12.5
Interest Coverage (<i>times</i>) (Note ii)	102	31
Gearing ratio (<i>times</i>) (Note iii)	0.01	0.02

Notes:

- (i) Current ratio is calculated as current assets divided by current liabilities.
- (ii) Interest coverage is calculated as profit before interest and taxes divided by interest payable.
- (iii) Gearing ratio is calculated as total debt divided by shareholders' equity.

Management Discussion and Analysis

Liquidity and Financial Resources and Capital Structure (continued)

Liquidity and Financial Resources (continued)

The Group recorded a current ratio of approximately 20.0 times as at 30 June 2018 (31 December 2017: 12.5 times), reflecting a sound financial strength of the Group.

As at 30 June 2018, the Group's cash and bank balances amounted to approximately HK\$62.5 million (31 December 2017: HK\$93.4 million). The Group recorded an interest coverage of approximately 102 times (31 December 2017: 31 times).

As at 30 June 2018, overall interest bearing liabilities of the Group are approximately HK\$2.5 million. With an equity base of HK\$277.5 million, the Group has a low gearing ratio of approximately 0.01 times (31 December 2017: 0.02 times). The Company does not have any long term liabilities.

The Group has outstanding tax loans of approximately HK\$2.5 million from a bank as of 30 June 2018 (31 December 2017: tax loan HK\$6.1 million). During the period under review, the Group's operations, capital expenditure and other capital requirements were funded by internal operations, credit facilities from banks, and general working capital.

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

Nature of Loan	Pinestone Securities Limited HK\$'000
Tax Loan	2,528

Management Discussion and Analysis

Foreign Currency Exposure

The Group's reporting currency is Hong Kong dollar. During the six months ended 30 June 2018 and year ended 31 December 2017, the Group's transactions were denominated in Hong Kong dollars ("HK\$"). The Group had no material exposure to foreign currency risk.

Contingent Liabilities

As at 30 June 2018 and 31 December 2017, the Group did not have any material contingent liabilities.

Event after the Reporting Period

Up to the date of results announcement and interim report issuance, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the six months ended 30 June 2018.

Significant Investments

The Group did not acquire or hold any significant investment during the period under review.

Pledge of Assets

As at 30 June 2018 (31 December 2017: Nil), the Group did not pledge any of its assets.

Capital Commitments

As at 30 June 2018 and 31 December 2017, the Group did not have any significant capital commitments.

Other Information

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

As at 30 June 2018, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Long positions in the ordinary shares of the Company:

Name of directors	Number of the shares interested and nature of interest			Approximate percentage of the total issued share capital of the Company (%)
	Personal	Corporate	Total	
Cheung Yan Leung Henry (Note 1)	–	2,520,000,000	2,520,000,000	51.3
Cheung Jonathan (Note 2)	–	1,080,000,000	1,080,000,000	22.0

Notes:

- The interests disclosed includes 2,520,000,000 Shares of the Company beneficially held by HCC & Co. Limited ("HCC"), which is wholly owned by Mr. Cheung Yan Leung Henry.
- The interests disclosed includes 1,080,000,000 Shares of the Company beneficially held by Snail Capital Limited ("SCL"), which is wholly owned by Mr. Cheung Jonathan.

Save as disclosed above, as at 30 June 2018, none of the Directors and chief executives of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or to the Model Code of the Listing Rules.

Other Information

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Directors' Interests in shares and underlying shares" above and "Share Option Scheme" below, at no time during the period for the six months ended 30 June 2018 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

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

As at 30 June 2018, substantial shareholders (not being the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of shareholders	Capacity and nature of Interest	Notes	Total number	Approximate percentage of the total issued share capital of the Company (%)
HCC	Directly beneficially owned	1	2,520,000,000	51.3
SCL	Directly beneficially owned	2	1,080,000,000	22.0

Notes:

1. HCC is 100% owned by Mr. Cheung Yan Leung Henry, who is the beneficial owner of 2,520,000,000 shares in the Company. Mr. Cheung Yan Leung Henry owned approximately 51.3% of the issued shares of the Company.
2. SCL is 100% owned by Mr. Cheung Jonathan, who is the beneficial owner of 1,080,000,000 shares in the Company. Mr. Cheung Jonathan owned approximately 22.0% of the issued shares of the Company.

Save as disclosed above, the Directors and chief executives of the Company are not aware that there is any party who, as at 30 June 2018, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Other Information

Purchase, sale or Redemption of the Listed Shares of The Company

Neither the Company, nor any of its subsidiaries has purchased, sale or redeemed any of the listed shares of the Company from the date of listing on 12 June 2015 to the end of the reporting period, being 30 June 2018.

Employees and Remuneration Policy

As at 30 June 2018, the Group had 14 staff (30 June 2017: 15) in total. The Group's remuneration policy is based on the relevant director or member of senior management's duties, responsibilities, experiences, skills, time commitment, performance of our Group and are made with reference to those paid by comparable companies. Our employees are remunerated with monthly salaries and discretionary bonuses based on individual performance, market performance, our Group's profit as a whole and comparable market levels. Apart from salary payments, other staff benefits include provident fund contributions, medical insurance coverage, other allowances and benefits.

Share Option Scheme

The Share Option Scheme was adopted by the shareholders of the Company with effective on 22 May 2015. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. The purpose is to provide incentives or rewards to the eligible participants for their contribution to the Company and/or enabling it to recruit and retain high-calibre employees and attract human resources that are valuable. No share option has been granted to any eligible participants under the Share Option Scheme since its adoption.

Corporate Governance

Pursuant to Chapter 13 of the Listing Rules, rules 13.13, and 13.14, the Company has complied with and does not have advances to any entity nor advances to affiliated companies. In addition, pursuant to the Listing Rule 13.17, our major shareholders have not pledged any of the shares of the Company.

During the financial period under review, all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited were met by the Company.

Other Information

Directors' Securities Transactions

The Company has adopted in a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 of the Listing Rules. (the "**Required Standard of Dealings**").

Having made specific enquiries of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings throughout the reporting period and up to the date of this report. The Company has not been notified by any incident of non-compliance during such period.

Competing Interests

As at 30 June 2018, none of the Directors, substantial Shareholders and their respective associates (as defined in the Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Audit Committee

The Audit Committee has been established with written terms of reference in compliance with Appendix 16 of the Listing Rules and code provision C.3.3 of the Corporate Governance Code. The Audit Committee currently comprises a total of three members, all of whom are independent non-executive Directors. Two members are Certified Public Accountants including the chairman, Mr. Yeung King Wah. The other members are Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung respectively. The primary duty of the Audit Committee is to review and supervise the Company's financial reporting process, the internal control systems of the Group and the monitoring of continuing connected transactions. Pursuant to C.3.3 of the Code on Corporate Governance Practices, the Audit Committee has reviewed the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018 and confirmed that the preparation of such complied with applicable accounting principles and practices adopted by the Company and the requirements of the Stock Exchange, and adequate disclosure had been made.

Other Information

Board of Directors

As at the date of this report, the directors of the Company are:

Executive Directors:

Mr. Cheung Yan Leung Henry

Mr. Cheung Jonathan

Independent Non-executive Directors:

Mr. Yeung King Wah

Mr. Lai Tze Leung George

Mr. So Stephen Hon Cheung

By Order of the Board of
PINESTONE CAPITAL LIMITED
Cheung Yan Leung Henry
Chairman

Hong Kong, 10 August 2018

