PineStone鼎石

Pinestone Capital Limited

鼎石資本有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 804)

ANNOUNCEMENT OF AUDITED FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2017, the Group's revenue amounted to approximately HK$38.7 million, representing a decrease of approximately 15% compared to 2016. Commission income of securities brokerage services decreased by approximately HK$2.3 million when compared to 2016. Placing and underwriting services also marked a decrease by HK$5.6 million when compared to 2016. The securities-backed lending services marked a modest increase of HK$0.8 million from HK$35.1 million in 2016 to HK$35.9 million in 2017.

- The Group's consolidated net profit for the year ended 31 December 2017 was approximately HK$14.1 million (2016: HK$27.6 million), representing about 49% decrease or approximately HK$13.5 million compared to last year. Such decrease was mostly attributable to an impairment provision of approximately HK$8.6 million which was made in respect of the trade and loans receivables relating to the securities-backed lending services. If excluding this impairment provision, which is a net tax amount of approximately HK$7.2 million, the Group would have recorded a net profit of approximately HK$21.3 million in 2017. It would have resulted in a decrease of 23% in net profit when comparing with 2016 instead.

- The basic and dilute earnings per share for the year ended 31 December 2017 were decreased by approximately 49% from HK0.57 cents in 2016 to HK0.29 cents in 2017.

- The Directors do not recommend the payment of any final dividend for the year ended 31 December 2017.

CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Pinestone Capital Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

		2017	2016
	Notes	***HK$'000***	*HK$'000*
Revenue	*5*	**38,689**	45,706
Other income		**2**	5
Commission expenses		**(123)**	(1,600)
Employee benefit expenses		**(4,766)**	(4,665)
Depreciation		**(113)**	(89)
Impairment loss on trade and loans receivables		**(8,605)**	–
Other operating expenses		**(6,936)**	(4,871)
Finance costs		**(588)**	(960)
Profit before income tax	*6*	**17,560**	33,526
Income tax expense	*7*	**(3,499)**	(5,976)
Profit for the year		**14,061**	27,550
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**14,061**	27,550
		HK cents	*HK cents*
Earnings per share			
Basic and diluted	*9*	**0.29**	0.57

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**96**	103
Intangible asset		**500**	500
Statutory deposits placed with stock exchange and clearing house		**205**	230
Deferred tax assets		**1,484**	58
		2,285	891
Current assets			
Trade receivables	*10*	**173,705**	167,964
Loans receivable	*11*	**9,848**	56,668
Other receivables, deposits and prepayments		**1,000**	703
Tax recoverable		**1,197**	–
Trust bank balances held on behalf of customers		**16,469**	6,719
Cash and bank balances		**93,455**	47,414
		295,674	279,468
Current liabilities			
Trade payables	*12*	**16,515**	7,010
Other payables and accruals		**985**	971
Borrowings	*13*	**6,083**	10,000
Tax payable		**42**	2,105
		23,625	20,086
Net current assets		**272,049**	259,382
Total assets less current liabilities/Net assets		**274,334**	260,273
CAPITAL AND RESERVES			
Share capital	*14*	**4,910**	4,910
Reserves		**269,424**	255,363
Total equity		**274,334**	260,273

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company in the Cayman Islands with limited liability. The shares of the Company were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 June 2015 and were transferred to the Main Board of the Stock Exchange with effect on 8 June 2017.

The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, George Town, Grand Cayman, 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 financial statements for the year ended 31 December 2017 were approved and authorised for issue by the directors on 29 March 2018.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

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

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

The accounting policies used in preparing the consolidated financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2016 with the addition of certain standards and interpretations of HKFRSs issued and became effective in current year as described in note 3 "Adoption of New or Revised HKFRSs".

3. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new or revised HKFRSs – effective 1 January 2017

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 7 Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the financial statements.

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

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the above amendments has no material impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

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

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
Amendments to HKFRS 9	Payment Features with Negative Compensation[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKAS 12 Income Taxes and HKAS 23 Borrowing Costs[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019

The directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Those new or revised HKFRSs that are expected to have a material impact on the Group's financial statements are set out below.

HKFRS 9 Financial Instruments

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 (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9.

Debt instruments classified as trade receivables, loans receivable, deposits, trust bank balances held on behalf of customers and cash and bank balances carried at amortised cost are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

Except for the expected credit loss model which may result in earlier provision of credit losses, the directors do not anticipate that the application of HKFRS 9 will have material impact on the Group's financial statements.

HKFRS 15 Revenue from Contracts with Customers and amendments to HKFRS 15 Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and related interpretations.

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: Recognise revenue when each performance obligation is satisfied

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 revenue.

In 2016, the HKICPA issued clarifications to HKFRS 15. The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases* and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group leases an office under operating lease arrangement. As at 31 December 2017, the total operating lease commitment in respect of this lease arrangement amounted to HK$1,135,000. The directors have performed a preliminary assessment and consider that this arrangement will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of this lease arrangement upon the application of HKFRS 16. In the income statement, as the lease will be capitalised in future, operating lease expenses will no longer be recorded for this lease while depreciation and interest expense will increase due to the depreciation charge on the right-of-use asset and the interest expense on the lease liability. The new standard is not expected to apply until the financial year ending 31 December 2019 and the impact on the Group's financial position and results upon the adoption of HKFRS 16 on this lease are not expected to be material. In addition, more quantitative and qualitative disclosures about the lease will be made following the requirements of HKFRS 16.

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

4. SEGMENT INFORMATION

(a) Operating segment information

The information reported to the executive directors, who are the chief operating decision makers for the purposes 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 have determined that the Group has only one single reportable segment which is provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services. The executive directors allocate resources and assess performance on an aggregated basis.

(b) Geographical segment information

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

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

(c) **Information about major customers**

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

	2017	2016
	HK$'000	*HK$'000*
Customer I	**5,567**	5,250
Customer II	**5,526**	N/A
Customer III	**3,849**	N/A
Customer IV	**N/A**	5,091
Customer V	**N/A**	4,827
Customer VI	**N/A**	4,619

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

5. REVENUE

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

	2017	2016
	HK$'000	*HK$'000*
Commission income from securities brokerage services	**917**	3,244
Interest income from securities-backed lending services	**35,846**	35,091
Income from placing and underwriting services	**1,663**	7,271
Handling fee	**246**	97
Others	**17**	3
	38,689	45,706

6. PROFIT BEFORE INCOME TAX

	2017	2016
	HK$'000	*HK$'000*
Auditor's remuneration *(note)*	**614**	520
Operating lease charges in respect of building	**1,466**	1,466

Note: Auditor's remuneration included remuneration paid/payable for audit service of HK$533,000 (2016: HK$520,000) and non-audit services of HK$81,000 (2016: nil).

7. INCOME TAX EXPENSE

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

	2017	2016
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– tax for the year	**4,971**	5,978
– over-provision in respect of prior years	**(46)**	(1)
	4,925	5,977
Deferred tax		
– tax for the year	**(1,426)**	(1)
Income tax expense	**3,499**	5,976

The Group is subject to Hong Kong Profits Tax which is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year.

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

	2017	2016
	HK$'000	*HK$'000*
Profit before income tax	**17,560**	33,526
Tax calculated at tax rate of 16.5%	**2,897**	5,532
Tax effect of revenue not taxable for tax purposes	**–**	(1)
Tax effect of expenses not deductible for tax purposes	**639**	590
Utilisation of tax losses previously not recognised	**–**	(154)
Tax effect of other temporary differences not recognised	**9**	10
Over-provision in respect of prior years	**(46)**	(1)
Income tax expense	**3,499**	5,976

8. DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2017 (2016: nil).

9. EARNINGS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company	**14,061**	27,550

	2017	2016
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	**4,910,000**	4,872,100

The weighted average number of ordinary shares used for the purposes of calculating the basic earnings per share for the year ended 31 December 2016 represented the weighted average number of ordinary shares in issue in the year, after taking into account the effect of share subdivision which took place on 15 March 2016 (note 14(a)) as if it had occurred on 1 January 2016 and the bonus element in the shares issued under the placing which took place on 2 June 2016 (note 14(b)).

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 year or prior year.

10. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables arising from securities dealing and margin financing *(note (a))*		
– Margin clients *(note (b))*	**181,129**	167,513
– Clearing house *(note (c))*	**–**	451
	181,129	167,964
Less: Provision of impairment *(note (d))*	**(7,424)**	–
	173,705	167,964

Notes:

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

(b) Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The amount of credit facilities granted to the margin clients is determined by the discounted market value of securities accepted by the Group. Margin loans due from margin clients are either current and repayable on demand for those margin clients subject to margin calls. Except for those disclosed below, no aging analysis is disclosed for trade receivables of 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.

During the current year, the Group demanded certain margin clients to deposit more money or securities to maintain their margin accounts, and sold their securities collateral to reduce the balances due from them. In addition, the Group has entered into repayment agreement with each of those margin clients to agree on a repayment schedule to settle their outstanding balances by monthly instalment of seven to ten months by deposit of cash or securities in equivalent market value. The aggregate amount of trade receivables due from these margin clients as at 31 December 2017 was HK$86,029,000, which are non-interest bearing, recoverable within one year and not yet past due based on the repayment agreements. The market value of the securities pledged as collateral in respect of these margin loans amounted to approximately HK$4,000,000 as at 31 December 2017. Subsequently, these margin clients have deposited additional securities collateral as required under the repayment agreements.

The remaining trade receivable balances as at 31 December 2017 were HK$95,100,000, of which HK$50,025,000 were current and HK$45,075,000 were repayable on demand. The market value of the securities pledged as collateral in respect of these margin loans amounted to approximately HK$306,000,000 as at 31 December 2017. Taking into account the value of securities collateral as at 31 December 2017 and subsequently deposited by the margin clients, management considered that no impairment provision is necessary in respect of these balances.

Subject to certain conditions, the Group is allowed to repledge collateral from margin clients. There was no repledge of collateral from margin clients as at 31 December 2017 (2016: nil).

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

(d) Movement in the provision for impairment of trade receivables arising from securities dealing and margin financing is as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**–**	–
Impairment loss recognised	**7,424**	–
At 31 December	**7,424**	–

The Group has policy for impairment allowance which requires management's judgment and estimation.

For the current year, impairment provision of HK$7,424,000 has been made for the individually impaired trade receivables due from the margin clients as mentioned in note (b) above with gross balance of HK$86,029,000 in aggregate. The amount of impairment is measured as the difference between the receivables' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) of the receivables discounted at the receivables' original effective interest rate.

11. LOANS RECEIVABLE

	2017	2016
	HK$'000	*HK$'000*
Loans receivable arising from money lending *(note (a))*		
– unsecured loans	**11,029**	–
– secured loans	**–**	56,668
	11,029	56,668
Less: Provision for impairment *(note (b))*	**(1,181)**	–
	9,848	56,668

Notes:

(a) The loans receivable as at 31 December 2016 were interest-bearing at 12.5% to 20% per annum and repayable in 2017. The borrowers, which are also margin clients of the Group's securities dealing business, had entered into securities charge agreements with the Group charging certain securities as collateral which were deposited in the designated margin accounts maintained by the borrowers.

Loans receivable as at 31 December 2016 amounting to HK$45,639,000 were settled during the year whereas the remaining balance amounting to HK$11,029,000 remained unsettled as of 31 December 2017. In respect of the outstanding loan receivable as at 31 December 2017, the Group has entered into repayment agreement with the borrower to agree on a repayment schedule to settle the borrower's outstanding balance by monthly instalment of ten months by deposit of cash until October 2018. The borrower is allowed to settle by way of depositing securities in equivalent market value. This loan receivable was unsecured and non-interest bearing.

The loans receivable as at 31 December 2016 were neither past due nor impaired whereas the loan receivable as at 31 December 2017 was not yet past due based on the repayment schedule agreed with borrower.

(b) Movement in the provision for impairment of loans receivable is as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**–**	–
Impairment loss recognised	**1,181**	–
At 31 December	**1,181**	–

The Group has policy for impairment allowance which requires management's judgment and estimation.

For the current year, impairment provision amounting to HK$1,181,000 (2016: nil) has been made for the outstanding loan receivable as at 31 December 2017 as the borrower has delayed repayment. The amount of impairment is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) of the receivable discounted at the receivable's original effective interest rate.

12. TRADE PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables arising from securities dealing		
– Cash clients	**14,366**	920
– Margin clients	**2,102**	6,090
– Clearing house	**47**	–
	16,515	7,010

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

13. BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Current liabilities		
Bank loans *(note (a))*	**6,083**	–
Bonds *(note (b))*	**–**	10,000
	6,083	10,000

Notes:

(a) The Group's bank loans as at 31 December 2017 were 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 as at 31 December 2017 are interest-bearing at fixed rates ranged from 2.0% to 2.1% per annum and are secured by the corporate guarantee executed by the Company.

(b) On 22 December 2015, the Company entered into a subscription agreement (the "**Subscription Agreement**") with a subscriber regarding the issue of non-convertible bonds (the "**Bonds**") in aggregate principal amount of HK$10,000,000. The Bonds were interest-bearing at 5% per annum, unsecured, and matured on 22 December 2017 unless they were early redeemed by the Company. The Bonds were issued at 100% of the principal amount.

The Company may at any time before the maturity date and from time to time by serving at least three days' prior written notice to the bondholder to redeem the Bonds (in whole or in part) at 100% of the total amount of the Bonds together with payment of interests accrued up to the date of such early redemption. No early redemption may be requested by the bondholder.

The Bonds were initially measured at fair value, net of directly attributable costs incurred, and subsequently measured at amortised cost using the effective interest method.

During the year ended 31 December 2017, the Group has fully settled the principal of the Bonds together with the accrued interest thereon.

The bank loans and the Bonds of the Group were scheduled to repay as follows:

	2017	2016
	HK$'000	*HK$'000*
On demand or within one year		
Bank loans	**6,083**	–
Bonds	**–**	10,000
	6,083	10,000

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

14. SHARE CAPITAL

Ordinary shares	**Par value**	**Number of shares**	**Amount**
	HK$		***HK$'000***
Authorised:			
At 1 January 2016	0.01	50,000,000,000	500,000
Subdivision of shares *(note (a))*		450,000,000,000	–
At 31 December 2016 and 31 December 2017	0.001	500,000,000,000	500,000

Ordinary shares	**Par value**	**Number of shares**	**Amount**
	HK$		***HK$'000***
Issued and fully paid:			
At 1 January 2016	0.01	480,000,000	4,800
Subdivision of shares *(note (a))*		4,320,000,000	–
Placing of shares *(note (b))*	0.001	110,000,000	110
At 31 December 2016 and 31 December 2017	0.001	4,910,000,000	4,910

Notes:

(a) On 15 March 2016, each of the Company's existing issued and unissued shares of HK$0.01 each was subdivided into 10 shares of HK$0.001 each. Immediately after this share subdivision, the authorised share capital was increased to 500,000,000,000 ordinary shares of HK$0.001 each and the total number of issued shares of the Company was increased to 4,800,000,000 ordinary shares of HK$0.001 each.

(b) On 2 June 2016, the Company issued a total of 110,000,000 ordinary shares at HK$0.55 each by way of placing (the "**2016 Placing**"). The total number of issued shares of the Company upon completion of the 2016 Placing was increased to 4,910,000,000 ordinary shares of HK$0.001 each.

Of the total gross proceeds from the 2016 Placing of HK$60,500,000, HK$110,000 representing the aggregate par value of shares issued was credited to the share capital of the Company whereas the remaining amount of HK$60,390,000 was credited to share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2017, global stock markets had performed well. In the USA, the Dow Jones Industrial Average Index (DJIA) ended the year with approximately 24% increase to close at 24,719 points. In UK, the Financial Times Stock Exchange 100 Index (FTSE 100) ended 2017 at new record high at 7,687 points. Steady economic growth coupled with a low inflation environment with an ample of liquidity boosted the momentum of the stock markets. As at 31 December 2017, the Hang Seng Index rose 36% to reach 29,919 points from 22,000 points at 31 December 2016. The average daily turnover in 2017 was HK$88.2 billion, an increase of 32% from HK$66.9 billion in 2016. In 2018, China's GDP is targeted to grow steadily at 6.5 percent. The Hong Kong Stock Exchange ("**HKSE**") will implement a new policy on same equity, different rights' for a new segment of companies. This will increase the attractiveness of ICT and Biotech companies to be listed on the HKSE, In addition, the "Stock Connect" programs for the mainland investors help to boost the liquidity for the Hong Kong Stock Market.

Securities-Backed Lending Services

During 2017, securities-backed lending services have been our core-profit generator for the Group. During 2017, interest income derived from securities-backed lending services rose to approximately HK$35.9 million, representing an increase of about 2% from approximately HK$35.1 million in 2016.

(a) Margin Financing

The rise in interest income from securities-backed lending services was mainly attributable to our margin financing activities. As at 31 December 2017, the size of our loan portfolio amounted to approximately HK$181.1 million, representing an increase of 8% compared to HK$167.5 million recorded as at 31 December 2016.

During 2017, the average size of our margin finance loan portfolio recorded an average month-end loan balance of approximately HK$191.1 million in 2017, compared to an average month-end loan balance of approximately HK$164.1 million in 2016. Due to an increase in size of the loan portfolio, interest income from our margin financing services increased to approximately HK$31.6 million, representing an increase of about 3% from approximately HK$30.8 million of the previous year in 2016.

(b) Money Lending Services

As at 31 December 2017, the Group recorded a loan portfolio of approximately HK$11.0 million to a borrower, compared to a total loan portfolio of approximately HK$56.7 million to five borrowers in 2016. The decrease was due to the repayment from some borrowers. In 2017, total interest income derived from money lending activities reached approximately HK$4.3 million, which was in line with the total amount of interest income derived in 2016.

Securities-Brokerage Service

Securities brokerage services continuously affected by our clients' inactive investment demand and attitude. Amid the Hang Seng Index gained approximately 7,919 points or 36% to reach 29,919 in 2017, trading activities were inclined towards selective heavy-weighted stocks. Trading activities of most of the small and mid-sized stocks remained sluggish. Commission income of our securities brokerage service in 2017 was HK$0.9 million, representing a drop of HK$2.3 million from HK$3.2 million in 2016.

Placing and Underwriting

Our placing and underwriting services are generally offered to listed companies, placing agents and/or the investors of listed companies. The business of this service depends on the demand or requests from our customers. During the year, the Group acted as the placing agent for one transaction while serving as a sub-underwriter for five transactions. During the year, the Group derived revenues of HK$1.7 million, compared to HK$7.3 million in 2016 from the placing and underwriter services.

Repayment of the bond

During the year, the 2-year 5% coupon bond was due. The repayment of the bond issued on 22 December 2015 with principal amount of HK$10,000,000 was fully repaid on 21 December 2017.

Total Assets

Total assets of the Group increased by 6% from approximately HK$280.4 million as at 31 December 2016 to approximately HK$298.0 million as at 31 December 2017. The increase was mainly attributable to an increase of approximately HK$5.7 million of trade receivables from 2016's HK$168.0 million to 2017's HK$173.7 million. Trust bank balances held on behalf of customers also increased by HK$9.8 million on a year-on-year basis in 2017. Also, cash and bank balances increased by approximately 97% from HK$47.4 million as at 31 December 2016 to HK$93.5 million as at 31 December 2017 while loans receivables decreased from HK$56.7 million as at 31 December 2016 to HK$9.8 million as at 31 December 2017.

Net Profit for the Year

The Group's consolidated net profit for the year ended 31 December 2017 was approximately HK$14.1 million (2016: HK$27.6 million), representing about 49% decrease or approximately HK$13.5 million compared to last year. Such decrease was mostly attributable to an impairment provision of approximately HK$8.6 million which was made in respect of the trade and loans receivables relating to the securities-backed lending services. If excluding this impairment provision, which is a net tax amount of approximately HK$7.2 million, the Group would have recorded a net profit of approximately HK$21.3 million in 2017. It would have resulted in a decrease of 23% in net profit when comparing with 2016 instead.

Financial Review

Revenue

Total revenues in 2017 was HK$38.7 million, representing a decrease of approximately 15% from HK$45.7 million in 2016. The decrease was mostly attributable to a drop of HK$2.3 million in securities brokerage service from HK$3.2 million in 2016 to HK$0.9 million in 2017 and HK$5.6 million in placing and underwriting services from HK$7.3 million in 2016 to HK$1.7 million in 2017. Interest income from margin financing service increase by approximately 3% from HK$30.8 million in 2016 to approximately HK$31.6 million in 2017. During the period under review, the money lending business contributed about HK$4.3 million revenue to the Group, which was in line with 2016.

Employee Benefits Expenses

Employee benefits expense is a major expense item for the Group, which accounted for 38% out of the total expenses (excluding impairment loss on trade and loans receivables amounted to HK$8.6 million) in 2017. Employee benefits expenses include staff salaries, allowances, benefits, directors' emoluments and contribution to defined contribution retirement scheme. Compared to 2016, employees benefits expenses recorded a slight increase of 2.1% from approximately HK$4.7 million in 2016 to approximately HK$4.8 million in 2017.

Other Operating Expenses

At approximately HK$6.9 million, other operating expenses (excluding impairment loss on trade and loans receivable amounted to HK$8.6 million) represented 56% of the total expenses during the year ended 31 December 2017 (2016: HK$4.9 million which accounted for 40% for the total expense). The increase was attributable to a charity donation of HK$1.0 million and an increase in expenses of transferring to the Main Board for compliance and regulated authorities' requirements. Including the amount of HK$8.6 million impairment provision, other operating expenses in 2017 was HK$15.5 million, representing an increase of approximately 216% from HK$4.9 million in 2016.

Income Tax Expense

The income tax expense for 2017 was approximately HK$3.5 million (2016: HK$6.0 million) and such decrease was consistent with the decrease in assessable profits under Hong Kong Profits Tax.

Profit for the Year

For the year ended 31 December 2017, the Group recorded profit before tax of approximately HK$17.6 million and net profit of approximately HK$14.1 million. These represented a decrease of 48% from profit before tax of HK$33.5 million in 2016 and 49% in net profit of HK$27.6 million in 2016. Such decrease was mostly attributable to an impairment provision of approximately HK$8.6 million which was made in respect of the trade and loans receivables relating to the securities-backed lending services.

Outlook

The Group has successfully transferred from GEM to the Main Board on 8 June 2017. After the transfer of the shares from GEM to the Main Board, we hope the enhanced profile would benefit the development of the Group in the long term.

With new schemes and policies implementing including the launch of Bond Connect program this year, to the new policy on "same equity, different rights", the market is expected to experience changes in respect of the mix and reach of investors, listed businesses and available financial products. The Group will closely observe the potential changes and dynamically explore new opportunities spanning different markets to optimize and diversify the Group's long term business development. The Group will strive to manage our positions, monitor market conditions and adjust our positions and risk exposures accordingly while optimizing the Group's long term sustainable growth. The Group will continue to cultivate client relationships, strengthen our financial positions to capitalize on emerging opportunities, and prepare for further expansion and growth.

Final Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017.

Capital Structure

As at 31 December 2017, outstanding tax and other loan balance was HK$6.1 million which bore interest primarily at fixed rates ranged from 2.0% to 2.1% per annum. (2016: Outstanding tax and other loans had been fully settled as at 31 December 2016 but with a 5% 2-year coupon bond in principal amount of HK$10,000,000 outstanding). The Group maintains a strong cash position with total cash and bank balances amounted to HK$93.5 million as at 31 December 2017 (2016: HK$47.4 million). Currently, the Group does not have any long term liability. Total debt to equity ratio remained at a low level of 2% compared to 4% in 2016. Interest coverage for the year ended 31 December 2017, calculated as profit before interest and tax divided by interest expense, amounted to 31 times (31 December 2016: 36 times).

During 2017 the Group's operations, capital expenditure and other capital requirements were funded by cash generated from operations, bank loans and working capital.

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

Liquidity and Financial Resources

	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000
Current assets	**295,674**	279,468
Trade receivables	**173,705**	167,964
Cash and bank balances	**93,455**	47,414
Current liabilities	**23,625**	20,086
Trade payables	**16,515**	7,010
Borrowings	**6,083**	10,000
Current Ratio (times)	**12.5**	13.9
Gearing Ratio (times)	**0.02**	0.04
Interest Coverage (times)	**31**	36

Foreign Currency Exposure

The Group's functional and presentation currency is Hong Kong dollar ("**HK$**"). During the years ended 31 December 2016 and 2017, the Group's transactions were denominated in HK$. The Group had no material exposure to foreign currency risk. The Group has not used any derivatives to hedge against its exposure to foreign exchange risks.

Contingent Liabilities

As at 31 December 2017 and 31 December 2016, the Group did not have any material contingent liabilities.

Significant Investments

The Group did not acquire or hold any significant investment during the year 2017. (2016: nil)

Pledge of Assets

As at 31 December 2017, (31 December 2016: nil), the Group did not pledge any of its assets.

Capital Commitments

As at 31 December 2017, the Group did not have any significant capital commitments (31 December 2016: nil).

Employees and Remuneration Policy

The remuneration of the executive directors is subject to review by the Remuneration Committee and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Company. The Group's remuneration policies are in line with prevailing market practice. The Group's employees are remunerated according to their performance, working experience and market conditions. As at 31 December 2017, the Group had 10 employees. Apart from basic salaries, other staff benefits include discretionary bonus, provident funds and medical scheme.

CORPORATE GOVERNANCE CODE

Good corporate governance practices improve transparency of the Company, optimize the Company's performance, and help to enhance stakeholders' confidence and support. The board of directors (the "**Board**") of the Company is committed to achieve good corporate governance practices and procedures. During the year under review, the Company has complied with the code provisions prescribed in the establishment and implementation of the Corporate Governance Code ("**CG Code**"), set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), to ensure the decision making processes and business operations are regulated in a proper manner. The Company will continuously to review its corporate governance practices as to enhance its corporate governance standards, comply with the increasingly complicated regulatory requirements, and meet with the rising expectations of the shareholders and respective investors. CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be assigned for the same person. In the Company, Mr. Cheung Yan Leung Henry has acted as chairman and Mr. Cheung Jonathan has acted as chief executive. Mr. Cheung Yan Leung Henry is the father of Mr. Cheung Jonathan. The Board currently consists of five members including two executive Directors (being the chairman of the Board and the chief executive officer of the Company) and three independent non-executive Directors. The independent nonexecutive directors, all of whom are independent of the Group's businesses, are highly experienced professionals with substantial experience in areas such as management, accounting and finance. The management of the Company is of the view that the membership of the Board represents rich and diversified background and industry expertise to oversee, advise and safeguard the interests of various stakeholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

Competing Interest

As at 31 December 2017, none of the Directors, substantial Shareholders and their repetitive 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 Company.

Interest of the Compliance Adviser

As at the date of this announcement, Altus Capital Limited ("**Altus**"), the compliance advisor of the Company. Except for (i) Altus participation as the sponsor in relation to the Company's listing on the Stock Exchange, and (ii) the compliance advisor agreement entered into between the Company and Altus dated 16 February 2015, neither Altus nor its associates, directors, employees or associates had any interest in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.19 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold 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 31 December 2017.

ANNUAL RESULTS

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 annual results and the consolidated accounts of the Group for the year ended 31 December 2017 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.

REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

ANNUAL GENERAL MEETING

The AGM for the financial year 2017 of the Company will be held at 11:00 a.m. on 11 May 2018 (Friday) at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central Hong Kong and a notice of AGM will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS TO ASCERTAIN SHAREHOLDERS' ENTITLEMENT TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING

The register of members of the Company for the annual general meeting will be closed from 7 May 2018 to 10 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance at the annual general meeting to be held on 11 May 2018, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than Friday, 4 May 2018 at 4:30 p.m..

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

A copy of this announcement will be found on Pinestone Capital Limited's website (www.pinestone.com.hk) and the Stock Exchange's website (www.hkexnews.hk). The Annual Report 2017 will be made available on the respective websites of Pinestone Capital Limited and the Stock Exchange in due course.

By order of the Board
Pinestone Capital Limited
Cheung Yan Leung Henry
Chairman

Hong Kong, 29 March 2018

As at the date of this announcement, the Board comprises Mr. Cheung Yan Leung Henry, Mr. Cheung Jonathan as executive Directors and Mr. Yeung King Wah, Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung as independent non-executive Directors.