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之有限公司)
(Stock Code 股份代號：8097)

ANNUAL REPORT
年報
2016

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the ``Directors") of Pinestone Capital Limited (the ``Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the ``GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Contents

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

8097

Registered Office

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

Headquarter and Principal Place of Business in Hong Kong

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

Hong Kong Branch Share Registrar & Transfer Office

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

Compliance Adviser

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

Principal Banker

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

Auditor

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

Company's Website

www.pinestone.com.hk

Chairman's Statement

Dear Shareholders,

Review

Despite a volatile economic and financial landscape, the Group has delivered a year of satisfactory growth. The Group's consolidated net profit of the year achieved an increase of 79% to HK$27.6 million in comparison to HK$15.4 million in 2015. During the year, the Group continued to focus on developing the existing business. The economic and political uncertainties have built up over the years and, as a result, have been affecting the business and investor's appetite and activities. In view of the market volatility, the Group has been monitoring our risk and credit exposure prudently throughout the years. We have also continued to focus on strengthening our capital and financial position amidst the weak economic sentiment. The sustained growth reflected the Group's effort in prudently expanding the business.

Outlook

The Group will continue to focus on developing our existing businesses including securities-backed lending, securities brokerage, placing and underwriting. The Group will continue to strengthen existing client relationship and further cultivate new clients to lay a solid foundation for long term growth. With the uncertainties in political and economic environment both locally and offshore, the Group will carefully evaluate and monitor the market conditions, and manage our positions accordingly.

Going forward, the group will continue to expand for long term success in the industry. The Group will continue to strengthen our financial positions, cultivate both existing and new client relationships; and explore business opportunities with the aim to maximise long-term return for our shareholders.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the Group's shareholders, business partners, clients, and our management and staff members for their continuous support.

On behalf of the Board,

Cheung Yan Leung Henry
Chairman & Executive Director

Hong Kong, 16 February 2017

Management Discussion and Analysis

Business Review

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in providing bespoke services encompassing securities brokerage, securities-backed lending and placing and underwriting businesses. Since the Company's successful listing on GEM of the Stock Exchange on 12 June 2015 (the "Listing") by way of placing (the "Placing"), there has been no significant change in the business operations of the Group. During the year, 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.

Financial Highlights

Year ended 31 December (HK$'000)	2014	2014 vs 2015 Percentage	*2015	2015 vs 2016 Percentage	2016
Revenue	33,025	+14%	37,502	+22%	**45,706**
Profit Before Tax	25,738	-21%	20,458	+64%	**33,526**
Net Profit	21,217	-27%	15,410	+79%	**27,550**
EPS# (H.K. cents)	0.59	-39%	0.36	+58%	**0.57**
Total Assets	164,141	+32%	216,330	+30%	**280,359**
Total Equity	31,059	+455%	172,223	+51%	**260,273**
Key Performance Indices					
Net Profit Margin (%)	64.2		41.1		**60.3**
Return on Equity (%)	68.3		8.9		**10.6**
Return on Total Assets (%)	12.9		7.1		**9.8**
Current Ratio (Times)	1.2		6.3		**13.9**
Gearing Ratio (Times)	N.A.		0.15		**0.04**

* The Company was listed on GEM of the Stock Exchange on 12 June 2015

\# Represents adjusted weighted average, taking into account the bonus element in the shares issued under the placing which took place on 2 June 2016.

For the year ended 31 December 2016, the Group's revenue amounted to approximately HK$45.7 million, representing an increase of approximately 22% compared to 2015.

The Group's consolidated net profit for the year was approximately HK$27.6 million, representing an increase of approximately 79% when compared to HK$15.4 million in 2015. The rise in profit was mostly attributable to an increase of approximately HK$10.9 million in interest income from securities-backed lending services and HK$3.7 million in commission income from placing and underwriting services, which were partially offset by an approximate HK$6.3 million decrease in commission income from brokerage services. Operating expense decreased from approximately HK$17.1 million in 2015 to approximately HK$12.2 million in 2016. As a result, basic earnings per share increased by approximately 58% from HK 0.36 cents per share in 2015 to HK 0.57 cents per share in 2016.

Management Discussion and Analysis

Securities Brokerage

During the year 2016, the Hong Kong Stock Market was lackluster clouded with some uncertainties. The slowdown of the China economy, the US interest rates hike, the exit of the United Kingdom from the European Union and the US presidential election had triggered certain irrational excitement leading to some short-lived rallies. Hang Seng Index was trading sideways between the peak and trough of 24,099 points and 18,319 points respectively, and closed the year ended 31 December 2016 at 22,000 points. The average daily turnover was HK$66.9 billion, a decrease of about 37% when compared with approximately HK$105.6 billion recorded for 2015. Our securities brokerage service suffered as a result with commission income from our securities brokerage decreased to approximately HK$3.2 million for the year ended 31 December 2016, representing a drop of 66% from HK$9.5 million in 2015.

Securities-backed Lending

During the period under review, the Group recorded encouraging growth for its securities-backed lending services, which have outshone other services. During 2016, interest income derived from securities-backed lending services surged to approximately HK$35.1 million, representing an increase of about 45% from approximately HK$24.2 million recorded for 2015. Both margin financing services and money lending services have recorded growth.

(A) *Margin Financing*

The increase in interest income from securities-backed lending services was mainly attributable to our margin financing activities. As at 31 December 2016, the size of our loan portfolio amounted to approximately HK$167.5 million, representing a decrease of 3% compared to HK$173.2 million recorded as at 31 December 2015. Nevertheless, during 2016, the average size of our margin finance loan portfolio continued to grow and recorded an average month-end loan balance of approximately HK$164.1 million in 2016, compared to an average month-end loan balance of approximately HK$139.3 million in 2015. Due to the increase in size of the loan portfolio, interest income from our margin financing services surged to approximately HK$30.8 million, representing an increase of about 28% from approximately HK$24.0 million of the previous year in 2015.

(B) *Money Lending Services*

As at 31 December 2016, the Group recorded a loan portfolio of approximately HK$56.0 million to five borrowers. Average size of each loan is approximately HK$11.2 million. Interests are charged between 12.5% to 20.0% with different terms and maturities. In 2016, total interest income derived from money lending activities reached approximately HK$4.3 million.

Placing and Underwriting

Despite the fact that the market sentiment has remained sluggish, the Group was able to originate and closed ten placing and underwriting transactions. During the year, the Group acted as the placing manager for two of these transactions while serving as a sub-underwriter for the remaining eight. During the year, the Group derived HK$7.3 million contribution from the placing and underwriting business, representing an increase of 103% from approximately HK$3.6 million in 2015.

Management Discussion and Analysis

Major Customers

During the year, the Group's five largest customers accounted for approximately 50% (2015: 60%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 11% (2015: 22%) of the total revenue.

None of the Directors or any of its close associates, or any shareholder (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Placing of 110 million new shares under the General Mandate

On 2 June 2016, the Company successfully placed 110,000,000 new shares at the placing price of HK$0.55 each to raise approximately HK$60.5 million (the "2016 Placing"). Among the proceeds from the placing, HK$10,000,000 were used to repay the 8% corporate loan to reduce the financing cost of the Group. The remaining proceeds have been used for the expansion of the securities-backed lending services and the general working capital of the Group.

Total Assets

Total assets of the Group increased by 30% from approximately HK$216 million as at 31 December 2015 to approximately HK$280 million as at 31 December 2016. The increase was mainly attributable to the aforementioned increase of loan receivables of HK$56.0 million from money-lending services with funds raised from the 2016 Placing.

Net Profit for the Year

The Group's consolidated net profit for the year ended 31 December 2016 was approximately HK$27.6 million (2015: HK$15.4 million), representing about 79% increase or approximately HK$12.1 million compared to last year. Such growth was mostly attributable to the revenue growth of approximately HK$10.9 million in the securities-backed lending services and the absence of listing expense of HK$8.3 million recognised in 2015. Excluding the one-off listing expense of HK$8.3 million incurred during the year ended 31 December 2015, the Group would have recorded a growth of approximately 16% in net profit from an adjusted net profit of approximately HK$23.7 million for the year ended 31 December 2015 to approximately HK$27.6 million for the year ended 31 December 2016.

Management Discussion and Analysis

Financial Review

Revenue

Despite the lackluster performance of the Hong Kong Stock market, the Group managed to ride out the storm and recorded increases both in revenue and net profit for the financial year 2016. Total revenue reached approximately HK$45.7 million in 2016, representing an increase of 22% over the corresponding period of HK$37.5 million in 2015. The significant growth was attributable to an increase of HK$10.9 million in interest income from securities-backed lending services which is offset by a decrease in commission income from securities brokerage services of HK$6.3 million in 2016. The increase in interest income from securities backed lending services was attributable to our increases in both margin financing services and money lending services. The growth was also attributable to the proceeds from the 2016 Placing, which lifted our average month-end loan balance to HK$164.1 million for the year 2016 (2015: HK$139.3 million). During the period under review, the money lending business contributed about HK$4.3 million revenue to the Group. The placing and underwriting commission also substantially increased by 103% or HK$3.6 million in 2015 to HK$7.3 million in 2016.

Employee Benefits Expenses

Employee benefits expense is a major expense item for the Group, which accounted for 38% out of the total expenses in 2016. Employee benefits expenses include staff salaries, allowances, benefits, directors' emoluments and contribution to defined contribution retirement scheme. Compared to 2015, employees benefits expenses recorded a modest increase of 4% from approximately HK$4.5 million in 2015 to approximately HK$4.7 million in 2016, which were in line with general market inflation.

Other Operating Expenses

At approximately HK$4.9 million, other operating expenses represented 40% of the total expenses during the year ended 31 December 2016 (2015: HK$12.3 million). If excluding the amount of HK$8.3 million for the one-off listing expenses in 2015, an increase of HK$0.9 million was reported, which was in line with general market inflation and the increase in expenses for compliance and regulated authorities' requirements.

Income Tax Expense

The income tax expense for 2016 was approximately HK$6.0 million (2015: HK$5.0 million) and such growth was consistent with the increase in profits assessable under Hong Kong Profits Tax.

Profits for the Year

For the year ended 31 December 2016, the Group recorded profit before tax of approximately HK$33.5 million and net profit of approximately HK$27.6 million respectively. After adjusting for the one-off listing expense of HK$8.3 million incurred during 2015, we would have reported an increase of approximately 16% in net profit from 2015's HK$23.7 million to 2016's HK$27.6 million.

Dividend

The Directors do not recommend the payment of final dividend for the year ended 31 December 2016. No dividend has been declared by the Company for the year ended 31 December 2016.

Management Discussion and Analysis

Capital Structure

As at 31 December 2016, all outstanding tax and other loan had been settled (Outstanding balance as at 31 December 2015: HK$16,675,000). The Group's cash and bank balances was HK$47.4 million as at 31 December 2016 (2015: HK$25.3 million). Currently, the Group has a principal amount of HK$10,000,000 coupon bond at 5% interest still inforce. This bond has a maturity period of two years which will expire by 22 December 2017. Total debt to equity ratio is at a lower level of 4% compared to 15% of the corresponding period in 2015. Interest coverage for the year ended 31 December 2016, calculated as profit before interest and tax divided by interest expense, amounted to 36 times (2015: 126 times).

To strengthen the Company's financial position, the Company placed 110,000,000 new shares at the placing price of HK$0.55 each to raise approximately HK$60.5 million on 2 June 2016. Among the proceeds from this placing, HK$10,000,000 were used to repay for the corporate loan to reduce the financing cost of the Group. The remaining proceeds of HK$50.5 million were used for the expansion of the securities-backed lending services and for the general working capital of the Group.

During the period under review, the Group's operations, capital expenditure and other capital requirements were funded by cash generated from operations, bank loans, issuing of bonds and proceeds from the 2016 Placing (approximately HK$60.5 million).

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 2016 HK$'000	As at 31 December 2015 HK$'000
Current assets	**279,468**	215,351
Trade receivables	**167,964**	173,181
Loans receivable	**56,668**	–
Cash and bank balances	**47,414**	25,250
Current liabilities	**20,086**	34,107
Trade payables	**7,010**	15,265
Borrowings	**10,000**	16,675
Non-current liabilities	**–**	10,000
Borrowings	**–**	10,000
Current Ratio (times)	**13.91**	6.31
Gearing Ratio (times)	**0.04**	0.15
Interest Coverage (times)	**36**	126

Management Discussion and Analysis

Foreign Currency Exposure

The Group's reporting currency is Hong Kong dollar. During the years ended 31 December 2015 and 2016, 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 31 December 2016 and 31 December 2015, the Group did not have any material contingent liabilities.

Significant Investments

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

Pledge of Assets

As at 31 December 2016, (31 December 2015: nil), the Group did not pledge any of its assets.

Capital Commitments

As at 31 December 2016, the Group did not have any significant capital commitments.

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.

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

Events After the Reporting Period

On 3 January 2017, the Group was granted a tax loan of HK$6,420,000 at an interest rate of 2% for more efficient utilisation of its financial resources.

Outlook

The Group will continue to focus on developing our existing businesses including securities-backed lending, securities brokerage, placing and underwriting. The Group will continue to strengthen existing client relationship and further cultivate new clients to lay a solid foundation for long term growth. With the uncertainties in political and economic environment both locally and offshore, the Group will carefully evaluate and monitor the market conditions, and manage our positions accordingly.

Going forward, the Group will continue to expand for long term success in the industry. The Group will continue to strengthen our financial positions, cultivate both existing and new client relationships; and explore business opportunities with the aim to maximise long-term return for our shareholders.

Corporate Governance Report

The board of directors (the "Directors") of the Company is committed to achieve good corporate governance practices and procedures. The directors believe that good Corporate Governance practices are becoming important to enhance stakeholders' confidence and support. During the year under review, the Company has complied with the code provisions prescribed in the establishment and implementation of the corporate governance guidelines containing principles and code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 15 of the GEM Listing Rules to ensure the decision making processes and business operations are regulated in a proper manner. The Company will continue to review its corporate governance practices in order to enhance its corporate governance standards, comply with the increasingly complicated regulatory requirements, and meet with the rising expectations of the shareholders and respective investors.

Chairman and Chief Executive

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be assigned for the same person. In the Company, decisions are made collectively by the executive Directors and occasionally are discussed with the management. The Board believes that this arrangement enables the Company to make decisions, operate and implement follow up actions quickly. This arrangement can help achieve the Company's objectives efficiently and effectively in response to the changing environment. The Board also believes that the Company already has a strong corporate governance structure in place to ensure effective oversight of management.

The Board

The board of Directors of the Company (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 Company has complied with the GEM Listing Rules Appendix 15 relating to the appointment of at least three independent non-executive Directors, with at least one of them possessing appropriate professional qualifications, or accounting or related financial management expertise. 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 and operate the Company efficiently and safeguard the interests of various stakeholders of the Company. The Company has received written confirmation from each independent non-executive Director of his independence pursuant to the requirement of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

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

Executive Directors

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

Corporate Governance Report

Independent Non-Executive Directors

Each of the independent non-executive Directors of the Company who was appointed on 22 May 2015 has signed a letter for renewal of appointment for a term of three years ending on 21 May 2018 with the Company, unless terminated earlier by either side by giving not less than one month's prior written notice and subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association of the Company. The commencement dates of the re-appointment for each of the independent non-executive Directors are as follows:

Independent Non-Executive Directors' Commencement Date

Name	Annual Directors' Fees HK$'000	Commencement Date
Mr. Yeung King Wah	120	22 May 2015
Mr. Lai Tze Leung George	120	22 May 2015
Mr. So Stephen Hon Cheung	120	22 May 2015

Mr. Yeung King Wah and Mr. So Stephen Hon Cheung, two of the independent non-executive Directors, possess the appropriate professional qualifications, or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules. All independent non-executive directors bring their wealth of experience to the Board and serve the important function of advising the management on strategy development to ensure that the Board maintains high standards in financial and other mandatory reporting as well as providing adequate checks for safeguarding the interests of the shareholders and the Company as a whole. Except as otherwise disclosed in this Annual Report, none of the independent non-executive Directors has any business or financial interests with the Company and all independent non-executive Directors confirmed their independence to the Group as at 31 December 2016 in accordance with Rule 5.09 of the GEM Listing Rules.

Board Diversity Policy

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

Audit Committee

The Company has established an audit committee (the "Audit Committee") with specific written terms of reference formulated in accordance with the requirements of the GEM Listing Rules 5.28 to 5.29. The Audit Committee currently consists of all the three INEDs, namely Mr. Yeung King Wah, Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung. Mr. Yeung King Wah is the chairman of our audit committee. The primary duties of our audit committee are mainly (i) to make recommendations to the Board on the appointment and removal of external auditors; (ii) to review and supervise the financial statements and provide advices in respect of financial reporting; (iii) to oversee internal control procedures and corporate governance of our Company; (iv) to supervise internal control systems of our Group; and (v) to monitor any continuing connected transactions.

During the year 2016, the Audit Committee held 4 meetings to review, assess and comment on our consolidated quarterly, interim and final results. It also has reviewed the risk management and internal control management functions of the Group. The preparation of the consolidated results is in compliance with applicable accounting principles and practices adopted by the Company and the requirements of the Stock Exchange, and adequate disclosure had been made.

Corporate Governance Report

Nomination Committee

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

Remuneration Committee

Pursuant to GEM Listing Rule 5.34, the Company has set up a remuneration committee (the "Remuneration Committee") with establishing authority and duties under its specific terms of reference. The Remuneration Committee consists of four members comprising 3 INEDs, namely Mr. Yeung King Wah, Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung, and one executive director, namely Mr. Cheung Jonathan. Mr. Yeung King Wah is the Chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are mainly (i) to review and make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; (ii) to review other remuneration matters, including benefits in kinds and other compensation payable to our Directors and senior management; and (iii) to review performance based remunerations and to establish a formal transparent procedure for developing policy in relation to remuneration. During the year, the "Remuneration Committee" has reviewed the remuneration package of the Directors and senior management of the Company.

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

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

(*) no. of attendance during the year

Notes:

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

Corporate Governance Report

Auditor's Remuneration

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

Fee Amount	HK$'000
Audit Services	520
Non-audit Services	–
Total	520

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 2016, the Group had 12 employees. Apart from basic salaries, other staff benefits include discretionary bonus, provident funds and medical scheme.

Sufficiency of Public float

Based on the information that is publicly available and within the knowledge of the Directors of the Company, the Company has maintained sufficient public float of 25% issued shares which worth more than HK$30 million under the GEM Listing Rules 11.23 as at the latest practicable date and prior to the issue of this report.

Environmental, Social and Governance Report ("ESG")

The Stock Exchange introduced ESG Reporting Guide in Appendix 20 of the Listing Rules which took effective in 2015. We have envisaged and adopted the ESG Reporting Guide in the writing of our reports. Please refer to pages 25 to 28.

Non-Competition Undertaking

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

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

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

Corporate Governance Report

Directors' Securities Transactions

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required Standard of Dealing").

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

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, 2016.

Directors' Training and Professional Development

Pursuant to the Code Provision A.6.5 under Appendix 15 of the GEM Listing Rules, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Reading materials on relevant topics are sent to the directors where appropriate. All directors and employees are encouraged to attend relevant training courses to keep abreast of the latest market and regulation changes. The participations by the directors and employees individuals in the continuous professional development are recorded.

Internal Control

A comprehensive internal and risk management system is essential to meet the objectives and safeguard the interests of the shareholders and the assets of the Company. The Company has developed its systems of internal control and risk management for its needs and to mitigate the risks that it is exposed to. The Directors have periodically assessed and reviewed the effectiveness of the Group's internal control system, including, in particular, financial, operational and compliance controls and risk management functions. During the year, the Group appointed an independent auditor to review and assess its internal control system. The review covered parts of the system including risks, operational, financial and compliance controls. The Board is of the view that the Group's current internal control review system is adequate and effective but will perform periodical reviews so as to improve and safeguard our internal control system.

Investors' Relations

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

Corporate Governance Report

Shareholders' Rights to Nominate a Director

If a shareholder of the Company (the "Shareholder") wishes to propose a person other than a director, (the "Director") for election as a new Director of the Company, the Shareholder must deposit a written notice (the "Notice") to the principal place of business of the Company in Hong Kong at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong, or the branch share registrar of the Company, Tricor Investor Services Limited ("Share Registrar"), at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for the attention of the company secretary of the Company (the "Company Secretary").

The Notice must state clearly the name, the contact information of the Shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, and the person's biographical details as required by Rule 17.50(2) of the GEM Listing Rules. Such Notice must be signed by the Shareholder concerned (other than the person to be proposed), accompanied by a letter of consent (the "Letter") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

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

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

Shareholders' Rights on Convening an Extraordinary General Meeting

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

Enquiries to the Board

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

Putting forward proposals at a general meeting

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

Biography of Directors and Senior Management

Executive Directors

Mr. Cheung Yan Leung Henry, aged 66, has been the Chairman and an executive Director of our Group since 2012. He is primarily responsible for formulating the corporate strategy, managing the Group's overall business development and client referrals. After graduating from McMaster University in Canada with a Bachelor of Commerce in November 1973, he became a member of The Institute of Chartered Accountants of Ontario in December 1976. Mr. Cheung has over thirty years' worth of experience in the accounting field along with experience in the financial and business sectors in China. Mr. Cheung has been a fellow member of the Hong Kong Institute of Certified Public Accountants since May 1987. He is the father of Mr. Cheung Jonathan.

Mr. Cheung Jonathan, aged 30, is the Chief Executive Officer, Vice Chairman and an executive Director of the Company. Mr. Cheung obtained a Bachelor of Science degree in Operations Research and Engineering from Cornell University in the United States of America in May 2008. He has been a designated Financial Risk Manager (FRM) since September 2010 and a Chartered Financial Analyst (CFA) since September 2012. He has experience in various financial fields, including investment banking, direct investment, credit finance and asset management. He is responsible for formulating corporate strategies and overall management of the Group. He is a founder of the Company and he is the son of Mr. Cheung Yan Leung Henry, the Chairman of the Company.

Independent Non-Executive Director

Mr. Yeung King Wah, aged 58, was appointed as INED on 22 May 2015. He has over 20 years' experience in audit, taxation, financial consulting and management which he accrued whilst working in both Europe and Asia. He obtained a Bachelor of Commerce degree from the University of Birmingham in the UK in July 1981. He has been a member of the Institute of Chartered Accountants in England and Wales since May 1987 and a member of the Hong Kong Institute of Certified Public Accountants since April 1998. Mr. Yeung is the founder of two accounting businesses, namely Yeung and Co., Chartered Accountants, headquartered in the UK, and China Consulting Consortium Limited, a Hong Kong based company.

Mr. Lai Tze Leung George, aged 65, was appointed as INED on 22 May 2015. He has over 30 years' experience in the manufacturing industry (such as executive vice president, general manager and managing director respectively) at several multinational companies engaged in the manufacturing of consumer and speciality packaging; laminates, foils and films; and labeling and packaging materials. He obtained a Bachelor of Social Science degree from the Chinese University of Hong Kong in October 1973 and a Master of Business Administration degree from the same institution in December 1982.

Mr. So Stephen Hon Cheung, aged 61, was appointed as INED on 22 May 2015. He has been a director of the accounting firm T.M. Ho So & Leung CPA Limited since August 2003. Mr. So has over ten years' experience in the accountancy field and several years' experience working as the chief financial officer of CY Oriental Holdings Limited and then a finance director of Jetion Holdings Limited, both in the manufacturing industry. Mr. So graduated from the University of British Columbia in Canada with a Bachelor of Commerce degree in November 1979. Mr. So has been an associate member of the Institute of Chartered Accountants of British Columbia since December 1985 and a member of the Society of Management Accountants of British Columbia since October 1991, and has been a fellow member of the Hong Kong Institute of Certified Public Accountants since July 1993.

Compliance Officer

Pursuant to GEM Rule 5.19, Mr. Cheung Jonathan, who is also an executive Director, was appointed as the Compliance Officer of our Company on 12 February 2015. Please refer to his biography above for details.

Biography of Directors and Senior Management

Senior Management

Ms. Wong Siu Kuen, aged 58, joined our Group in February 2013. She is our Senior Vice President and is the Head of the Operations Department. Ms. Wong is responsible for monitoring the daily operation of settlement, dealing with regulatory authorities, handling payrolls and general administrative duties. Ms. Wong has over 15 years' experience in the back office operations departments of various banks and financial institutions including EAA Securities Limited and JS Cresvale Securities International Limited. From April 2006 to December 2007, Ms. Wong was a Senior Assistant Manager at HSBC Private Bank; and from January 2008 to February 2013, she was a Vice President at iSTAR International Securities Co. Ltd. Ms. Wong obtained a Higher Certificate in Accountancy from the Hong Kong Polytechnic in November 1989 and a Bachelor's degree in Business Administration from the Open University of Hong Kong in December 2002.

Mr. Wong Wing Shing, aged 29, joined our Group in February 2013. He works as a Responsible Officer and is the Head of our Credit department. He has been licensed by the SFC to carry out Type 1 (dealing in securities) regulated activity since October 2009. Mr. Wong's primary duties involve overseeing the securities-backed lending services and overall risk management. Mr. Wong has over seven years' experience in the securities industry. He worked as a Vice President at iSTAR International Securities Co. Limited from October 2009 to February 2013. Mr. Wong obtained a Bachelor of Science degree from Cornell University in the US in May 2009.

Ms. Ma Sai Wun Ginny, aged 31, is one of our Responsible Officers and is currently the Head of Compliance. She has joined our Group since January 2013. She is responsible to review the procedures and processes of our operations on a daily basis so as to ensure compliance with the relevant rules and regulations. Ms. Ma has nine years of experience in the financial market. Ms. Ma obtained a Bachelor of Arts degree in Economic and Social Studies (Finance) and a Master of Science degree in Finance from the University of Manchester in the UK in June 2007 and November 2008 respectively. From October 2008 to March 2011, she was a trading operation officer in the Derivative Market Department at the Hong Kong Exchanges and Clearing Limited. From April 2011 to January 2013, Ms. Ma was a Vice President at iSTAR International Investment Services Co. Limited.

Company Secretary

Mr. Au Kin Kee Kinson, aged 52, joined our Group in November 2015 as our Director of Finance and Company Secretary. His major responsibilities are to review the finance and accounting functions and oversee financial reporting matters of our Group. Mr. Au has over 10 years of experience in the securities industry. He worked in OSK Asia Securities Limited from September 1992 to April 1997. His last position was research manager. He joined Asia Financial (Securities) Limited as research manager from June 1997 to June 2015. He then joined Gartner Inc. as client relationship manager from June 1997 to June 2015. Mr. Au obtained a Master of Science degree in Business Studies from the University of Salford and a Post-graduate Diploma in Corporate Administration from City University of Hong Kong. He also received a Bachelor of Law Degree from the University of Wolverhampton. Mr. Au is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrator. According to the requirements of Rule 5.15 of the GEM Listing Rules, Mr. Au undertook no less than 15 hours of relevant professional training during the year ended 31 December 2016.

Directors' Report

The Directors are pleased to present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

Principal Activities

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

Corporate Reorganisation

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability on 14 January 2015. Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the subsidiaries now comprising the Group on 12 May 2015. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" section to the Prospectus. The Company issued and placed 120,000,000 new shares of HK$0.10 each at a subscription price of HK$0.50 per share pursuant to the public offering. The share of the Company was listed on the Stock Exchange with effective on 12 June 2015.

Results and Appropriations

The financial performance of the Group for the year ended 31 December 2016 and the financial position of the Company and the Group at that date are set out in the consolidated financial statements from pages 34 to 75 of this annual report.

The Directors do not recommend the payment of any dividend in respect of the financial year ended 31 December 2016.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 25 to the consolidated financial statements.

Property, Plant and Equipment

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

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

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 2016.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Directors' Report

Directors

The Directors of the Company during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors

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

Independent Non-Executive Directors (INEDs.)

Mr. Yeung King Wah (楊景華)
Mr. Lai Tze Leung George (黎子亮)
Mr. So Stephen Hon Cheung (蘇漢章)

Board of Directors and Senior Management

Biographical information of Directors and senior management of the Group are set out from pages 17 to 18 of this annual report.

Directors' Service Contracts

Each of our executive Directors has entered into a service contract with our Company and each of our INEDs has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date (12 June 2015), which may be terminated by not less than three months' notice in writing served by either party to the other.

Permitted Indemnity Provision

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

Directors' Report

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

As at 31 December 2016, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (which has the same meaning as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in the shares of the Company:

Name of Directors	Number of the shares interest and nature of interests Personal	Corporate	Total	Approximate Percentage of the total issued share capital of the Company
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:

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

2. The interests disclosed includes 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 31 December, 2016, none of the Directors and chief executives of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

Directors' Interests in Significant Transactions, Arrangements and Contracts

Save for those disclosed in note 32, there is no transaction, arrangement or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party and in which a Director of the Company or an entity with him has or had a material interest, whether directly or indirectly, subsisted at any time during the year 2016.

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 12 months ended 31 December 2016 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement which enables the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

Directors' Report

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

As at 31 December 2016, substantial shareholders (not being the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of Shareholders	Capacity and nature of interests	*Notes*	Total	Approximate Percentage of the total issued share Capital of the Company
HCC	Directly Beneficially owned	*1*	2,520,000,000	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 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 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 31 December 2016, had an interest or short position in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Scheme

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.

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

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

Competing Interest

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

Directors' Report

Related Party Transactions

Details of the related party transactions are set out in note 32 to the consolidated financial statement.

As the applicable percentage ratios, defined in Rule 19.07 of the GEM Listing Rules and calculated with reference to each of the Dealing Annual Caps and the Financing Annual Caps on an annual basis, are less than 5.0% (and the annual consideration is less than HK$3,000,000), the transactions contemplated under the Brokerage Service Agreements and the Margin Financing Service Agreements will fall within the exemption under Rule 20.74 of the GEM Listing Rules and be exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements.

Confirmation of Independence

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the Independent Non-executive Directors to be independent.

Interest of Compliance Adviser

As notified by Altus Capital Limited ("Altus"), the Company's compliance adviser, neither Altus nor any of its directors or employees or associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2016.

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016.

Corporate Governance

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 to the GEM Listing Rules. A report on the principal corporate governance practices adopted by the Company is set out from pages 11 to 16 of this annual report.

Non-Competition Undertaking

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

Sufficiency of Public Float

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

Directors' Report

Auditor

The consolidated financial statements for the year ended 31 December 2016 have been audited by the Company's auditor, BDO Limited, who shall retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution for the re-appointment of BDO Limited as auditor of the Company will be proposed at the AGM.

Annual General Meeting

The AGM for the financial year 2016 of the Company will be held at 11:00 a.m. on 24 March 2017 (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.

On behalf of the Directors

Cheung Jonathan
Executive Director

Hong Kong, 16 February 2017

Environmental, Social and Governance Report

The Group is principally engaged in businesses including securities brokerage, securities-backed lending, placing and underwriting.

The Group strives to create positive values to shareholders and customers; we are also committed to fulfill our corporate social responsibility through working with the key stakeholders including the employees and customers. The Group believes that the stakeholders' interests must be taken into account in order to enhance our relationship with the society, employees, customers and other stakeholders.

The Group's direct environmental impact is immaterial as we are primarily an office based company with relatively low energy, power and water consumption. When conducting our placing and underwriting business, we always take heed to work with companies that have made efforts to minimise their impact to the environment and also have good operating practices. We also encourage our major customers to adopt the same principles and to invest in socially responsible vehicles.

As a listed and licensed corporation, we are mindful of the continuous development of the regulatory environment and have established a practice in gathering the changes of regulations and ensuring our directors, responsible officers, licensed representatives and other employees attend necessary training programmes so they are equipped to perform their duties.

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

We are conscious that there are less fortunate individuals in societies and are always looking for effective ways to help those who are less fortunate such as making donation to humanitarian services.

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

Environmental aspects

Emissions and use of resources

The Group's primary business is the provision of financial services, there is minimal direct impact to the environment and we do not generate hazardous waste. There is no need for our management and employees to travel for business, so the main contributor to the Group's carbon footprint is the indirect greenhouse gas (GHG) emissions from electricity consumption, which is mainly attributed to the use of lighting system, air-conditioning and office equipment.

The Group applies energy saving measures in the workplace including installation of an energy-saving lighting system, setting optimal temperature on the air-conditioning, and switching off the lighting and air-conditioning after office hours. The Group also encourages the employees to switch off their computers and other office equipment when not utilised. The Group is committed to follow the "Indoor Temperature Energy Saving Charter" and the "No Incandescent Light Bulbs ("ILB") Energy Saving Charter" introduced by the Environmental Bureau.

The Group's water consumption is minimal and encourages the employees to reduce the use of papers by assessing the necessity of printing and where appropriate to use duplex printing and reuse any single-side printed papers. The Group is committed to continue to reduce our paper consumption and reduction of waste.

Environmental, Social and Governance Report

Investment practices

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

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

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

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

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

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

Employment and labor practices

The employees of the Group are one of our key stakeholders. We provide good working environment including a workplace free from discrimination and harassment; and provide equal opportunities for all employees along with competitive remuneration. Employee's benefits include staff salaries, allowances, benefits, and contribution to defined contribution retirement scheme. The Group published a staff hand book that includes the terms and conditions of employment, the staff benefits (leave entitlement, insurance and training), and the office rules and policies. The Group also advocates work-life balance.

Development and Training

The Group is subjected to various ordinances, rules and guidelines such as, but not limited to, the Securities and Futures Commission Ordinance, Cap 571 (the "**SFO**"), the Personal Data (Privacy) Ordinance, Cap 486, the GEM Listing Rules and the SFC's Guideline on Anti-Money Laundering and Counter-Terrorist Financing. The Group is aware of the continuous development and updates of relevant laws and regulations, our Head of Compliance is responsible of gathering all the relevant regulatory changes and works closely with our Company Secretary to determine the continuous professional training required for relevant staff and directors to update their knowledge and skills to maintain their professional competence to remain fit and proper.

Environmental, Social and Governance Report

The Group adheres to the Guidelines on Continuous Professional Training made under section 399 of the SFO. Also, pursuant to the Code provision A.6.5 under Appendix 15 of the GEM Listing Rules, all directors are required to participate in continuous professional training to develop and refresh their knowledge and skills.

The Group is committed to provide support for our directors, responsible officers, licensed representatives and other employees in continuous professional training and encourages them to attend training programmers organised by various professional bodies. Some of the trainings attended in 2016 by our staff included topics in detecting fraud, ESG reporting, anti-money laundering, privacy compliance, connected transactions, employee share plan, competition law, IT compliance and cybersecurity.

Every licensed individual must fulfill at least five hours each calendar year of continuous professional training for each type of regulated activity. The Group ensures that our licensed staff fulfills this requirement and maintains attendance records of the trainings.

Operating Practices

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

Securities-backed lending

Over 80% of the Group revenue in 2016 is generated through the securities-backed lending business which includes two streams of services, being margin financing and money lending.

Margin trading is a high-risk strategy that can yield substantial profit if executed correctly. However, it is risky as it amplifies losses and gains to the same degree. As the margin trading customers are our key stakeholders, we work closely with them to help them to understand the benefits and risk involved with gearing.

The Group takes prudent procedures in determining the suitability and credit-worthiness of margin customers. We evaluate their risk profile, investment experience and the level of liquid assets available to meet a margin call should one occur. We adopt risk management controls in areas including lending ratios and limits, and cash flow projections.

We prepare a detail agreement to explain the terms and conditions of the margin account, how interest is calculated, the responsibility of loan repayment and how the securities serve as collateral for the loan. Prior to activating their accounts, we have established and shared the margin call policies and procedures with the customers, including how much a customer investment portfolio will need to fall before a margin call occurs as well as the strategy to meet a margin call such as holding a sufficient cash reserve and availability of specific assets. We also recommend our customers to review their strategy and portfolio annually to ensure the financing products continue to address the customer long term needs and objectives and that the customers' loan to value ratio remains at appropriate level.

The Group operates a money lending service through PineStone Capital Group Limited, a subsidiary. It is a licensed money lender. The licensing of money lenders and regulation of money-lending transactions are governed by the Money Lenders Ordinance, Cap 163. Whilst margin loans can only be used for the purchase of securities via the Group's securities brokerage, customers may use loans granted under the money lender licence for other purposes. The money lender licence is renewed annually subject to the satisfaction of all licensing conditions under the provisions of the Money Lenders Ordinance.

Environmental, Social and Governance Report

Protection of Customers' Data

The Group emphasises the importance of protecting our customers' personal data and we adhere to the provisions of the Personal Data (Privacy) Ordinance, Cap 486 when collecting, processing and using customers' personal data.

Anti-corruption

The Group promotes integrity and prevents unethical pursuits. The Group has implemented an effective whistle-blowing policy for reporting fraud and corruption. We encourage the reporting of suspected business irregularities and provide clear channels specifically for this purpose. When suspected wrongdoings are identified, such as breach of duty, abuse of power, receiving bribes, staff should report to the Head of Compliance for investigation and verification, and report to the regulator and or to law enforcement authority when necessary.

Anti-money laundering

The Group complies with all applicable anti-money laundering laws and regulations in Hong Kong including the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, Cap 615 (the AMLO) and the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC.

The Group has adopted policy and procedures in relation to performing customer due diligence process, identifying employees' involvement in money laundering activities, detecting and monitoring suspicious transactions, and reporting of suspicious transactions.

Community

The Group made contributions to Chi Heng Foundation in the past by supporting its charity concerts. Chi Heng Foundation is a non-governmental organisation; it is registered and based in Hong Kong with offices in Beijing, Shanghai, Guangzhou, Anhui, Henan and Yunnan. It funds and operates projects in education and care for children and adults impacted by AIDS, AIDS prevention and anti-discrimination.

Independent Auditor's Report

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

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Pinestone Capital Limited (the Company) and its subsidiaries (together the Group) set out on pages 34 to 75, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

Key Audit Matter	How the matter was addressed in our audit
Impairment assessment of trade and loans receivables *Refer to notes 4(ii), 17, 18 and 36(a) in the consolidated financial statements*	
As at 31 December 2016, the Group had trade receivables amounting to HK$167,964,000 and loans receivable amounting to HK$56,668,000. No impairment provision has been made over these balances. Assessing impairment of trade and loans receivables is a subjective area as it requires application of judgment and uses of estimates. Judgment is applied in assessing customers that may default and identifying evidence of impairment which include assessment on creditworthiness of customers and application of collateral ratio, that is the level of securities collateral in proportion to the outstanding receivables balance. Estimates are used in assessing the recoverable amount of the securities collateral. We have identified impairment assessment of trade and loans receivables as a key audit matter due to considerable amount of judgment and estimation being required in conducting impairment assessment as mentioned in the foregoing paragraph.	Our procedures in relation to management's impairment assessment on trade and loans receivables included: – Testing key controls over monitoring credit assessment of customers relating to new customers acceptance and annual review of existing customers, as well as reviewing procedures in monitoring the trading activities and level of securities collateral of margin clients. – Assessing the factors considered by the management for determining whether an impairment event had occurred and thus impairment provision is required which includes: – re-performing the calculation of collateral ratio for customers with outstanding trade or loans receivables balance at 31 December 2016; – challenging management in applying the collateral ratio and considering other factors in identifying impairment; and – assessing whether there is evidence of management bias on impairment assessment of trade and loans receivables by considering the consistency of judgment made by the management year on year through discussion with the management to understand their rationale. – Assessing management's estimation on the recoverable amount of securities collateral which includes checking the market value and assessing the quality of the securities collateral.

Independent Auditor's Report

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibility for the Consolidated Financial Statements

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

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

The Audit Committee assists the directors of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report

BDO

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

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

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

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

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

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

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

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

Hong Kong, 16 February 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	6	**45,706**	37,502
Other income	7	**5**	73
Commission expenses		**(1,600)**	–
Employee benefit expenses	8	**(4,665)**	(4,487)
Depreciation		**(89)**	(189)
Other operating expenses		**(4,871)**	(12,277)
Finance costs	9	**(960)**	(164)
Profit before income tax	10	**33,526**	20,458
Income tax expense	12	**(5,976)**	(5,048)
Profit for the year		**27,550**	15,410
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**27,550**	15,410
		HK cents	HK cents (Restated)
Earnings per share			
Basic and diluted	14	**0.57**	0.36

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**103**	192
Intangible asset	16	**500**	500
Statutory deposits placed with stock exchange and clearing house		**230**	230
Deferred tax assets	24	**58**	57
		891	979
Current assets			
Trade receivables	17	**167,964**	173,181
Loans receivable	18	**56,668**	–
Other receivables, deposits and prepayments	19	**703**	693
Tax recoverable		**–**	691
Trust bank balances held on behalf of customers	20	**6,719**	15,536
Cash and bank balances	21	**47,414**	25,250
		279,468	215,351
Current liabilities			
Trade payables	22	**7,010**	15,265
Other payables and accruals		**971**	910
Borrowings	23	**10,000**	16,675
Tax payable		**2,105**	1,257
		20,086	34,107
Net current assets		**259,382**	181,244
Total assets less current liabilities		**260,273**	182,223
Non-current liabilities			
Borrowings	23	**–**	10,000
Net assets		**260,273**	172,223
CAPITAL AND RESERVES			
Share capital	25	**4,910**	4,800
Reserves	26	**255,363**	167,423
Total equity		**260,273**	172,223

On behalf of the directors

Mr. Cheung Yan Leung Henry
Director

Mr. Cheung Jonathan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital HK$'000	Share premium* HK$'000 (note 26)	Capital reserve* HK$'000 (note 26)	Retained profits* HK$'000 (note 26)	Total HK$'000
At 1 January 2015	1,000	–	–	30,059	31,059
Profit for the year	–	–	–	15,410	15,410
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	15,410	15,410
Transactions with owners:					
Dividend approved in respect of 2014	–	–	–	(30,000)	(30,000)
Issue of shares for settlement of consideration for acquisition of subsidiaries (notes 25(c) and 26)	(1,000)	105,307	(4,866)	–	99,441
Issue of shares for					
– 2015 Placing (note 25(f))	1,200	58,800	–	–	60,000
– Capitalisation issue (note 25(f))	3,600	(3,600)	–	–	–
Share issuance expense (note 25(f))	–	(3,687)	–	–	(3,687)
	3,800	156,820	(4,866)	(30,000)	125,754
At 31 December 2015 and 1 January 2016	**4,800**	**156,820**	**(4,866)**	**15,469**	**172,223**
Profit for the year	**–**	**–**	**–**	**27,550**	**27,550**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**27,550**	**27,550**
Transaction with owners:					
Issue of ordinary shares for 2016 Placing (note 25(h))	**110**	**60,390**	**–**	**–**	**60,500**
At 31 December 2016	**4,910**	**217,210**	**(4,866)**	**43,019**	**260,273**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES			
Profit before income tax		**33,526**	20,458
Adjustments for:			
Depreciation on property, plant and equipment		**89**	189
Bank interest income		**(5)**	(73)
Interest expenses		**960**	164
Operating profit before working capital changes		**34,570**	20,738
Decrease/(Increase) in trade receivables		**5,217**	(71,243)
Increase in loans receivable		**(56,668)**	–
(Increase)/Decrease in other receivables, deposits and prepayments		**(10)**	168
Decrease in amount due from a related company		**–**	547
Decrease in trust bank balances held on behalf of customers		**8,817**	3,638
Decrease in trade payables		**(8,255)**	(23,353)
Increase in other payables and accruals		**122**	68
Net cash used in operations		**(16,207)**	(69,437)
Income tax paid		**(4,438)**	(7,731)
Net cash used in operating activities		**(20,645)**	(77,168)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**–**	(66)
Bank interest income		**5**	73
Net cash from investing activities		**5**	7
FINANCING ACTIVITIES			
Proceeds from borrowings		**–**	136,270
Repayment of borrowings		**(16,675)**	(109,595)
Advances from related companies		**–**	9,000
Proceeds from issuance of shares	*25(f), 25(h)*	**60,500**	56,313
Dividend paid		**–**	(30,000)
Interest paid		**(1,021)**	(89)
Net cash from financing activities		**42,804**	61,899
Net increase/(decrease) in cash and cash equivalents		**22,164**	(15,262)
Cash and cash equivalents at beginning of year		**25,250**	40,512
Cash and cash equivalents at end of year		**47,414**	25,250
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**47,414**	25,250

Notes to the Financial Statements

1. Corporate Information

Pinestone Capital Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 June 2015 (the "Listing").

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 ("BVI"). In the opinion of the directors, HCC & Co is also the ultimate parent of the Company.

The financial statements for the year ended 31 December 2016 were approved and authorised for issue by the directors on 16 February 2017.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with 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 GEM of 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 same as the functional currency of the Company.

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(b) Business combination

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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

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

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

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

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(c) Subsidiaries

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

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

(d) Property, plant and equipment

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

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

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

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

Leasehold improvements	Over the shorter of 3 years or the remaining lease terms
Furniture, fixtures and equipment	5 years
Computer system and software	5 years

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

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

(e) Leasing

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

The Group as lessee under operating lease

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(f) Intangible assets

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

(g) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset is acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus direct transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and also incorporated other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

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

– granting concession to a debtor because of debtor 's financial difficulty; or

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss on loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of loans and receivables is reduced through the use of an allowance account. When any part of loans and receivables is determined as uncollectible, it is written off against the allowance account for the relevant loans and receivables.

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(iii) Financial liabilities

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

Financial liabilities at amortised cost

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

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Financial instruments (continued)

(viii) Offsetting of financial statements

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

(h) Revenue recognition

Revenue and other income is recognised when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably, on the following basis:

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

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

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

(iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(i) Cash and cash equivalents

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

(j) Income taxes

Income taxes comprise current tax and deferred tax.

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

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

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(k) Foreign currency

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

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

(l) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

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

(iii) Termination benefits

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

(m) Impairment of non-financial assets

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

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(n) Borrowing costs

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

(o) Provisions and contingent liabilities

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

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

(p) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

(q) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(q) Related parties (continued)

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

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

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

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

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

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

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

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

3. Adoption of New or Revised HKFRSs

(a) Adoption of new or revised HKFRSs – effective 1 January 2016

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 2016:

HKFRSs (Amendments)	Annual Improvements 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 27	Equity Method in Separate Financial Statements

Amendments to HKAS 1 Disclosure Initiative

The amendments are designed to encourage entities to use judgment in the application of HKAS 1 when considering the layout and content of their financial statements.

The adoption of the amendments has no significant impact on these financial statements.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

Notes to the Financial Statements

3. Adoption of New or Revised HKFRSs (continued)

(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:

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

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.

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 at fair value.

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

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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.

Notes to the Financial Statements

3. Adoption of New or Revised HKFRSs (continued)

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

HKFRS 9 Financial Instruments (continued)

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.

HKFRS 15 Revenue from Contracts with Customers

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.

Amendments HKFRS 15 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.

Notes to the Financial Statements

3. Adoption of New or Revised HKFRSs (continued)

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

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 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 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 directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Company are currently assessing the possible impact of the above new or revised standards on the Group's results and financial position in the first year of application. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies or financial statements. Other new or revised HKFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group's financial statements upon application.

4. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

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

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Notes to the Financial Statements

4. Critical Accounting Judgment and Key Sources of Estimation Uncertainty (continued)

Key sources of estimation uncertainty (continued)

(i) *Impairment of non-financial assets*

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

(ii) *Impairment of trade and loans receivables*

The Group determines impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. A considerable amount of estimation and judgment is required in identifying receivables of impairment concern taking into account creditworthiness of customers including their settlement history, value of customers' securities collateral and the level of their securities collateral in proportion to their outstanding receivables balance; as well as assessing the ultimate realisation of these receivables. If the financial conditions of customers deteriorate or if the value of securities collateral is reduced, allowance or additional allowance for bad and doubtful debts may be required.

5. 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 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.

Notes to the Financial Statements

5. Segment Information (continued)

(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:

	2016 HK$'000	2015 HK$'000
Customer I	**5,250**	8,139
Customer II	**5,091**	N/A
Customer III	**4,827**	4,349
Customer IV	**4,619**	3,916

N/A: not applicable as revenue generated from customer II was less than 10% of the Group's revenue for the year ended 31 December 2015

6. Revenue

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

	2016 HK$'000	2015 HK$'000
Commission income from securities brokerage services	**3,244**	9,499
Interest income from securities-backed lending services	**35,091**	24,200
Income from placing and underwriting services	**7,271**	3,591
Handling fee	**97**	172
Others	**3**	40
	45,706	37,502

7. Other Income

	2016 HK$'000	2015 HK$'000
Bank interest income	**5**	73

8. Employee Benefit Expenses

Employee costs (including directors' emoluments) comprises:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and other benefits	**4,509**	4,330
Contributions to defined contribution retirement plan	**156**	157
	4,665	4,487

Notes to the Financial Statements

9. Finance Costs

	2016 HK$'000	2015 HK$'000
Interest on borrowings	**960**	164

10. Profit Before Income Tax

Profit before income tax is arrived at after charging:

	2016 HK$'000	2015 HK$'000
Auditor's remuneration	**520**	460
Listing expenses	**–**	8,347
Operating lease charges in respect of building	**1,466**	1,387

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

(a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Year ended 31 December 2016				
Executive directors				
Mr. Cheung Yan Leung Henry	**–**	**240**	**3**	**243**
Mr. Cheung Jonathan	**–**	**240**	**12**	**252**
Independent non-executive directors				
Mr. Yeung King Wah	**120**	**–**	**–**	**120**
Mr. Lai Tze Leung George	**120**	**–**	**–**	**120**
Mr. So Stephen Hon Cheung	**120**	**–**	**–**	**120**
	360	**480**	**15**	**855**

Notes to the Financial Statements

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

(a) Directors' emoluments (continued)

	Fees HK$'000	Sales and other benefits HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Year ended 31 December 2015				
Executive directors				
Mr. Cheung Yan Leung Henry	–	240	12	252
Mr. Cheung Jonathan	–	240	12	252
Independent non-executive directors				
Mr. Yeung King Wah	66	–	–	66
Mr. Lai Tze Leung George	66	–	–	66
Mr. So Stephen Hon Cheung	66	–	–	66
	198	480	24	702

Notes:

No bonuses were paid to the executive directors and the independent non-executive directors during the year ended 31 December 2016 (2015: nil).

No directors waived any emoluments during the year ended 31 December 2016 (2015: nil).

No emolument was paid by the Group to any of the directors as an inducement to join or upon joining the Group, or as compensation of loss of office (2015: nil).

(b) Five highest paid individuals

Of the five (2015: five) individuals whose emoluments were the highest in the Group during the year, none was a director of the Company. The emoluments payable to the five (2015: five) highest paid individuals are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and other benefits	**2,030**	2,200
Discretionary bonus	**226**	285
Contribution to defined contribution retirement plan	**78**	82
	2,334	2,567

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

No emolument was paid by the Group to any of the non-director highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2015: nil).

Notes to the Financial Statements

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

(c) Senior management's emoluments

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

	2016 Number of individuals	2015 Number of individuals
Nil to HK$1,000,000	**4**	6

12. Income Tax Expense

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

	2016 HK$'000	2015 HK$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	**5,978**	5,144
– over-provision in respect of prior years	**(1)**	(39)
	5,977	5,105
Deferred tax		
– tax for the year *(note 24)*	**(1)**	(57)
Income tax expense	**5,976**	5,048

The Group is subject to Hong Kong Profits Tax which is calculated at 16.5% (2015: 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:

	2016 HK$'000	2015 HK$'000
Profit before income tax	**33,526**	20,458
Tax calculated at tax rate of 16.5%	**5,532**	3,376
Tax effect of revenue not taxable for tax purposes	**(1)**	(12)
Tax effect of expenses not deductible for tax purposes	**590**	1,600
Utilisation of tax losses previously not recognised	**(154)**	–
Tax effect of tax losses not recognised	**–**	155
Tax effect of other temporary differences not recognised	**10**	(32)
Over-provision in respect of prior years	**(1)**	(39)
Income tax expense	**5,976**	5,048

Notes to the Financial Statements

13. Dividends

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2016 (2015: nil).

14. Earnings Per Share

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

	2016 **HK$'000**	2015 HK$'000
Earnings		
Profit for the year attributable to owners of the Company	**27,550**	15,410

	2016 **Number of shares** **'000**	2015 Number of shares '000 (Restated)
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	**4,872,100**	4,284,589

The weighted average number of ordinary shares used for the purposes of calculating the basic earnings per share represented the weighted average number of ordinary shares in issue in the respective years, after taking into account the effect of share subdivisions which took place on 22 May 2015 (note 25(d)) and 15 March 2016 (note 25(g)) as if they had occurred on 1 January 2015 and the bonus element in the shares issued under the placing which took place on 2 June 2016 as set out in note 25(h).

The comparative figures for the basic earnings per share for the year ended 31 December 2015 are restated to reflect for the effect of the aforementioned bonus element.

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.

Notes to the Financial Statements

15. Property, Plant and Equipment

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer system and software HK$'000	Total HK$'000
Cost				
At 1 January 2015	402	135	216	753
Additions	43	23	–	66
At 31 December 2015 and 1 January 2016	**445**	**158**	**216**	**819**
Additions	**–**	**–**	**–**	**–**
At 31 December 2016	**445**	**158**	**216**	**819**
Accumulated depreciation				
At 1 January 2015	291	57	90	438
Charge for the year	116	30	43	189
At 31 December 2015 and 1 January 2016	**407**	**87**	**133**	**627**
Charge for the year	**14**	**32**	**43**	**89**
At 31 December 2016	**421**	**119**	**176**	**716**
Net carrying amount				
At 31 December 2016	**24**	**39**	**40**	**103**
At 31 December 2015	38	71	83	192

Notes to the Financial Statements

16. Intangible Asset

	Trading right HK$'000
Cost	
At 1 January 2015, 31 December 2015 and 31 December 2016	500
Accumulated impairment	
At 1 January 2015, 31 December 2015 and 31 December 2016	–
Net carrying amount	
At 31 December 2016	**500**
At 31 December 2015	500

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

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

Trading right is tested for impairment by the directors by estimating its recoverable amount based on value-in-use calculation. For such purposes, trading right is allocated to the businesses of securities brokerage, placing and underwriting services and margin financing as one cash generating unit ("CGU"). For the year ended 31 December 2016, the value-in-use of the CGU is determined using cash flow projection which is based on the financial budget approved by the management covering a period of 2 years (2015: 2 years).

The key assumptions used in the budget plan include:

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

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

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

(d) The discount rate applied to the cash flow projections is 14% for the year ended 31 December 2016 (2015: 13%). The discount rate used is pre-tax and reflect specific risks relating to the businesses.

The key assumptions adopted by the management have been determined based on past performance and management's expectation on market development. Based on the result of the above impairment testing, the directors determined that there is no impairment in respect of the trading right as at 31 December 2016 (2015: nil).

Notes to the Financial Statements

17. Trade Receivables

	2016 HK$'000	2015 HK$'000
Trade receivables arising from securities dealing and margin financing		
– Margin clients	**167,513**	173,181
– Clearing House	**451**	–
	167,964	173,181

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) 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 31 December 2016, the total market value of securities pledged as collateral in respect of the receivables from margin clients are approximately HK$437,000,000 (2015: HK$297,000,000). Margin loans are interest bearings at fixed rate varying from 12.5% to 24.0% (2015: 12.5% to 20.0%) 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 31 December 2016 (2015: nil).

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

(d) The Group has policy for impairment allowance which requires management's judgment and estimation as mentioned in note (4)(ii). As assessed by the directors, no impairment allowance is necessary in respect of trade receivables at 31 December 2016 (2015: nil).

Notes to the Financial Statements

18. Loans Receivable

	2016 HK$'000	2015 HK$'000
Loans receivable from money lending – secured loans	**56,668**	–

Notes:

(a) The loans receivable are interest-bearing at 12.5% to 20.0% per annum and are repayable in 2017. The borrowers, which are also margin clients of the Group's securities dealing business, have entered into securities charge agreements with the Group charging certain securities as collateral which are deposited in the designated margin accounts maintained by the borrowers.

(b) The loans receivable are neither past due nor impaired. Management believes that no impairment allowance is necessary having regard to the creditworthiness of the borrowers and the value of the collateral.

As at 31 December 2015, the Group did not have any outstanding loan receivable.

19. Other Receivables, Deposits and Prepayments

	2016 HK$'000	2015 HK$'000
Deposits	**418**	418
Prepayments	**285**	275
	703	693

20. Trust Bank Balances Held on Behalf of Customers

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

21. Cash and Bank Balances

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

Notes to the Financial Statements

22. Trade Payables

	2016 HK$'000	2015 HK$'000
Trade payables arising from securities dealing		
– Cash clients	**920**	2,513
– Margin clients	**6,090**	11,508
– Clearing house	**–**	1,244
	7,010	15,265

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.

Margin and cash client payables as at 31 December 2016 and 2015 included balances payable to certain related parties. Further details of these balances are set out in note 32(b)(i).

23. Borrowings

	2016 HK$'000	2015 HK$'000
Current liabilities		
Bank loans *(note (a))*	**–**	6,675
Other loan *(note (b))*	**–**	10,000
Bonds *(note (c))*	**10,000**	–
	10,000	16,675
Non-current liabilities		
Bonds *(note (c))*	**–**	10,000
	10,000	26,675

Notes:

(a) The Group's bank loans as at 31 December 2015 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 2015 were interest-bearing at the bank's prime lending rate adjusted by certain basis points and were secured by the corporate guarantee executed by the Company. The average interest rate of these bank loans was 3.5% per annum.

(b) Other loan as at 31 December 2015 represented a loan obtained from a financial institution, which was scheduled for repayment in June 2016. The loan was interest-bearing at fixed rate of 8% per annum and was secured by the corporate guarantee executed by the Company.

Notes to the Financial Statements

23. Borrowings (continued)

Notes: (continued)

(c) 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 are interest bearing at 5% per annum, unsecured, and will mature on 22 December 2017 unless they are 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 are initially measured at fair value, net of directly attributable costs incurred, and subsequently measured at amortised cost using the effective interest method.

As at 31 December 2016, the total current and non-current borrowings were scheduled for repayment as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**10,000**	16,675
More than one year, but not exceeding two years	**–**	10,000
	10,000	26,675

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.

24. Deferred Tax

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

	Depreciation in excess of related depreciation allowance **HK$'000**
At 1 January 2015	**–**
Credit to profit or loss *(note 12)*	**57**
At 31 December 2015 and 1 January 2016	**57**
Credit to profit or loss *(note 12)*	**1**
At 31 December 2016	**58**

As at 31 December 2016, the Group did not have any unused tax losses.

As at 31 December 2015, the Group had unused tax losses of HK$937,000 available for offset against future profits. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future profit streams. These tax losses have no expiry date.

Notes to the Financial Statements

25. Share Capital

Ordinary shares	Par value HK$	Number of shares	Amount HK$'000
Authorised:			
Upon incorporation *(note (a))*	0.10	3,800,000	380
Subdivision of shares *(note (d))*		34,200,000	–
Increase in authorised share capital *(note (e))*	0.01	49,962,000,000	499,620
At 31 December 2015 and 1 January 2016	0.01	50,000,000,000	500,000
Subdivision of shares *(note (g))*		450,000,000,000	–
At 31 December 2016	0.001	500,000,000,000	500,000

Ordinary shares	Par value HK$	Number of shares	Amount HK$'000
Issued and fully paid:			
Issue of shares upon incorporation *(note (b))*	0.10	100	–
Issue of shares for acquisition of subsidiaries *(note (c))*	0.10	100	–
Subdivision of shares *(note (d))*		1,800	–
Capitalisation Issue *(note (f))*	0.01	359,998,000	3,600
Placing of shares *(note (f))*	0.01	120,000,000	1,200
At 31 December 2015 and 1 January 2016	0.01	480,000,000	4,800
Subdivision of shares *(note (g))*		4,320,000,000	–
Placing of shares *(note (h))*	0.001	110,000,000	110
At 31 December 2016	0.001	4,910,000,000	4,910

Notes to the Financial Statements

25. Share Capital (continued)

Notes:

(a) The Company was incorporated on 14 January 2015 with initial authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each.

(b) On 14 January 2015, 100 shares in aggregate were transferred/allotted and issued at par to HCC & Co and Snail Capital Limited ("Snail Capital"). HCC and Snail Capital are companies incorporated in the BVI and wholly-owned by Mr. Cheung Yan Leung Henry and Mr. Cheung Jonathan respectively.

(c) On 12 May 2015, pursuant to a reorganisation carried out for the purposes of the Listing (the "Reorganisation"), 100 new shares in aggregate were allocated and issued at par to HCC & Co and Snail Capital for settlement of the aggregate consideration amounting to HK$105,307,000 for the acquisition of 100% equity interest in Pinestone Capital Group Limited ("PCGL") by the Company's subsidiary, Pinestone International Limited ("PIL"), and the acquistion of 100% equity interest in Pinestone Investment Group Limited ("PIGL") by the Company together with an outstanding non-interest bearing amount due by PIGL to its then shareholder, Gryphuz Group Limited ("GGL"), which amounted to HK$105,307,000. The difference between the par value of the shares issued and the aggregate consideration amounting to HK$105,307,000 was credited to share premium account.

(d) On 22 May 2015, each of the Company's existing issued and unissued shares of HK$0.10 each was subdivided into 10 shares of HK$0.01 each.

(e) On 22 May 2015, the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000 divided into 50,000,000,000 shares of HK$0.01 each by the creation of an additional 49,962,000,000 shares.

(f) The Company's shares were listed on the GEM of the Stock Exchange on 12 June 2015 and the placing of 120,000,000 new shares by the Company became unconditional. In connection to this, (i) the Company issued a total of 120,000,000 ordinary shares at HK$0.50 per share for subscription (the "2015 Placing"); and (ii) the Company issued a total of 359,998,000 ordinary shares at par to HCC & Co and Snail Capital by way of capitalising an amount of HK$3,600,000 from the share premium (the "Capitalisation Issue") arising from the 2015 Placing. The Company's total number of issued shares upon completion of the 2015 Placing and the Capitalisation Issue was increased to 480,000,000 shares.

Of the gross proceeds from the 2015 Placing of HK$60,000,000, HK$1,200,000 representing the aggregate par value of shares issued was credited to the Company's share capital whereas the remaining amount of HK$58,800,000 was credited to share premium account.

The share issuance expenses, which amounted to HK$3,687,000, was deducted from share premium account.

(g) 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 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.

(h) 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.

Notes to the Financial Statements

26. Reserves

The Group

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

Share premium

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

Capital reserve

Capital reserve arose from the following transactions under the Reorganisation (note 25(c)):

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

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

Retained profits

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

The Company

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

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
Loss for the period	–	(9,696)	(9,696)
Share issued upon incorporation *(note 25(b))*	–	–	–
Issue of shares for acquisition of subsidiaries *(note 25(c))*	105,307	–	105,307
Issue of shares for			
– 2015 Placing *(note 25(f))*	58,800	–	58,800
– Capitalisation Issue *(note 25(f))*	(3,600)	–	(3,600)
Share issuance expense *(note 25(f))*	(3,687)	–	(3,687)
At 31 December 2015 and 1 January 2016	**156,820**	**(9,696)**	**147,124**
Loss for the year	**–**	**(3,414)**	**(3,414)**
Issue of shares for 2016 Placing *(note 25(h))*	**60,390**	**–**	**60,390**
At 31 December 2016	**217,210**	**(13,110)**	**204,100**

Notes to the Financial Statements

27. Share Option Scheme

Pursuant to resolutions passed by the shareholders of the Company on 22 May 2015, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the eligible participants had or may have made to the Group.

The board of directors may, at its absolute discretion, offer any eligible person options to subscribe for shares in the Company subject to the terms and conditions as stipulated in the Share Option Scheme. Upon acceptance of the offer of an option, the grantee shall pay HK$1.00 to the Company as a consideration for option granted.

No option has been granted under the Share Option Scheme since its adoption.

28. Holding Company Statement of Financial Position

As at 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	*29*	**104,581**	104,581
Current assets			
Prepayments		**247**	248
Amounts due from subsidiaries		**110,539**	46,603
Cash and bank balances		**4,174**	11,006
		114,960	57,857
Current liabilities			
Other payables and accruals		**531**	514
Borrowings		**10,000**	–
		10,531	514
Net current assets		**104,429**	57,343
Non-current liabilities			
Borrowings		**–**	10,000
Net assets		**209,010**	151,924
CAPITAL AND RESERVES			
Share capital	*25*	**4,910**	4,800
Reserves	*26*	**204,100**	147,124
Total equity		**209,010**	151,924

On behalf of the directors

Mr. Cheung Yan Leung Henry
Director

Mr. Cheung Jonathan
Director

Notes to the Financial Statements

29. Investments in Subsidiaries

Details of the subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation and type of legal entity	Place of operations	Issued and paid up capital	Effective interest held by the Company		Principal activities
				Directly	Indirectly	
Pinestone Securities Limited	Hong Kong/Limited liability company	Hong Kong	2016: HK$119,000,000 (2015: HK$99,000,000)	–	100%	Provision of securities brokerage services, placing and underwriting services as well as margin financing
Pinestone Capital Group Limited (PCGL)	Hong Kong/Limited liability company	Hong Kong	HK$1,000,000	–	100%	Provision of money lending services
Pinestone Investment Group Limited (PIGL)	The BVI/Limited liability company	Hong Kong	1 ordinary share of US$1 each	100%	–	Investment holding
Pinestone International Limited (PIL)	The BVI/Limited liability company	Hong Kong	1 ordinary share of US$1 each	100%	–	Investment holding

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

30. Commitments

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 (2015: three years) and is non-cancellable. The total minimum lease payments under the lease are due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**1,466**	1,466
Later than one year and not more than five years	**1,135**	2,601
	2,601	4,067

31. Notes to the Consolidated Statement of Cash Flows

(a) During the year ended 31 December 2015, the consideration for acquiring 100% interest in PIGL from GGL together with an outstanding amount due by PIGL to GGL of HK$99,441,000, amounting to HK$104,581,000 in aggregate, was settled by the Company by allotment and issue of 70 shares to HCC & Co (note 26).

(b) During the year ended 31 December 2015, the consideration for acquiring 100% interest in PCGL from GGL amounting to HK$726,000 was settled by the Company by allotment and issue of 30 shares to Snail Capital (note 26).

Notes to the Financial Statements

32. Related Party Transactions

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

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

Name of related Party	Related party Relationship	Type of transaction	Transaction Amount 2016 HK$'000	2015 HK$'000
Mr. Cheung Yan Leung Henry	Director	Brokerage income	**34**	210
Mr. Cheung Jonathan	Director	Brokerage income	**2**	50
Mr. Wong Chi Kan	Key Management	Brokerage Income	**81**	80
Ms. Rowena Chick	Close family member of key management *(note)*	Brokerage Income	**–**	3

Note:

Ms. Rowena Chick is the spouse of Mr. Wong Chi Kan, a member of the key management of the Group.

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

(i) Balances due to the directors and related parties arising from securities dealing transactions included in trade payables (note 22)

Directors

	As at 1 January 2015 HK$'000	Maximum outstanding during the year* HK$'000	As at 31 December 2015 HK$'000	Margin financing facilities granted HK$'000	Securities held
Mr. Cheung Yan Leung Henry	5,554	4,492	1,264	500	Marketable securities
Mr. Cheung Jonathan	1,904	140	205	500	Marketable securities

	As at 1 January 2016 HK$'000	**Maximum outstanding during the year* HK$'000**	**As at 31 December 2016 HK$'000**	**Margin financing facilities granted HK$'000**	**Securities held**
Mr. Cheung Yan Leung Henry	**1,264**	**152**	**1,985**	**500**	**Marketable securities**
Mr. Cheung Jonathan	**205**	**–**	**–**	**500**	**Marketable securities**

* these amounts represented the maximum amounts due from the directors during the respective years

Notes to the Financial Statements

32. Related Party Transactions (continued)

(b) (continued)

(i) Balances due to the directors and related parties arising from securities dealing transactions included in trade payables (note 22) (continued)

Related parties

	2016 **HK$'000**	2015 HK$'000
Key management	**35**	59

(ii) Amount due from a related company

	As at 1 January 2015 HK$'000	Maximum outstanding during the year# HK$'000	As at 31 December 2015 HK$'000
Gryphuz Advisory Limited	547	547	–

This amount represented the maximum amount due from the related company during the year

Mr. Cheung Yan Leung Henry and Mr. Cheung Jonathan, directors of the Company, are also directors and beneficial owners of Gryphuz Advisory Limited. The amount due as of 1 January 2015 was unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel

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

	2016 **HK$'000**	2015 HK$'000
Salaries, allowances and other benefits	**3,096**	3,197
Contributions to defined contribution retirement plan	**93**	108
	3,189	3,305

Notes to the Financial Statements

33. Capital Management

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

The capital structure of the Group consists of debts, which include borrowings disclosed in note 23 and equity, comprising share capital and reserves.

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

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

	2016 **HK$'000**	2015 HK$'000
Borrowings	**10,000**	26,675
Equity	**260,273**	172,223
Gearing ratio	**4%**	15%

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

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

Notes to the Financial Statements

34. Summary of Financial Assets and Financial Liabilities by Category

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

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables		
– Trade receivables	**167,964**	173,181
– Loans receivable	**56,668**	–
– Deposits	**418**	418
– Trust bank balances held on behalf of customers	**6,719**	15,536
– Cash and bank balances	**47,414**	25,250
	279,183	214,385

	2016 HK$'000	2015 HK$'000
Financial liabilities		
Financial liabilities at amortised cost		
– Trade payables	**7,010**	15,265
– Other payables and accruals	**971**	910
– Borrowings	**10,000**	26,675
	17,981	42,850

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade receivables, loans receivable, deposits, trust bank balances held on behalf of customers, cash and bank balances, trade payables, other payables and accruals and borrowings including the Bonds. As assessed by the directors, the carrying value of these financial instruments approximate their fair values.

(b) Financial instruments measured at fair value

As at 31 December 2015 and 2016, the Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

Notes to the Financial Statements

35. Offsetting Financial Assets and Financial Liabilities

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

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

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

	Amounts due from customers and HKSCC	
	2016	2015
	HK$'000	HK$'000
Gross amount of recognised financial assets	**167,964**	195,272
Gross amount of financial liabilities offset in the consolidated statement of financial position	**–**	(22,091)
Net amount of financial assets included in the consolidated statement of financial position as trade receivables	**167,964**	173,181
Related amounts not offset in the consolidated financial statements – Financial collateral	**(167,513)**	(173,181)
Net amount	**451**	–

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

	Amounts due to customers and HKSCC	
	2016	2015
	HK$'000	HK$'000
Gross amount of recognised financial liabilities	**7,010**	37,356
Gross amount of financial assets offset in the consolidated statement of financial position	**–**	(22,091)
Net amount of financial liabilities included in the consolidated statement of financial position as trade payables	**7,010**	15,265

Notes to the Financial Statements

36. Financial Risk Management

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

(a) Credit risk

Credit risk arises when a counterparty is unable or unwilling to meet a commitment that it has entered into with the Group. The Group's credit risk is primarily attributable to its trade receivables and loans receivables from customers and bank balances. In order to minimise credit risk, management, including responsible officers of the regulated activities, compile credit and risk management policies, approve credit limits and determine any debt recovery action on those delinquent receivables.

In respect of the securities dealing and margin financing businesses, the Group's credit risk exposure is spread over a number of customers. Accordingly, the Group has no significant concentration of credit risk on a single customer in this respect. To reduce credit risk, the Group requests collateral from individual margin client and the value of such collateral has been maintained at certain level in proportion to the outstanding balance due from the margin client ("collateral ratio"). In addition, the Group has formulated some credit policy procedures for monitoring trading activities and level of securities collateral of margin clients in particular for those margin clients whose collateral ratio has reached alarming level.

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

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

At the end of each of the reporting period, management reviews the recoverable amount of receivables to ensure that adequate impairment provision is made for irrecoverable amounts. In determining the recoverable amounts of receivables, management takes into account the fair value of the underlying collateral, if any.

The directors of the Company consider that the Group's credit risk associated with trade receivables and loans receivable is effectively controlled and significantly reduced.

The credit risk on bank balances is limited as the counterparties are reputable banks or financial institutions.

The credit policies have been consistently applied and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

Notes to the Financial Statements

36. Financial Risk Management (continued)

(b) Interest rate risk

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

As at 31 December 2016, all of the Group's borrowings are arranged at fixed rate. As at 31 December 2015, 25% of the Group's borrowings were arranged at floating rate and 75% were arranged at fixed rate. Details of the Group's borrowings are disclosed in note 23.

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

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

Sensitivity analysis

The following sensitivity analysis demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate borrowings with all other variables held constant at the end of the reporting period (in practice, the results may differ from the sensitivity analysis below and the difference could be material):

	Increase/ (Decrease) in profit for the year and retained profits 2015 HK$'000
Changes in interest rate	
+ 1%	(56)
– 1%	56

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that the borrowing period of the borrowings outstanding at the end of the reporting period resembles that of the corresponding financial year. The assumed changes in interest rate are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting period.

The Group did not have any floating rate borrowings as at 31 December 2016 and accordingly, no sensitivity analysis on interest rate exposure is presented.

Notes to the Financial Statements

36. Financial Risk Management (continued)

(c) Liquidity risk

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

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

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the bank was to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000
As at 31 December 2016				
Trade payables	**7,010**	**7,010**	**7,010**	**–**
Other payables and accruals	**971**	**971**	**971**	**–**
Bonds	**10,000**	**10,500**	**10,500**	**–**
	17,981	**18,481**	**18,481**	**–**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000
As at 31 December 2015				
Trade payables	15,265	15,265	15,265	–
Other payables and accruals	910	910	910	–
Bank loans	6,675	6,675	6,675	–
Other loan	10,000	10,401	10,401	–
Bonds	10,000	11,000	500	10,500
	42,850	44,251	33,751	10,500

Notes to the Financial Statements

36. Financial Risk Management (continued)

(c) Liquidity risk (continued)

The following table summarises the maturity analysis of bank loans with repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payment computed using contractual rates. Taking into account the Group's financial position, the directors consider that it is not probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that these bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000
As at 31 December 2015				
Bank loans	6,675	6,792	6,792	–

As at 31 December 2016, the Group did not have any borrowings which contain repayment on demand clause.

Financial Summary

For the year ended 31 December 2016

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements in this annual report and prior year financial statements are as follows:

Results

	For the year ended 31 December			
	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**45,706**	37,502	33,025	16,474
Other income	**5**	73	7	162
Commission expenses	**(1,600)**	–	–	–
Employee benefit expenses	**(4,665)**	(4,487)	(2,768)	(2,838)
Depreciation	**(89)**	(189)	(204)	(203)
Other operating expenses	**(4,871)**	(12,277)	(4,322)	(2,164)
Finance costs	**(960)**	(164)	–	(247)
Profit before income tax	**33,526**	20,458	25,738	11,184
Income tax expense	**(5,976)**	(5,048)	(4,521)	(1,779)
Profit for the year	**27,550**	15,410	21,217	9,405
Other comprehensive income for the year	**–**	–	–	–
Total comprehensive income for the year	**27,550**	15,410	21,217	9,405

Asset and liabilities

	As at 31 December			
	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**280,359**	216,330	164,141	153,999
Total liabilities	**(20,086)**	(44,107)	(133,082)	(145,157)
Net assets	**260,273**	172,223	31,059	8,842