



**SHENWAN HONGYUAN (H.K.) LIMITED**

**申萬宏源（香港）有限公司**

(Incorporated in Hong Kong with limited liability) (於香港註冊成立之有限公司)

(Stock Code 股份代號 : 218)



ANNUAL  
REPORT

2015  
年報

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Chu Xiaoming (*Chairman*)  
Lu Wenqing  
Guo Chun (*Chief Executive Officer*)  
Lee Man Chun Tony

### Non-executive Director

Zhang Lei

### Independent Non-executive Directors

Ng Wing Hang Patrick  
Kwok Lam Kwong Larry  
Zhuo Fumin

## AUDIT COMMITTEE

Ng Wing Hang Patrick (*Chairman*)  
Kwok Lam Kwong Larry  
Zhuo Fumin

## REMUNERATION COMMITTEE

Kwok Lam Kwong Larry (*Chairman*)  
Ng Wing Hang Patrick  
Zhuo Fumin

## NOMINATION COMMITTEE

Chu Xiaoming (*Chairman*)  
Ng Wing Hang Patrick  
Kwok Lam Kwong Larry  
Zhuo Fumin

## COMPANY SECRETARY

Wong Che Keung Leslie

## PRINCIPAL BANKERS

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

## AUDITORS

Ernst & Young

## REGISTERED OFFICE

Level 19  
28 Hennessy Road  
Hong Kong

## SHARE REGISTRARS & TRANSFER OFFICE

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

## WEBSITE

<http://www.swhyhk.com>

# CHAIRMAN'S STATEMENT

I hereby present to the shareholders the annual report of Shenwan Hongyuan (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2015.

## RESULTS

For the year ended 31 December 2015, the Group recorded a profit before tax of approximately HK\$203 million, representing an increase of 100% as compared with HK\$101 million in 2014. Net profit attributable to shareholders of approximately HK\$184 million, representing an increase of 96% as compared with HK\$94 million in 2014. The turnover increased by 47% to approximately HK\$697 million (2014: HK\$473 million). The basic earnings per share increased by 75% to HK23.21 cents as compared with HK13.24 cents in 2014.

## DIVIDEND

The board of directors (the "Board") of the Company has resolved to recommend the payment of a final dividend of HK9 cents per ordinary share in respect of 2015, to shareholders whose names appear on the register of members of the Company on 20 May 2016. The proposed dividend will be paid on or about 1 June 2016 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

## REVIEW OF MARKET IN 2015

In 2015, despite the world economy maintained a modest recovery pattern overall, the deflationary pressure triggered by the huge drop in bulk commodity price still sustained. With the drop of 45% in 2014, the crude oil price plunged again significantly by 30% in 2015. After a short period of seasonal slowdown of the U.S. economy in the first quarter, as driven by the real estate market and enterprise investments, the U.S. economy maintained a stable growth with the employment market continued to show substantial improvements. Towards the end of the year, the U.S. Federal Reserve Board began to increase interest rate. The European economy was also under a slow recovery. The Eurozone economy showed a year-on-year growth with its growth rate higher than that of 2014. The labour market in Europe also continued to improve, and the overall unemployment rate in European Union decreased significantly as compared to last year. However, there was no substantial increase in consumer price index of European Union year-on-year depicting a significant deflationary risk. The exports of European Union also decreased significantly. In 2015, the Japanese government continued to implement other economic reforms, whereby its economic growth finally turned back into track. However, there was no obvious improvement or deterioration of its labour market. When compared to developed countries and regions, the economic growth and employment conditions of emerging markets and developing economies were far from optimistic in 2015. Only India was able to maintain an economic growth momentum with Russia and Brazil dipped into recession, while Latin America and the Caribbean region witnessed an overall negative growth. The unemployment rates in Brazil, Russia and South Africa met at a high level. Accordingly, the exchange rates of each of the major currencies of the emerging markets decreased collectively in 2015, with Brazilian Real recorded an accumulated devaluation of over 30%, being the top of the list among the currency devaluation in the emerging markets.

## CHAIRMAN'S STATEMENT (*Cont'd*)

### REVIEW OF MARKET IN 2015 (*Cont'd*)

The economy of the Chinese Mainland in 2015 continued to slowdown, but the Chinese Government continued to increase strength on areas like structural reform and cultivating new points of economic growth. The central bank in China made continuous interest rate reduction and reserve requirement ratio cuts in 2015, and issued the medium and long term policy instructions to encourage real estate sales, and housing mortgage loans under the middle and long term bank loans category began to increase in the latter part of the year. Financial reform, state-owned enterprise reform, land reform, resource factors price reform were all progressing steadily, of which, financial reform was mostly praised. After launching the Shanghai-Hong Kong Stock Connect, the recognition of Hong Kong and Chinese Mainland mutual funds was formally implemented, thus injected vitality to the stock markets. The Hang Seng Index fluctuated within a narrow range from 23,500 to 25,000 in the beginning of the year. On 27 April, it increased to 28,588, up by approximately 17%. Thereafter, along with the debt crisis in Greece and a wave of A-share medium level adjustment, investors took profits and Hang Seng Index trembled down 5 months in a row to 20,846 by the end of September. After experiencing a technical rebound of over 8% in October, the index continued to adjust for 2 months and finally closed at 21,914, thus concluding the significant fluctuation situation for the whole year. In 2015, Hong Kong Stock Exchange recorded an average daily turnover of HK\$105.6 billion, representing an increase of 52% as compared with the average daily turnover of HK\$69.5 billion in the corresponding period of 2014.

### FUTURE PROSPECTS & PLAN

Looking from an international perspective, global economic growth is lacked luster, showing signs of "low growth, low inflation, low interest rate". Major economic zones have diversified monetary policies, which brings impact on global financial asset price revaluation and asset reallocation adjustment. Alongside with massive capital outlay, currencies' significant devaluation and high debt level, the economies of the economic zones in global emerging markets are going to face fairly high challenges. Complicated global economic financial situation will sure bring significant challenges and new factors of uncertainty to the financial economy of the Chinese Mainland and Hong Kong.

Looking in the Chinese Mainland, economic development is at the critical moment of phrase shifting, structural change, model reconstruction and release of risk. On one hand, economic growth lack momentum, there is still fairly high pressure on economic downside and corporate profits decline. On the other hand, the risk of default in debt of the society as a whole is increasing and the hidden danger of financial risk continued to accumulate. At the same time, it could be predicted that the cross influence of the risk factors among the stock market, the currency exchange market, debt market and currency market will bring challenges to the development of capital market.

## CHAIRMAN'S STATEMENT (*Cont'd*)

### FUTURE PROSPECTS & PLAN (*Cont'd*)

Looking at the reform in the Chinese Mainland, we are highly concerned about the supply-side reform and all kind of modes of new financial needs emerging from new economy. 2016 is going to be a critical year of "comprehensive deepening reform" and new normal economic transformation. New financial needs will continue to emerge and show features of diversity, differentiation and complication. To support the new economies, there are needs to develop multi-layer financial market, develop vigorously the equity and debt capital market, mergers and acquisitions, adjust the structure of traditional industry, IPO measures, capital raising and debts issuance. These economic transformation developments are breeding historic opportunities for the development of the securities industry.

Looking at the development of the securities industry, based on the milestones of the global financial mega reform and the development status of the Chinese Mainland, the conditions for pushing forward mixed industry model is becoming more and more matured, the fast development of financial innovation and pan-asset management business has made a fruitful trial on the mixed industry model. On the other hand, the no-boundary and high-efficiency internet finance, and the mixed financial industry bringing boundary breakthrough is going to change the competitive environment of the future financial industry from its root. On this new backdrop, it is very important for the financial industry enterprise to provide no-boundary service, asset allocation and a basket of financial service as core competitive strengths.

In 2016, with the implementation of the national strategy of "One Belt, One Road", the market expects the enterprises representing transportation, infrastructures, etc. will speed up the pace of "going overseas". The cross-border financing needs derived therefrom will surge. Under the business development plan, the Group will also keep a close eye on the opportunities brought by Renminbi exchange rate marketization, accelerate the establishment of cross-border business platform, carry out the overseas network layout steadily step by step and implement the regional strategies that are relevant to the development of overseas market and products, thereby building a good foundation for achieving the internationalization strategy of the Group.

**Chu Xiaoming**

*Chairman*

Hong Kong  
4 March 2016

# MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE

## REVIEW OF OPERATIONS

In 2015, the overall operation of the Group achieved a strong growth with a turnover of HK\$697 million (2014: HK\$473 million), representing a year-on-year increase of 47%. Profit before tax exceeded HK\$200 million, representing a year-on-year increase of 100% to HK\$203 million in 2015 from HK\$101 million in 2014. Profit attributable to shareholders increased by 96% to HK\$184 million from HK\$94 million in 2014. Revenue from brokerage business, corporate finance business, financing and loans business recorded a significant year-on-year growth.

For brokerage business, due to the robust secondary market sentiment in the second quarter of 2015, with the significant year-on-year increase in stock market's average daily turnover and an increase of the Group's market share, revenue from brokerage business increased by 48% year-on-year to HK\$390 million in 2015 from HK\$263 million in 2014. For corporate finance business, apart from considerable revenue generated from outstanding performance of placement projects, we also successfully completed the sponsoring/lead placing agent of 3 IPO projects, including Niraku GC Holdings, Inc.(1245), Pak Wing Group (Holdings) Limited (8316) and Great Water Holdings Limited (8196). In 2015, revenue from corporate finance business increased by 93% year-on-year to HK\$114 million in 2015 from HK\$59 million in 2014. The numbers of sponsoring/lead placing agent, underwriting participation/placement and financial advisory projects are 3, 14 and 23 respectively. Revenue from asset management business decreased by 17% year-on-year to HK\$9.5 million in 2015 from HK\$11.5 million in 2014. For financing and loans business, benefiting from the robust market sentiment in the second quarter and under the premise of controllable risks, we promptly expanded the loan size, with revenue increasing by 38% year-on-year to HK\$171 million in 2015 from HK\$124 million in 2014. The average margin loan balance in 2015 reached approximately HK\$2.2 billion.

### Brokerage business

The brokerage business of the Group focuses on the stock and futures markets in Hong Kong as well as the B-share market in Chinese Mainland. In the second quarter of 2015, the robust market sentiment in both Hong Kong and Chinese Mainland drove the surge of annual transaction volume, with the average daily turnover in Hong Kong stock market increased from HK\$69.5 billion in 2014 to HK\$105.6 billion in 2015. The Group leveraged on the market opportunities, like the active new economic concept stocks and introduction of Shanghai-Hong Kong Stock Connect policy, to pro-actively introduce customers to participate in trading Hong Kong stocks and obtained satisfactory results. While expanding the Hong Kong stocks transaction business, the Group seized the favorable knock-in opportunities of Hong Kong Stock Information to actively expanding into the Chinese Mainland market to increase the number of new account opened for Hong Kong stocks. In 2015, the number of new accounts opened for Hong Kong stocks increased by 57% year-on-year. In 2015, the Group had closely cooperated with the International Business Division of the parent company to vigorously explore cross-border products, invested in overseas markets using QDII channels, satisfying domestic customers' demands to invest overseas. In 2015, the total size of fund was approximately US\$400 million, including domestic institutions and individual customers invested in overseas markets such as Hong Kong, U.S., by using QDII channel. The absolute amount of commission income from Hong Kong securities under the brokerage business increased from HK\$197 million in 2014 to HK\$282 million in 2015, with its percentage to total income from brokerage business decreased from 75% in 2014 to 72% in 2015. The percentage of brokerage income other than commission income from Hong Kong securities to total income from brokerage business increased from 25% in 2014 to 28% in 2015.

# MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE (Cont'd)

## REVIEW OF OPERATIONS (Cont'd)

### Brokerage business (Cont'd)

For the institutional brokerage business, the Group even integrated its overseas offices and sales teams further to unify its management and joint marketing, and actively expanded the comprehensive institutional business, which included share placement and RQFII products marketing. At the same time, for business development, the Group's wholly-owned Singapore incorporated subsidiary officially commenced its operation, and the Group introduced the equity capital markets team to actively develop large transactions from institutional clients and placement business and generated good performance. The percentage of trading volume in Hong Kong securities of our institutional sales team to the Group was 28% in 2015.

### Financing and loans business

In 2015, in supporting its business development, the Group conducted a comprehensive appraisal on various sources of fund and leverage applications on debt issues, syndicated loans and commercial credits. By fully taking advantage on the opportunities brought by the intensive issue of new shares in the Hong Kong stock market and the active performance of individual stock in the first half of 2015, the Group expanded the loan size on time with risk under control to complement the development of retail brokerage business of Hong Kong securities. In 2015, the average margin balance reached approximately HK\$2.2 billion, with revenue increase year-on-year by 38% to HK\$171 million in 2015 from HK\$124 million in 2014.

### Corporate finance business

Shenwan Hongyuan Capital (H.K.) Limited ("Shenwan Hongyuan Capital"), a wholly-owned subsidiary of the Group, is mainly engaged in the sponsor, financial advisory and securities underwriting businesses. In 2015, the numbers of sponsoring/lead placing agent, underwriting participation/placement and financial advisory projects which the Group completed in total are 3, 14 and 23 respectively. Apart from the aforementioned 3 IPO sponsoring/lead placing agent projects, the Group successfully participated in 14 underwriting/placement projects, including the rights issue of Century Sunshine Group Holdings Limited (509); IPO listing of Red Star Macalline Group Corporation Ltd. (1528), FSE Engineering Holdings Limited (331), China Animation Characters Company Limited (1566); and placement of China NT Pharma Group Company Limited (1011), Technovator International Limited (1206), Huiyin Smart Community Co., Ltd. (1280). Shenwan Hongyuan Capital also provided various financial advisory services for numerous listed companies, including financial advisor/independent financial advisor clients CSSC Offshore & Marine Engineering (Group) Company Limited (317), China Electronics Corporation Holdings Company Limited (85), KEE Holdings Company Limited (2011), etc.; compliance advisors clients BAIC Motor Corporation Limited (1958), D&G Technology Holding Company Limited (1301), Niraku GC Holdings, Inc.(1245), Pak Wing Group (Holdings) Limited (8316), Great Water Holdings Limited (8196), etc.

# MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE (*Cont'd*)

## REVIEW OF OPERATIONS (*Cont'd*)

### Securities research business

Our securities trading and brokerage businesses are professionally supported by a securities research team of the Group. With the support of our parent company, which is one of the leading securities companies in the Chinese Mainland, the Group has become a specialist in the research of the Chinese Mainland securities and prepares detailed company analytical reports for circulation to our clients. In 2015, the securities research team of the Group had issued a total of over 2,000 research reports, covering macroeconomics, market strategy and different industries, providing thorough and incisive analysis of Hong Kong stock and A Shares in China for clients. After developing Shanghai-Hong Kong Stock Connect, the research service needs offered by the Group for clients are further improved.

In 2015, a total of 32 analysts either in person or invited Hong Kong listed companies to meet with our clients from Hong Kong and Asia and had completed the holding of 71 international roadshows for the whole year. We believe that such excursions were beneficial to the collaboration between our parent company and us and posed positive impact on the research and investment banking fronts.

### Asset management business

Shenwan Hongyuan Asset Management (Asia) Limited ("Shenwan Hongyuan Asset Management"), a subsidiary of the Group, is engaged in asset management business. Shenwan Hongyuan Asset Management fully elaborated on RQFII innovative policy to vigorously conduct cross-border asset management business. However, the asset management business was affected by Renminbi exchange reform commenced in August 2015 followed with many customers reduced the proportion of Renminbi assets. The total asset management size decreased from approximately HK\$5.5 billion in 2014 to approximately HK\$4.2 billion in 2015; revenue from asset management business decreased by 17% year-on-year from HK\$11.5 million in 2014 to HK\$9.5 million in 2015.

## CAPITAL STRUCTURE

On 19 January 2015, the Company completed the rights issue on the basis of one rights issue for every two existing shares by issuing 265,379,563 new shares. Please refer to the Company's related announcements and listing documents for details. As at 31 December 2015, the total number of the issued ordinary shares was 796,138,689 shares (2014: 530,759,126) and total equity attributable to shareholders was approximately HK\$2,078.5 million (2014: HK\$1,313.9 million).

## MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE (*Cont'd*)

### LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2015, the Group had a cash holding of HK\$511.8 million (2014: HK\$272.4 million) and investments at fair value through profit or loss of HK\$43.0 million (2014: HK\$199.9 million). As at 31 December 2015, the Group's total unutilised banking facilities amounted to HK\$2,911.3 million (2014: HK\$836.9 million), of which HK\$1,346.3 million (2014: HK\$245.8 million) could be drawn down without the need of notice period nor completion of condition precedent.

As at 31 December 2015, the Group had outstanding short-term bank borrowings amounting to HK\$749.7 million (2014: HK\$1,009.1 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2015 were 138% (2014: 126%) and 36% (2014: 77%) respectively.

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

### SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

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

### CHARGES ON THE GROUP'S ASSET

No asset of the Group was subject to any charge as at 31 December 2015.

### RISK MANAGEMENT

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

The management closely monitors the market condition so that precautionary measures will be taken to eliminate any risk that the Group may encounter. As at 31 December 2015, the advances to customers were overdue accounts receivable from cash clients and margin financing. The balance of overdue accounts receivable from cash client amounted to HK\$69.0 million (2014: HK\$76.9 million). The balance of margin financing amounted to HK\$2,053.8 million (2014: HK\$1,717.6 million), of which 19% (2014: 14%) was attributable to corporate customers with the rest attributable to individual customers.

## MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE (*Cont'd*)

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

### CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2015.

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except the future plans as disclosed in the paragraph of "Future Prospects & Plan" in the Chairman's Statement, the Group had no other future plans for material investments or capital assets as at 31 December 2015.

### EMPLOYEES

As at 31 December 2015, the total number of full-time employees was 253 (2014: 248). The total staff costs for the year amounted to approximately HK\$193.9 million (2014: HK\$150.2 million).

# CORPORATE GOVERNANCE REPORT

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviation from the Code Provision A.6.7 which is explained as below, the Company has met all the code provisions stipulated in Appendix 14, Corporate Governance Code and Corporate Governance Report (the "Code"), of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2015.

Code Provision A.6.7 specifies that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other engagements, a non-executive director and two independent non-executive directors were unable to attend the annual general meeting of the Company held on 15 May 2015.

## CORPORATE GOVERNANCE PRINCIPLES AND SHENWAN HONGYUAN'S PRACTICES:

### A.1 The Board of Directors

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

Four board meetings and one general meeting, being the annual general meeting held on 15 May 2015, were held by the Company in the financial year ended 31 December 2015. Attendance record of each individual director is as follows:

Name of Directors	Number of board meeting(s) attended/held	Number of general meeting(s) attended/held
<b>Executive Directors</b>		
Chu Xiaoming ( <i>Chairman</i> )	4/4	1/1
Lu Wenqing	4/4	1/1
Guo Chun ( <i>Chief Executive Officer</i> )	4/4	1/1
Lee Man Chun Tony	4/4	1/1
<b>Non-executive Director</b>		
Zhang Lei	2/4	0/1
<b>Independent Non-executive Directors</b>		
Ng Wing Hang Patrick	4/4	1/1
Kwok Lam Kwong Larry	4/4	0/1
Zhuo Fumin	3/4	0/1

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

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

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

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

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

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

### A.2 Chairman and Chief Executive

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

To ensure a balance of power and authority, the role of Chairman is separate from that of Chief Executive Officer. Mr. Chu Xiaoming acts as the Chairman, and Mr. Guo Chun acts as the Chief Executive Officer.

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

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

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

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

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

During the financial year ended 31 December 2015, the Chairman held a meeting with the non-executive and independent non-executive directors without the presence of the executive directors.

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

### A.3 Board Composition

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

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

#### **Executive Directors**

Chu Xiaoming (*Chairman*)

Lu Wenqing

Guo Chun (*Chief Executive Officer*)

Lee Man Chun Tony

#### **Non-executive Director**

Zhang Lei

#### **Independent Non-executive Directors**

Ng Wing Hang Patrick

Kwok Lam Kwong Larry

Zhuo Fumin

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

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

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

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

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

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

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

### A.5 Nomination Committee

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

The Nomination Committee comprises the Chairman of the Company, Mr. Chu Xiaoming, and three independent non-executive directors, namely Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin. Mr. Chu Xiaoming acts as the chairman of the Nomination Committee.

The Nomination Committee held one meeting in the financial year ended 31 December 2015. The following is an attendance record of the meeting held by the Nomination Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Chu Xiaoming ( <i>Chairman</i> )	1/1
Ng Wing Hang Patrick	1/1
Kwok Lam Kwong Larry	1/1
Zhuo Fumin	1/1

During the financial year, the Nomination Committee reviewed the structure, size, composition and diversity of the Board, assessed the independence of each independent non-executive director, and made recommendation of re-election of retiring directors at the annual general meeting to the Board.

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

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

### A.6 Responsibilities of Directors

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

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

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. The Company made specific enquiry of all directors. According to their replies, all the directors complied with the requirements set out in the Model Code during the financial year ended 31 December 2015. The Company also complied with the other requirements stipulated in the Model Code.

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

Name of Directors	Training Received <small>(Note)</small>
<b>Executive Directors</b>	
Chu Xiaoming ( <i>Chairman</i> )	A, B, C
Lu Wenqing	A, E
Guo Chun ( <i>Chief Executive Officer</i> )	A, B
Lee Man Chun Tony	A, B, D, E
<b>Non-Executive Director</b>	
Zhang Lei	A
<b>Independent Non-Executive Directors</b>	
Ng Wing Hang Patrick	A
Kwok Lam Kwong Larry	A
Zhuo Fumin	A, C, D

*Note:*

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

### A.7 Supply of and Access to Information

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

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

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

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

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

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

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

The Remuneration Committee held two meetings in the financial year ended 31 December 2015. The following is an attendance record of the meeting held by the Remuneration Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Kwok Lam Kwong Larry ( <i>Chairman</i> )	2/2
Ng Wing Hang Patrick	2/2
Zhuo Fumin	2/2

During the financial year, the Remuneration Committee reviewed and considered the remuneration policy, packages and fringe benefits of the directors and senior management of the Group. In addition, the Remuneration Committee also reviewed the remuneration policies of the Group and compared with companies of similar scale as benchmark. Furthermore, the Committee made recommendations to the Board for the reward system of the Group, the salary increment of employees in 2015 and the reward of the Chief Executive Officer for 2015. None of the directors of the Company participated in the determination of the remuneration of their own. The Remuneration Committee was satisfied with the current remuneration policy and packages of the Group.

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

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

For the financial year ended 31 December 2015, the remuneration of the members of the senior management by band is set out below:

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

Details of the directors' remuneration and five highest paid employees for the financial year ended 31 December 2015 as required to be disclosed pursuant to Appendix 16 of the Listing Rules are provided in notes to the financial statements.

\* This disclosure does not include the bonuses for 2015 to be payable to three of the senior management members. The total amount of the approved bonuses to the three senior management members and Mr. Guo Chun, the Executive Director, is HK\$12.9 million, while approval for the actual amount payable to each of them is still being processed. Further announcement will be made as soon as it is approved.

# CORPORATE GOVERNANCE REPORT *(Cont'd)*

## C.1 Financial Reporting

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

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

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

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

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

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

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

## C.2 Internal Controls

Principle: The board should ensure that the issuer maintains sound and effective internal controls to safeguard shareholders' investment and the issuer's assets.

The Internal Audit Department is charged with the responsibilities to evaluate whether there are sound and effective internal controls in place to safeguard the shareholders' investment and the Company's assets. Such evaluation covers all material controls, including financial, operational and compliance controls and risk management functions. Internal Audit Department reported twice during 2015 on significant findings on internal controls to the Audit Committee, which in turn reported to the Board accordingly. The Board found that as at the publication of this report and financial statements, the internal controls were sound and effective which safeguard the shareholders' and customers' interests and the assets of the Group.

The Board also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

### C.3 Audit Committee

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

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

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

The Audit Committee held two meetings in the financial year ended 31 December 2015. The following is an attendance record of the meeting held by the Audit Committee for the financial year:

Name of Committee Members	Number of meeting(s) attended/held
Ng Wing Hang Patrick ( <i>Chairman</i> )	2/2
Kwok Lam Kwong Larry	2/2
Zhuo Fumin	2/2

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

- (1) reviewing the financial statements and the independent auditors' report before their submission to the Board;
- (2) reviewing the results of the audit on the Company's system of internal controls;
- (3) reviewing the results of the audit on the connected or continuing connected parties transactions;
- (4) nominating external auditors for re-appointments and proposing the remuneration and terms of engagement of external auditors; and
- (5) performing corporate governance functions delegated by the Board.

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

The Board agreed with the Audit Committee's proposal for the re-appointment of Messrs. Ernst & Young as the Company's external auditors for 2016. The recommendation will be put forward for the approval of shareholders at the forthcoming annual general meeting.

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

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

During the financial year ended 31 December 2015, the remuneration paid to the external auditors, Messrs. Ernst & Young, was as below:

Nature of services	HK\$'000
Audit services	1,800
Tax advisory services	170

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

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

### D.1 Management Functions

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

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

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

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

# CORPORATE GOVERNANCE REPORT (*Cont'd*)

Matters reserved to be approved by the Board include:

- (1) Appointment of directors;
- (2) Significant strategies and business plans of the Company;
- (3) Proposal for selection of external auditors;
- (4) Financial statements and budgets;
- (5) Substantial investments other than those arising in the ordinary course of Company's businesses; and
- (6) Formation of board committees.

## D.2 Board Committees

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

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

Apart from the Audit Committee (particulars are disclosed under C.3), Remuneration Committee (particulars are disclosed under B.1) and Nomination Committee (particulars are disclosed under A.5), the Board also established an Executive Committee and a Management Committee with specific terms of reference. The Executive Committee consists of all the executive directors and is responsible for formulating and reviewing the Company's important strategies on business and operations. The Management Committee consists of the Chief Executive Officer, deputy general manager(s), executive directors and chief operating officer. The Management Committee usually meets weekly for making policy(ies) relating to the Company's day-to-day management and business.

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

## D.3 Corporate Governance Functions

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

### E.1 Effective Communication

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

At the annual general meeting held in 2015, a separate resolution was proposed by the Chairman for each substantially separate issue.

The chairman of the Board and the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or members of the respective Committees attended the annual general meeting held in 2015 to answer questions of shareholders.

The external auditor, Messrs. Ernst & Young, attended the annual general meeting held in 2015 to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditing independence.

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

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

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

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

#### (a) *How shareholders can convene an extraordinary general meeting*

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

The written request:

- (i) must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting (in case if the resolution is to be proposed as a special resolution, the written request should include the text of the resolution and specify the intention to propose the resolution as a special resolution);
- (ii) must be signed by the requisitionist(s); and
- (iii) may either be deposited at the registered office of the Company at Level 19, 28 Hennessy Road, Hong Kong in hard copy form or sent in electronic form by email at [co.sec@swhyhk.com](mailto:co.sec@swhyhk.com).

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

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

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

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

Registered office:           Level 19, 28 Hennessy Road, Hong Kong  
Email:                         [co.sec@swhyhk.com](mailto:co.sec@swhyhk.com)

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

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

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

- (i) shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders who have a right to vote on the resolution at the annual general meetings to which the requests relate; or
- (ii) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The written request:

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

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

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

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

## CORPORATE GOVERNANCE REPORT (*Cont'd*)

### E.2 Voting by Poll

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

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

To ensure that shareholders are familiar with the poll procedures at the annual general meeting held in 2015, the Chairman (through the Company Secretary) explained the detailed procedures of poll voting.

The poll results of general meetings were published on the website of HKEx at <http://www.hkexnews.hk> and the Company's website at <http://www.swhyhk.com>.

### F. Company Secretary

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

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

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

Mr. Wong confirmed that he has taken no less than 15 hours of relevant professional training for the year ended 31 December 2015 in compliance with Rule 3.29 of the Listing Rules. The biographical details of Mr. Wong are set out on page 39 under the section headed Biographical Details of the Directors of the Company and the Senior Management of the Group.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

In 2015, the Group has adopted a series of environmental-friendly measures in the workplace and served the community through organizing and participating various charitable activities to demonstrate our commitment to the corporate social responsibility.

## ENVIRONMENTAL

Although the Group's business is primarily provision of financial services, with no direct impact on the environment, we still actively pursue various environmental measures to reduce the indirect impact on the environment associated with business development.

### Emissions

The biggest contributor to the Group's carbon footprint is the indirect greenhouse gas ("GHG") emissions from electricity consumption. The Group is committed to improving the energy efficiency of operations by supporting the "Indoor Temperature Energy Saving Charter" and the "No Incandescent Light Bulbs ("ILB") Energy Saving Charter". The indoor air temperature of our office is set at a comfortable range, and all incandescent light bulbs have been fully deactivated. Furthermore, the Group has been awarded the basic level "Energywise Certification" under the "Hong Kong Green Organization Certification" in 2015.

No hazardous waste was generated in connection with the Group's business. Indirect GHG emissions generated by the Group's electricity consumption (Hong Kong business only) in 2015 amounted to 670 tonnes carbon dioxide<sup>1</sup>.

### Use of Resources

In the coming year, we plan to convert the existing T8 fluorescent light tubes to higher efficiency LED light tubes by phases. After the completion of each phase, we expect to reduce our total electricity consumption by up to 3 percent compared to that of using T8 fluorescent light tubes and GHG gas emissions will be reduced accordingly.

### The Environmental and Natural Resources

In order to improve waste management mechanisms, the Group set a number of targets to reduce the use of resources and disposal of waste, including encouraging employees to reduce paper consumption by reuse of single-sided printed paper, to assess the necessity of printing where appropriate and to use duplex printing. Moreover, we use paper produced from sustainably managed forests, and arrange collection of waste paper and toner cartridges for recycling.

The Group has also established a new goal to reduce paper consumption for the coming year so as to achieve waste reduction goals.

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

# CORPORATE SOCIAL RESPONSIBILITY REPORT (*Cont'd*)

## SOCIAL

### Employment and Labour Practices

#### (a) Employment

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

#### (b) Health and Safety

The Group is committed to providing a healthy and appropriate workplace for employees. In 2015, we started to conduct an assessment of our offices with regard to the "Code of Practice for Working with Display Screen Equipment" in order to ensure compliance with the "Occupational Safety and Health (Display Screen Equipment) Regulations". The assessment is expected to complete in 2016.

#### (c) Development and Training

Development and training is an ongoing process to ensure the continued enhancement of the skills and knowledge of the employee. The Group has training policies and organized training programmes aimed at improving the skills of its employees and to increase the professionalism and efficiency of the Group. Employees are also aided in developing continuously throughout their employment with the Group through on-the-job training. The Group also has policies for employee development. In compliance with Securities and Futures Commission requirements, the Group organized a total of 12 Continuous Professional Training seminars for all licensed staff members for the year ended 31 December 2015.

#### (d) Labour Standards

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

# CORPORATE SOCIAL RESPONSIBILITY REPORT (*Cont'd*)

## SOCIAL (*Cont'd*)

### Operating Practices

#### (a) Supply Chain Management

The Group selects reliable vendors, agencies and third party financial institutions, collectively "suppliers", to support the business operations, and is committed as much as possible to conduct the business with suppliers that act in a socially responsible manner to meet the ethical expectations. The Group will take into account their reputation, their track record of high corporate standards, expertise, capacity and etc. so as to select the qualified supplier, and should obtain appropriate management's approval before entering an agreement. Such procedure aims to support operational efficiency, segregation of duties and making the best decision.

Moreover, to minimize the negative impacts on the environment and society, the Group will procure the electrical appliances which are energy saving. Those suppliers with environmental certifications or being a caring company will be the Group's priority.

#### (b) Product Responsibility

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

Besides, the Group emphasis the importance of protecting the privacy of its clients and will comply with the provisions of the Personal Data (Privacy) Ordinance in the collection, processing and use of client's personal data. Specific processes for the handling and protection of client data are set out in the relevant internal procedure manual. When signing a contract with client, the Group has included a term about the confidentiality of client data to avoid disclosure of client information and protect client privacy. During the year, the Group has not received complaints from clients due to disclosure of information.

When customer complaints are received, the Group has established policy to provide guidance to specific the handling procedures. At present, Compliance and Internal Audit Department is responsible for reviewing the complaints, collecting evidence and providing advices and comments. An initial response will be provided to the customer within seven business days upon the receipt of complaints.

# CORPORATE SOCIAL RESPONSIBILITY REPORT (*Cont'd*)

## SOCIAL (*Cont'd*)

### Operating Practices (*Cont'd*)

#### (c) Anti-corruption

The Group maintains and effectively implements a comprehensive system of internal control and stringent policies, which including Compliance Manual and Employee Whistleblowing Procedures, for anti-corruption and anti-fraud, and is committed to promote integrity and prevent unethical issues. 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 can report to the Chairman of Audit Committee or Head of Compliance and Internal Audit for investigation and resolution. Compliance and Internal Audit Department will then carry out investigation and verification, and report to the regulator or law enforcement authority when considered to be necessary.

Moreover, the Group has policy sets forth procedures for client's acceptance by conducting "Know Your Clients" procedures to understand the background and financial status of the clients. We will perform name search to check whether a client is related to terrorist and sanction designations, or whether a client is a politically exposed person. Clients will be rejected when considered to be suspicious.

The Group is committed to adhering to the highest ethical standards. During the year, the Group has not received any corruption, bribery, fraud or legal case related to corruption. The Group will continue to comply with ethical requirements and upholds its reputation to prevent corruption.

### Community Investment

In terms of community involvement, the Group continues to run a corporate social responsibility programme, in which it encourages employees to participate in community services and contribute to care needs of the community. In 2015, the Group continued its cooperation with the Chinese Young Men's Christian Association (YMCA) of Hong Kong, participated in various charitable and care activities, including organizing volunteer teams to assist the Elderly College of Chinese YMCA in holding and sponsoring a graduation ceremony, sponsoring and accompanying people of mentally handicapped on trips to the Hong Kong Observation Wheel and Lai Yuen Amusement Park, and contributing to activities for the elderly in promotion of social inclusion. During the past year, the Group also supported a charity concert organized by AnAn International Education Foundation Hong Kong.

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

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

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2015.

## CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the annual general meeting of the Company held on 15 May 2015 and approved by the Registrar of Companies in Hong Kong on 21 May 2015, the name of the Company was changed from "Shenyin Wanguo (H.K.) Limited 申銀萬國(香港)有限公司" to "Shenwan Hongyuan (H.K.) Limited 申萬宏源(香港)有限公司" with effect from 21 May 2015.

In addition, most of the subsidiaries of the Company also implemented procedures to change their respective names.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the Group's financial position at that date are set out in the audited financial statements.

The directors recommend the payment of a final dividend of HK9 cents per ordinary share in respect of 2015 to shareholders on the register of members on 20 May 2016.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out under the sections headed Chairman's Statement, Management Discussion & Analysis of Performance, Corporate Governance Report and Corporate Social Responsibility Report on pages 3 to 5, pages 6 to 10, pages 11 to 27 and pages 28 to 31 respectively of this annual report.

## REPORT OF THE DIRECTORS (*Cont'd*)

### FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>RESULTS</b>					
REVENUE	<b>696,649</b>	473,291	354,045	293,992	383,312
Other gains/(loss), net	988	(246)	3,288	3,683	980
Impairment loss of an available-for-sale investment	–	–	(2,623)	(2,330)	–
Commission expenses	(156,237)	(103,838)	(70,397)	(48,569)	(64,702)
Employee benefit expenses	(193,907)	(150,214)	(114,263)	(111,133)	(117,498)
Depreciation expenses	(5,248)	(5,884)	(9,066)	(9,361)	(8,802)
Interest expenses for financial service operations	(17,396)	(14,273)	(10,531)	(442)	(1,508)
Other expenses, net	(122,164)	(97,342)	(98,025)	(94,030)	(113,973)
 PROFIT BEFORE TAX	 <b>202,685</b>	 101,494	 52,428	 31,810	 77,809
Income tax expense	(18,372)	(7,567)	(5,185)	(1,649)	(3,801)
 PROFIT FOR THE YEAR	 <b>184,313</b>	 93,927	 47,243	 30,161	 74,008
 Attributable to:					
Ordinary equity holders of the Company	184,314	93,934	47,239	30,151	74,003
Non-controlling interests	(1)	(7)	4	10	5
 <b>184,313</b>	 93,927	 47,243	 30,161	 74,008	

	As at 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS</b>					
TOTAL ASSETS	<b>7,425,262</b>	6,089,134	5,065,225	4,578,048	3,373,060
TOTAL LIABILITIES	<b>(5,344,090)</b>	(4,772,638)	(3,819,112)	(3,373,289)	(2,186,334)
NON-CONTROLLING INTERESTS	<b>(2,630)</b>	(2,631)	(2,638)	(2,634)	(2,624)
 <b>2,078,542</b>	 1,313,865	 1,243,475	 1,202,125	 1,184,102	

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

## **REPORT OF THE DIRECTORS (Cont'd)**

### **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

On 19 January 2015, the Company completed the rights issue by issuing 265,379,563 new shares. Please refer to the Company's related announcements and listing documents for details.

### **EQUITY-LINKED AGREEMENTS**

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

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

### **DISTRIBUTABLE RESERVES**

At 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK\$159,120,000 of which HK\$71,652,000 has been proposed as a final dividend for 2015.

### **CHARITABLE CONTRIBUTIONS**

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

### **MAJOR CUSTOMERS AND SUPPLIERS**

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

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

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

## REPORT OF THE DIRECTORS (*Cont'd*)

### DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Chu Xiaoming (*Chairman*)  
Lu Wenqing  
Guo Chun (*Chief Executive Officer*)  
Lee Man Chun Tony

*Non-executive director:*

Zhang Lei

*Independent non-executive directors:*

Ng Wing Hang Patrick  
Kwok Lam Kwong Larry  
Zhuo Fumin

In accordance with Article 104(A) of the Company's Articles of Association and in compliance with Code Provision A.4.3 of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Messrs. Lu Wenqing, Zhang Lei, Ng Wing Hang Patrick, Kwok Lam Kwong Larry and Zhuo Fumin will retire at the forthcoming annual general meeting. With the exception of Mr. Lu Wenqing who will not stand for re-election and accordingly will retire as executive director after the conclusion of the forthcoming annual general meeting, the other retiring directors, being eligible, will offer themselves for re-election.

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

A list of names of all the directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at [www.swhyhk.com](http://www.swhyhk.com).

## **REPORT OF THE DIRECTORS (Cont'd)**

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

#### **Executive directors**

##### *Chu Xiaoming – Chairman*

Mr. Chu Xiaoming, aged 53, was appointed as an Executive Director and the Chairman of the Company on 20 December 2010. Mr. Chu is also a Non-independent Director and the Chairman of the Board of Shenwan Hongyuan Group Co., Ltd., which is listed on the Shenzhen Stock Exchange, a Director and the Chairman of the Board of Shenwan Hongyuan Securities Co., Ltd, a Director and Vice Chairman of the Board of SWS Research Co., Ltd. and a Director and Vice Chairman of the Board of Shenwan Hongyuan (International) Holdings Limited. Prior to joining Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., in 2010, he was the General Manager of Zhonghai Trust Co., Ltd. Mr. Chu graduated from The University of Hong Kong with a Master's Degree in Business Administration (International) in 2003 and obtained the qualification as Senior Economist issued by Industrial and Commercial Bank of China in 1994.

##### *Lu Wenqing*

Mr. Lu Wenqing, aged 57, was appointed as a Non-executive Director of the Company in August 1996 and was re-designated as an Executive Director of the Company in September 2004. Mr. Lu was the Vice President of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., until end March 2014 when he was nominated as the Designated Vice Chairman of Shenwan Hongyuan (International) Holdings Limited. Prior to joining the former Shanghai Shenyin Securities Co., Ltd., Mr. Lu served as a senior officer of Shanghai Trust & Investment Corporation of the Industrial and Commercial Bank of China and as an attaché of the Chinese Embassy in Gabon. Mr. Lu graduated from Shanghai University of Finance and Economics. He also holds a Master's Degree in Business Administration from The Asia (Macau) International Open University and W.P. Carey School of Business at Arizona State University.

##### *Guo Chun – Chief Executive Officer*

Mr. Guo Chun, aged 51, was appointed as an Executive Director of the Company in May 2000 and as Chief Executive Officer of the Company on 9 March 2012. Mr. Guo is also the Managing Director of the International Business Division of Shenwan Hongyuan Securities Co., Ltd and the Deputy Managing Director of Shenwan Hongyuan (International) Holdings Limited. He has been working in the securities industry of the People's Republic of China (the "PRC") since 1987 and has 28 years' extensive experience in stockbroking and investment banking in the PRC. Before joining the former Shanghai Shenyin Securities Co., Ltd. and served as a regional superintendent in Shanghai in 1990, Mr. Guo worked for the Industrial and Commercial Bank of China. Mr. Guo acted as the Managing Director of the International Business Division of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., and Shenwan Hongyuan Securities Co., Ltd from May 2008 to March 2012 and since February 2014 to date. Mr. Guo holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia and an Executive Master of Business Administration Degree from Arizona State University, United States of America.

## REPORT OF THE DIRECTORS (*Cont'd*)

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

#### Executive directors (*Cont'd*)

##### *Lee Man Chun Tony*

Mr. Lee Man Chun Tony, aged 62, was appointed as an Executive Director of the Company in June 2000. Mr. Lee is also an Independent Non-executive Director of China Chengtong Development Group Limited, which is listed on the Hong Kong Stock Exchange. He is an Associate of the Hong Kong Institute of Certified Public Accountants and has more than 30 years' experience in accounting, finance and banking. Mr. Lee held senior positions with Standard Chartered Bank and Sanwa International Finance Ltd. before he joined the Group in 1995. He previously served as Chief Executive Officer of the Company from July 2000 to 9 March 2012. Mr. Lee obtained a Master of Business Administration from Chu Hai College of Higher Education in 1981.

#### Non-executive director

##### *Zhang Lei*

Mr. Zhang Lei, aged 47, is a Non-executive Director of the Company. He graduated from Shanghai Jiaotong University as doctor of philosophy of Financial Management Engineering in 1997. Mr. Zhang has many years of experience in the securities industry. He has previously worked for Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., as Deputy Manager of Client Asset Management Division. Mr. Zhang joined Shanghai Industrial Investment (Holdings) Company Limited in July 2006, and currently serves as its Deputy General Manager of Finance & Planning Department. He also presently holds directorships in certain wholly-owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited and acts as the responsible officer of SIIC Asset Management Company Limited.

#### Independent non-executive directors

##### *Ng Wing Hang Patrick*

Mr. Ng Wing Hang Patrick, aged 63, is an Independent Non-executive Director of the Company. Mr. Ng is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Pan-China (H.K.) CPA Limited, a certified public accountants firm in Hong Kong. He also serves as an Independent Non-executive Director of Far East Hotels and Entertainment Limited, which is listed on the Hong Kong Stock Exchange. Mr. Ng graduated from The Hong Kong Polytechnic University in 1975.

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

Mr. Kwok Lam Kwong Larry, aged 60, is an Independent Non-executive Director of the Company. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a Chartered Accountant in England and Wales and a CPA in Hong Kong and Australia. Mr. Kwok graduated from the University of Sydney, Australia with Bachelor's Degrees in Economics and Laws as well as a Master's Degree in Laws. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

## **REPORT OF THE DIRECTORS (Cont'd)**

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

#### **Independent non-executive directors (Cont'd)**

##### *Zhuo Fumin*

Mr. Zhuo Fumin, aged 64, is an Independent Non-executive Director of the Company. Mr. Zhuo graduated from Shanghai Jiaotong University's Electrical Engineering School and holds a Master's Degree in Economics conferred by Fudan University. He has more than 40 years of experience in running joint stock companies and in corporate management and has extensive capital market experience. Mr. Zhuo currently serves as a Partner in GGV Capital. He also serves as an Independent Director of Daqo New Energy Corp., which is listed on the New York Stock Exchange, an Independent Director of China Enterprise Company Limited and Arcplus Group PLC, which are listed on the Shanghai Stock Exchange, an Independent Director of Hedy Holding Co., Ltd., which is listed on the Shenzhen Stock Exchange, a Non-executive Director of Besunyun Holdings Company Limited and an Independent Non-executive Director of SRE Group Limited, which are listed on the Hong Kong Stock Exchange. Mr. Zhuo was an Independent Director of Focus Media Holding Ltd., which was previously listed on the NASDAQ Stock Market and delisted in May 2013, and a Director of Grandhope Biotech Co., Ltd., which is listed on the Shenzhen Stock Exchange, until he resigned on 5 August 2013.

#### **Senior management**

##### *Bai Youge – Deputy General Manager*

Mr. Bai Youge, aged 53, was appointed as Deputy General Manager of the Group in 2004. Mr. Bai is also the Deputy General Manager of the International Business Division of Shenwan Hongyuan Securities Co., Ltd. Before joining the former Shanghai International Securities Co., Ltd. in 1994 as the Deputy General Manager of the Investment Bank Division, Mr. Bai worked for Arthur Andersen & Co. and used to be a non-practising member of the Chinese Institute of Certified Public Accountants. Mr. Bai also previously served as the Deputy General Manager of the International Business Division and Securities Brokerage Division of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., respectively. He has over 10 years' experience in the securities field of the PRC. Mr. Bai graduated from Sichuan University in Mathematics and holds a Master's Degree in Economics from the Shanghai Academy of Social Sciences and a Master's Degree in Finance and Securities from the University of Reading in the United Kingdom.

##### *Fu Xingyi – Deputy General Manager*

Mr. Fu Xingyi, aged 53, has been appointed as the Deputy General Manager of the Group since November 2007. Mr. Fu was appointed as the Assistant to General Manager of the Group in 2004. He previously worked for the International Business Division, Investment Bank Division and Merger & Acquisition Division of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., and has more than 10 years' experience in corporate finance. Mr. Fu holds a Bachelor's Degree from Fudan University in Shanghai.

##### *Yang Ming – Deputy General Manager*

Mr. Yang Ming, aged 41, has been appointed as Deputy General Manager of the Group in July 2013. Mr. Yang is also the Assistant to General Manager of the International Business Division of Shenwan Hongyuan Securities Co., Ltd. He previously worked for SWS Research Co., Ltd. as Analyst and Manager of Overseas Development Center, and has more than 10 years' experience in securities research. Mr. Yang graduated from the University of Limburg in Belgium as a Master Graduate Student.

## REPORT OF THE DIRECTORS (*Cont'd*)

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

#### Senior management (*Cont'd*)

##### *Wong Che Keung Leslie – Chief Operating Officer and Company Secretary*

Mr. Wong Che Keung Leslie, aged 51, is the Chief Operating Officer and Company Secretary of the Group. Besides company secretarial duties, Mr. Wong is also responsible for overseeing accounting, securities settlement, credit, treasury, information technology as well as legal affairs of the Group. Mr. Wong once served as the Head of Compliance of the Group and subsequently, a Director of Shenwan Hongyuan Securities (H.K.) Limited and the Finance Director before succeeding to the position of the Chief Operating Officer of the Group in 2010. Mr. Wong was appointed as the Company Secretary of the Group in December 2004. Prior to joining the Group in 1996, he has worked in the Securities and Futures Commission for 7 years. Mr. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants, and obtained his Bachelor's Degree in Economics at the University of Hong Kong and a Master's Degree in Business Administration at the Chinese University of Hong Kong. He serves as a member of the Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited since 1 June 2012.

##### *Ting Kay Loong Willis – Head of Corporate Finance*

Mr. Ting Kay Loong Willis, aged 54, is the Head of Corporate Finance of the Group. Mr. Ting has over 27 years of experience in the securities industry. Prior to joining the Group in 2006, he worked for several international financial institutions and listed companies in Hong Kong, responsible for capital market activities and equity investments. Mr. Ting holds a Bachelor of Economics Degree from Macquarie University, Australia and is a fellow member of the Australian Society of Certified Public Accountants.

### DIRECTORS' SERVICE CONTRACTS

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

### DIRECTORS' REMUNERATION

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

### DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

### PERMITTED INDEMNITY PROVISION

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

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

## REPORT OF THE DIRECTORS (*Cont'd*)

### DIRECTOR'S INTEREST IN SHARES

As at 31 December 2015, none of the directors and the chief executive of the Company was taken to be interested or deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2015, the interests of substantial shareholders, other than directors or chief executive of the Company, who had interests or short positions of 5% or more of the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company, were as follows:

*Long positions in the ordinary shares of the Company*

Name	Capacity and nature of interests	Number of ordinary shares held (Note)	Percentage of the Company's issued shares
Shenwan Hongyuan Holdings (B.V.I.) Limited ("SWHYHBVI")	Directly beneficially owned	402,502,312 <sup>(1)</sup>	50.56
Venture-Some Investments Limited ("VSI")	Through controlled corporation	402,502,312 <sup>(1)</sup>	50.56
Shenwan Hongyuan (International) Holdings Limited	Through controlled corporation Directly beneficially owned	402,502,312 <sup>(1)</sup> 3,306,257 <sup>(2)</sup>	50.56 0.42
Shenwan Hongyuan Group Co., Ltd.	Through controlled corporation	405,808,569 <sup>(1) (2)</sup>	50.98

## REPORT OF THE DIRECTORS (*Cont'd*)

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

#### *Long positions in the ordinary shares of the Company (*Cont'd*)*

*Note:*

- (1) SWHYHBVI is held directly as to 60.82% by VSI. VSI is wholly-owned by Shenwan Hongyuan (International) Holdings Limited. Shenwan Hongyuan (International) Holdings Limited is wholly-owned by Shenwan Hongyuan Group Co., Ltd. Hence, VSI, Shenwan Hongyuan (International) Holdings Limited and Shenwan Hongyuan Group Co., Ltd. are deemed to be interested in the same parcel of 402,502,312 shares held by SWHYHBVI under the SFO.
- (2) Shenwan Hongyuan (International) Holdings Limited also held directly 3,306,257 shares of the Company. Hence, Shenwan Hongyuan Group Co., Ltd. is also deemed to be interested in the same parcel of 3,306,257 shares held by Shenwan Hongyuan (International) Holdings Limited under the SFO.

Save as disclosed above, as at 31 December 2015, the Company had not been notified of any person who had interests or short positions in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The connected transactions and continuing connected transactions of the Company and the Group during the year are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules in note 27(a)(i-v) to the financial statements.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions as set out in note 27(a)(i-v) to the financial statements and confirmed that these transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

## **REPORT OF THE DIRECTORS (Cont'd)**

### **SUFFICIENCY OF PUBLIC FLOAT**

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

### **DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

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

Mr. Chu Xiaoming (an Executive Director and the Chairman of the Company) is:

- a director and the chairman of the board of Shenwan Hongyuan Securities Co., Ltd which is involved in securities business; and
- a director and vice chairman of the board of SWS Research Co., Ltd. which is involved in securities research and consulting business.

Mr. Guo Chun (an Executive Director and the Chief Executive Officer of the Company) is the managing director of the international business division of Shenwan Hongyuan Securities Co., Ltd which is involved in securities business.

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

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

### **AUDITORS**

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

ON BEHALF OF THE BOARD

**Chu Xiaoming**  
*Chairman*

Hong Kong  
4 March 2016

# INDEPENDENT AUDITORS' REPORT



**To the members of Shenwan Hongyuan (H.K.) Limited**

(Formerly known as Shenyin Wanguo (H.K.) Limited)

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shenwan Hongyuan (H.K.) Limited (formerly known as Shenyin Wanguo (H.K.) Limited) (the "Company") and its subsidiaries set out on pages 45 to 112, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, 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 a summary of significant accounting policies and other explanatory information.

## **Directors' responsibility for the consolidated financial statements**

The directors of the Company 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 Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

## INDEPENDENT AUDITORS' REPORT (*Cont'd*)

**To the members of Shenwan Hongyuan (H.K.) Limited (*Cont'd*)**

(Formerly known as Shenyin Wanguo (H.K.) Limited)

(Incorporated in Hong Kong with limited liability)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

22/F CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

4 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
REVENUE	5	<b>696,649</b>	473,291
Other gains/(losses), net	5	<b>988</b>	(246)
Commission expenses		<b>(156,237)</b>	(103,838)
Employee benefit expenses	6	<b>(193,907)</b>	(150,214)
Depreciation expenses	12	<b>(5,248)</b>	(5,884)
Interest expenses for financial services operations	6	<b>(17,396)</b>	(14,273)
Other expenses, net		<b>(122,164)</b>	(97,342)
PROFIT BEFORE TAX	6	<b>202,685</b>	101,494
Income tax expense	9	<b>(18,372)</b>	(7,567)
PROFIT FOR THE YEAR		<b>184,313</b>	93,927
Attributable to:			
Ordinary equity holders of the Company		<b>184,314</b>	93,934
Non-controlling interests		<b>(1)</b>	(7)
		<b>184,313</b>	93,927
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			(Restated)
Basic and diluted	11	<b>HK23.21 cents</b>	HK13.24 cents

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
PROFIT FOR THE YEAR	<b>184,313</b>	93,927
OTHER COMPREHENSIVE INCOME/(LOSS):		
Items that may be reclassified to the consolidated statement of profit or loss in subsequent periods		
Available-for-sale investments:		
Changes in fair value – gain/(loss)	–	(2,314)
Reclassification adjustments for loss/(gain) included in the consolidated statement of profit or loss		
– gain on disposal	(167)	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<b>(167)</b>	(2,314)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<b>184,146</b>	91,613
Attributable to:		
Ordinary equity holders of the Company	<b>184,147</b>	91,620
Non-controlling interests	(1)	(7)
	<b>184,146</b>	91,613

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December 2015 HK\$'000	As at 31 December 2014 HK\$'000
<b><u>NON-CURRENT ASSETS</u></b>			
Property, plant and equipment	12	<b>12,221</b>	13,259
Stock and Futures Exchange trading rights	13	<b>4,212</b>	4,212
Other assets		<b>26,006</b>	43,983
Available-for-sale investments	14	<b>2,470</b>	7,610
Deferred tax assets	15	<b>7,304</b>	236
Total non-current assets		<b>52,213</b>	69,300
<b><u>CURRENT ASSETS</u></b>			
Investments at fair value through profit or loss	14	<b>42,980</b>	199,879
Accounts receivable	16	<b>879,937</b>	1,140,380
Loans and advances	17	<b>2,053,818</b>	1,717,634
Prepayments, deposits and other receivables	18	<b>21,253</b>	24,442
Tax recoverable		<b>1,172</b>	148
Bank balances held on behalf of clients	19	<b>3,862,085</b>	2,664,938
Cash and bank balances	20	<b>511,804</b>	272,413
Total current assets		<b>7,373,049</b>	6,019,834
<b><u>CURRENT LIABILITIES</u></b>			
Accounts payable	21	<b>4,448,656</b>	3,653,108
Other payables and accruals	22	<b>127,599</b>	105,370
Interest-bearing bank borrowings	23	<b>749,680</b>	1,009,097
Tax payable		<b>17,889</b>	4,793
Total current liabilities		<b>5,343,824</b>	4,772,368
NET CURRENT ASSETS		<b>2,029,225</b>	1,247,466
<i>TOTAL ASSETS LESS CURRENT LIABILITIES</i>		<b>2,081,438</b>	1,316,766
<b><u>NON-CURRENT LIABILITY</u></b>			
Deferred tax liability	15	<b>266</b>	270
<b>Net assets</b>		<b>2,081,172</b>	1,316,496

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*Cont'd*)

	<i>Notes</i>	As at 31 December 2015 HK\$'000	As at 31 December 2014 HK\$'000
<b>EQUITY</b>			
Equity attributable to ordinary equity holders of the Company			
Share capital	24	<b>1,200,457</b>	580,120
Other reserves	25	<b>878,085</b>	733,745
		<b>2,078,542</b>	1,313,865
Non-controlling interests		<b>2,630</b>	2,631
<b>Total equity</b>		<b>2,081,172</b>	1,316,496

**Chu Xiaoming**  
*Director*

**Guo Chun**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

Notes	Attributable to ordinary equity holders of the Company								
	Share capital HK\$'000 (Note 24)	Share premium account HK\$'000 (Note 24)	Capital reserve HK\$'000	Available-for-sale investment revaluation reserve HK\$'000	General reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2014	265,380	314,740	15	2,481	138	660,721	1,243,475	2,638	1,246,113
Profit for the year	-	-	-	-	-	93,934	93,934	(7)	93,927
Other comprehensive income for the year:									
Change in fair value of available-for-sale investments, net of tax	14	-	-	(2,314)	-	-	(2,314)	-	(2,314)
Total comprehensive income for the year	265,380	314,740	15	167	138	754,655	1,335,095	2,631	1,337,726
Final 2013 dividend declared and paid	-	-	-	-	-	(21,230)	(21,230)	-	(21,230)
Transition to no-par value regime	314,740	(314,740)	-	-	-	-	-	-	-
At 31 December 2014 and 1 January 2015	580,120	-	15*	167*	138*	733,425* <sup>△</sup>	1,313,865	2,631	1,316,496
Profit for the year	-	-	-	-	-	184,314	184,314	(1)	184,313
Other comprehensive income for the year:									
Disposal of an available-for-sale investments, net of tax	14	-	-	(167)	-	-	(167)	-	(167)
Total comprehensive income for the year	580,120	-	15	-	138	917,739	1,498,012	2,630	1,500,642
Final 2014 dividend declared and paid	10	-	-	-	-	(39,807)	(39,807)	-	(39,807)
Issue of shares from rights issue	620,337	-	-	-	-	-	620,337	-	620,337
At 31 December 2015	1,200,457	-	15*	-	138*	877,932*	2,078,542	2,630	2,081,172

\* These reserve accounts comprise the other reserves of HK\$878,085,000 (2014: HK\$733,745,000) in the consolidated statement of financial position.

△ Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note 2.4 to the financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>202,685</b>	101,494
Adjustments for:			
Fair value gain from an unlisted available-for-sale investment			
(transfer from equity on disposal)	6	(167)	–
Depreciation	12	<b>5,248</b>	5,884
		<b>207,766</b>	107,378
Decrease/(increase) in other assets		<b>17,977</b>	(13,226)
Decrease in available-for-sale investments		<b>5,140</b>	–
Decrease/(increase) in investments at fair value through profit or loss		<b>156,899</b>	(61,558)
Decrease/(increase) in accounts receivable		<b>260,443</b>	(593,906)
Increase in loans and advances		(336,184)	(199,177)
Decrease/(increase) in prepayments, deposits and other receivables		<b>3,189</b>	(7,262)
Increase in bank balances held on behalf of clients		(1,197,147)	(154,182)
Increase in accounts payable		<b>795,548</b>	709,419
Increase in other payables and accruals		<b>22,229</b>	42,652
		<b>(64,140)</b>	(169,862)
Cash used in operations		<b>(12,927)</b>	(5,533)
Hong Kong profits tax paid		(445)	(70)
		<b>(77,512)</b>	(175,465)
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Purchases of items of property, plant and equipment	12	<b>(4,210)</b>	(8,334)
Cash flows used in investing activity		<b>(4,210)</b>	(8,334)

## CONSOLIDATED STATEMENT OF CASH FLOWS (*Cont'd*)

Year ended 31 December 2015

	<i>Notes</i>	<b>2015 HK\$'000</b>	<b>2014 HK\$'000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from rights issue	24	<b>620,337</b>	–
Net (payment to)/proceeds from bank loans		<b>(259,199)</b>	268,843
Dividend paid		<b>(39,807)</b>	(21,230)
Net cash flows from financing activities		<b>321,331</b>	247,613
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>239,609</b>	63,814
		<b>272,195</b>	208,381
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<b>511,804</b>	272,195
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	20	<b>361,804</b>	272,413
Non-pledged time deposits with original maturity of less than three months when acquired	20	<b>150,000</b>	–
Cash and bank balances as stated in the consolidated statement of financial position	23	<b>511,804</b>	272,413
Bank overdrafts		<b>–</b>	(218)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>511,804</b>	272,195
Net cash flows used in operating activities include:			
Interest received		<b>23,410</b>	24,000
Dividend received		<b>1,319</b>	5,759

# NOTES TO FINANCIAL STATEMENTS

31 December 2015

## 1. CORPORATE AND GROUP INFORMATION

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

During the year, the Group was involved in the following principal activities:

- brokerage business
- corporate finance business
- asset management business
- financing and loans business
- investment and other business

The Company is a subsidiary of Shenwan Hongyuan Holdings (B.V.I.) Limited (formerly known as Shenyin Wanguo Holdings (B.V.I.) Limited), a company incorporated in the British Virgin Islands with limited liability. In the opinion of the directors, the ultimate holding company of the Company is Shenwan Hongyuan Group Co., Ltd., which was established in the People's Republic of China (the "PRC") and listed on Shenzhen Stock Exchange (stock code: 000166).

### Information about subsidiaries

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

Name	Issued ordinary share capital	Percentage of equity				Principal activities	
		attributable to the Company		2015	2014		
		Direct	Indirect				
Shenwan Hongyuan Securities (H.K.) Limited (Formerly known as Shenyin Wanguo Securities (H.K.) Limited)	HK\$130,000,000	100	100	-	-	Securities brokerage and margin financing	
Shenwan Hongyuan Futures (H.K.) Limited (Formerly known as Shenyin Wanguo Futures (H.K.) Limited)	HK\$30,000,000	100	100	-	-	Futures and options brokerage	
Shenwan Hongyuan Capital (H.K.) Limited (Formerly known as Shenyin Wanguo Capital (H.K.) Limited)	HK\$20,000,000	100	100	-	-	Corporate finance	

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 1. CORPORATE AND GROUP INFORMATION (Cont'd)

Name	Issued ordinary share capital	Percentage of equity attributable to the Company				Principal activities
		Direct	Indirect	2015	2014	
Shenwan Hongyuan Asset Management (Asia) Limited (Formerly known as Shenyin Wanguo Asset Management (Asia) Limited)	HK\$10,000,000	–	–	100	100	Provision of asset management services
Shenwan Hongyuan Research (H.K.) Limited (Formerly known as Shenyin Wanguo Research (H.K.) Limited)	HK\$300,000	100	100	–	–	Provision of securities research services
Shenwan Hongyuan Strategic Investments (H.K.) Limited (Formerly known as Shenyin Wanguo Strategic Investments (H.K.) Limited)	HK\$10,000	100	100	–	–	Securities trading and investment holding
Shenwan Hongyuan Finance (H.K.) Limited (Formerly known as Shenyin Wanguo Finance (H.K.) Limited)	HK\$25,000,000	100	100	–	–	Provision of financial services
Shenwan Hongyuan Enterprises (H.K.) Limited (Formerly known as Shenyin Wanguo Enterprises (H.K.) Limited)	HK\$15,000,000	100	100	–	–	Provision of management and treasury services
Shenwan Hongyuan Online Limited (Formerly known as Shenyin Wanguo Online Limited)	HK\$2	100	100	–	–	Leasing of computer equipment
Shenwan Hongyuan Trading (H.K.) Limited (Formerly known as Shenyin Wanguo Trading (H.K.) Limited)	HK\$375,000	100	100	–	–	Securities trading
Sparkle Well Limited	HK\$2	100	100	–	–	Property holding

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

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

Name	Issued ordinary share capital	Percentage of equity attributable to the Company				Principal activities
		Direct	Indirect	2015	2014	
Wealthy Limited	HK\$2	100	100	-	-	Property holding
Shenwan Hongyuan Group Co., Limited (Formerly known as Shenyin Wanguo (Holdings) Limited)	HK\$2	100	100	-	-	Investment holding
First Million Holdings Ltd*	US\$1	100	100	-	-	Investment holding
Crux Assets Limited*	US\$1	-	-	100	100	Investment holding
Shenwan Hongyuan Nominees (H.K.) Limited (Formerly known as Shenyin Wanguo Nominees (H.K.) Limited)	HK\$1,000	-	-	100	100	Provision of share custodian and nominee services
Shenyin Wanguo Online Broker (H.K.) Limited	HK\$10,000,000	60	60	-	-	Dormant
Shenwan Hongyuan Singapore Private Limited (Formerly known as Shenyin Wanguo Singapore Private Limited) <sup>#</sup>	SG\$2,500,000	-	-	100	100	Securities brokerage

\* Incorporated in the British Virgin Islands

# Incorporated in the Republic of Singapore

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and investments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.1 BASIS OF PREPARATION (*Cont'd*)

### Basis of consolidation (*Cont'd*)

Profit or loss and each component of other comprehensive income are attributed to the ordinary equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

*Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions*

*Annual Improvements to HKFRSs 2010-2012 Cycle*

*Annual Improvements to HKFRSs 2011-2013 Cycle*

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	<i>Financial Instruments</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>3</sup>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>3</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>4</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to HKAS 1	<i>Disclosure Initiative</i> <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> <sup>3</sup>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> <sup>3</sup>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of HKFRSs</i> <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> No mandatory effective date yet determined but is available for adoption

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>4</sup> Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (*Cont'd*)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fair value measurement

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

### **Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Related parties (*Cont'd*)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

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

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

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

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Property, plant and equipment and depreciation (*Cont'd*)

Leasehold land under finance leases	Over the lease terms
Buildings	4%
Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	15% – 33 $\frac{1}{3}$ %
Motor vehicles	25%

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

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

### Intangible assets (other than goodwill)

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

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

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

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Leases

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### **Investments and other financial assets (*Cont'd*)**

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive and negative net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and club debentures. Equity investments and club debentures classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Investments and other financial assets (*Cont'd*)

#### Available-for-sale financial investments (*Cont'd*)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Derecognition of financial assets (*Cont'd*)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually to financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### **Impairment of financial assets (*Cont'd*)**

#### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Financial liabilities (*Cont'd*)

#### *Initial recognition and measurement (*Cont'd*)*

The Group's financial liabilities include accounts payable, other payables and certain accruals, and interest-bearing bank borrowings.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Loans and borrowings*

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the statement of profit or loss.

#### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

#### **Offsetting of financial instruments**

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.

#### **Cash and bank balances**

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

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Cash and bank balances (*Cont'd*)

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

### Bank balances held on behalf of clients

The Group has classified the clients' monies as bank balances held on behalf of clients under the current assets section of the consolidated statement of financial position and recognised a corresponding accounts payable to respective clients on grounds that is liable for any loss or misappropriation of clients' monies.

### Provisions

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

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

### Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### Revenue recognition

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

- (a) income from brokerage business, on a trade date basis;
- (b) income from corporate finance business including underwriting commission, when the obligation under the underwriting or sub-underwriting agreement has expired;
- (c) service income from asset management business including management fee and investment advisory fee income, as the underlying services have been provided;

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Revenue recognition (*Cont'd*)

- (d) interest income from financing and loans business, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;
- (e) income from investment and other business including realised fair value gains or losses on listed and unlisted investments trading, on a trade date basis and unrealised fair value gains or losses on changes in fair value at the end of the reporting period; and
- (f) dividend income, when the shareholders' rights to receive payment has been established.

### Employee benefits

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

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

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

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)

### Foreign currencies

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

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

### **Estimation uncertainty**

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

#### (a) *Impairment of available-for-sale investments*

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. During the years ended 31 December 2015 and 2014, no impairment loss was recognised for available-for-sale investments.

#### (b) *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2015 was HK\$128,572,000 (2014: HK\$183,909,000). Further details are contained in note 15 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

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

- (a) brokerage business;
- (b) corporate finance business;
- (c) asset management business;
- (d) financing and loans business;
- (e) investment business; and
- (f) others.

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 4. OPERATING SEGMENT INFORMATION (Cont'd)

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

Segment assets exclude deferred tax assets, tax recoverable and unlisted club debentures included in available-for-sale investments as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liability and tax payable as these liabilities are managed on a group basis.

	Brokerage business HK\$'000	Corporate finance business HK\$'000	Asset management business HK\$'000	Financing and loans business HK\$'000	Investment business HK\$'000	Others HK\$'000	Total HK\$'000
<b>Year ended 31 December 2015</b>							
Segment revenue and other gains/(losses) from external customers	389,880	114,206	9,519	170,566	12,478	988	697,637
Segment results and profit/(loss) before tax	82,504	28,663	(621)	82,449	8,702	988	202,685
Segment assets	5,096,326	69,102	62,446	2,068,659	117,783	–	7,414,316
<i>Reconciliation:</i> Deferred tax assets							7,304
Tax recoverable							1,172
Unlisted club debentures included in available-for-sale investments							2,470
Total assets							7,425,262
Segment liabilities	4,532,488	16,486	1,349	773,844	1,768	–	5,325,935
<i>Reconciliation:</i> Deferred tax liability							266
Tax payable							17,889
Total liabilities							5,344,090
Other segment information:							
Interest expenses	–	–	–	17,396	–	–	17,396
Depreciation expenses	1,623	311	79	–	3,235	–	5,248
Capital expenditure	2,748	–	–	–	1,462	–	4,210

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 4. OPERATING SEGMENT INFORMATION (Cont'd)

	Brokerage business HK\$'000 (Restated)	Corporate finance business HK\$'000 (Restated)	Asset management business HK\$'000 (Restated)	Financing and loans business HK\$'000 (Restated)	Investment business HK\$'000 (Restated)	Others HK\$'000 (Restated)	Total HK\$'000 (Restated)
Year ended 31 December 2014							
Segment revenue and other gains/(losses) from external customers	262,899	59,281	11,475	123,961	15,675	(246)	473,045
Segment results and profit/(loss) before tax	32,123	9,912	1,039	45,792	12,874	(246)	101,494
Segment assets	4,025,333	62,333	57,424	1,732,243	208,947	-	6,086,280
<i>Reconciliation:</i>							
Deferred tax assets							236
Tax recoverable							148
Unlisted club debentures included in available-for-sale investments							2,470
Total assets							6,089,134
Segment liabilities	3,725,735	9,552	2,249	1,027,689	2,350	-	4,767,575
<i>Reconciliation:</i>							
Deferred tax liability							270
Tax payable							4,793
Total liabilities							4,772,638
Other segment information:							
Interest expenses	-	-	-	14,273	-	-	14,273
Depreciation expenses	1,705	365	333	-	3,481	-	5,884
Capital expenditure	2,892	1,751	579	-	3,112	-	8,334

Certain comparative amounts have been restated to conform with the current year's presentation.

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 4. OPERATING SEGMENT INFORMATION (Cont'd)

### Geographical information

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

### Information about major customers

As no customer of the Group from whom the revenue derived individually has amounted to over 10% of the Group's total revenue during the year, no information about major customers is presented.

## 5. REVENUE AND OTHER GAINS/(LOSSES)

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

	2015 HK\$'000	2014 HK\$'000
Revenue:		
Brokerage business:		
Commission on securities dealing		
– Hong Kong securities	<b>282,219</b>	196,560
– Other than Hong Kong securities	<b>51,798</b>	24,184
Commission on futures and options contracts dealing	<b>34,529</b>	31,790
Handling fee income	<b>4,971</b>	4,875
Research fee income and others	<b>16,363</b>	5,490
	<b>389,880</b>	262,899
Corporate finance business:		
Initial public offering, placing, underwriting and sub-underwriting commission	<b>90,572</b>	37,787
Financial advisory, compliance advisory, sponsorship fee income and others	<b>23,634</b>	21,494
	<b>114,206</b>	59,281
Asset management business:		
Management fee and investment advisory fee income	<b>9,519</b>	11,331
Performance fee income	–	144
	<b>9,519</b>	11,475

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 5. REVENUE AND OTHER GAINS/(LOSSES) (*Cont'd*)

	2015 HK\$'000	2014 HK\$'000
<b>Financing and loans business:</b>		
Interest income from loans to cash clients and margin clients	<b>142,190</b>	95,021
Interest income from initial public offering loans	<b>4,966</b>	4,940
Interest income from banks and others	<b>23,410</b>	24,000
	<b>170,566</b>	123,961
<b>Investment business:</b>		
Net realised and unrealised gains on financial assets:		
– Listed investments	389	1,417
– Unlisted investments	7,262	7,682
Dividend income and interest income:		
– Listed investments	115	866
– Unlisted investments	4,712	5,710
	<b>12,478</b>	15,675
	<b>696,649</b>	473,291
<b>Other gains/(losses):</b>		
Gain on disposal of an unlisted available-for-sale investment	167	–
Exchange gains/(losses), net	821	(246)
	<b>988</b>	(246)

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 6. PROFIT BEFORE TAX

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

	2015 HK\$'000	2014 HK\$'000
Employee benefit expenses (including directors' remuneration – note 7):		
Salaries and other staff costs	<b>186,205</b>	144,178
Retirement benefit scheme contributions	<b>8,402</b>	7,505
Less: Forfeited contributions	<b>(700)</b>	(1,469)
Net retirement benefit scheme contributions*	<b>7,702</b>	6,036
	<b>193,907</b>	150,214
Interest expenses on loans and overdrafts wholly repayable within five years	<b>17,396</b>	14,273
Minimum lease payments under operating leases in respect of land and buildings	<b>26,406</b>	29,104
Auditors' remuneration	<b>1,800</b>	1,980

\* At 31 December 2015, the Group did not have forfeited contributions (2014: Nil) available to reduce its contributions to the retirement benefit schemes in future.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 HK\$'000	2014 HK\$'000
Fees	<b>540</b>	540
Other emoluments:		
Salaries, allowances and benefits in kind	<b>6,171*</b>	8,079
Retirement benefit scheme contributions	<b>200</b>	200
	<b>6,371</b>	8,279
	<b>6,911</b>	8,819

\* This amount does not include the bonuses for 2015 to be payable to Mr. Guo Chun, the Executive Director. The total amount of the approved bonuses to Mr. Guo Chun and three of the senior management members is HK\$12.9 million, while approval for the actual amount payable to each of them is still being processed. Further announcement will be made as soon as it is approved. Refer to note 8 footnote.

### (a) Independent non-executive directors

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

	2015 HK\$'000	2014 HK\$'000
Ng Wing Hang Patrick	<b>180</b>	180
Kwok Lam Kwong Larry	<b>180</b>	180
Zhuo Fumin	<b>180</b>	180
	<b>540</b>	540

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 7. DIRECTORS' REMUNERATION (*Cont'd*)

### (b) Executive directors and non-executive directors

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

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefit scheme contributions HK\$'000	Total remuneration HK\$'000
<b>2015</b>				
Executive directors:				
Chu Xiaoming	-	-	-	-
Lu Wenqing	-	-	-	-
Guo Chun	-	2,871*	-	2,871
Lee Man Chun Tony	-	3,300	200	3,500
	-	6,171	200	6,371
Non-executive director:				
Zhang Lei	-	-	-	-
	-	6,171	200	6,371

\* This amount does not include the bonuses for 2015 to be payable to Mr. Guo Chun, the Executive Director. The total amount of the approved bonuses to Mr. Guo Chun and three of the senior management members is HK\$12.9 million, while approval for the actual amount payable to each of them is still being processed. Further announcement will be made as soon as it is approved.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 7. DIRECTORS' REMUNERATION (*Cont'd*)

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

The remuneration paid to executive directors and non-executive directors during the year was as follows: (*Cont'd*)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefit scheme contributions HK\$'000	Total remuneration HK\$'000
2014				
Executive directors:				
Chu Xiaoming	–	–	–	–
Lu Wenqing	–	–	–	–
Guo Chun	–	4,812	–	4,812
Lee Man Chun Tony	–	3,267	200	3,467
	–	8,079	200	8,279
Non-executive directors:				
Chang Pen Tsao*	–	–	–	–
Zhang Lei	–	–	–	–
	–	–	–	–
	–	8,079	200	8,279

\* On 12 December 2014, Chang Pen Tsao resigned as a non-executive director of the Company.

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

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2014: two directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining four (2014: three) non-directors, highest paid employees are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits in kind	<b>8,108</b>	6,699
Bonuses	<b>8,920*</b>	4,030
Retirement benefit scheme contributions	<b>710</b>	429
	<b>17,738</b>	11,158

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

	Number of employees*	
	2015	2014
HK\$2,500,001 to HK\$3,000,000	-	1
HK\$3,000,001 to HK\$3,500,000	1	-
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	-
HK\$4,500,001 to HK\$5,000,000	-	1
HK\$6,000,001 to HK\$6,500,000	1	-
	4	3

\* This disclosure does not include the bonuses for 2015 to be payable to three of the senior management members. The total amount of the approved bonuses to the three senior management members and Mr. Guo Chun, the Executive Director, is HK\$12.9 million, while approval for the actual amount payable to each of them is still being processed. Further announcement will be made as soon as it is approved.

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2015 HK\$'000	2014 HK\$'000
Current – Hong Kong		
Charge for the year	<b>25,710</b>	8,388
Overprovision in prior years	(494)	(960)
Current – Elsewhere	<b>228</b>	388
Deferred ( <i>note 15</i> )	<b>(7,072)</b>	(249)
 Total tax charge for the year	<b>18,372</b>	7,567

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

	2015 HK\$'000	2014 HK\$'000
Profit before tax	<b>202,685</b>	101,494
Tax at the statutory tax rate of 16.5% (2014: 16.5%)	<b>33,443</b>	16,747
Adjustments in respect of current tax of previous periods	(494)	(960)
Income not subject to tax	<b>(13,607)</b>	(7,686)
Expenses not deductible for tax	<b>8,127</b>	3,384
Effect of different tax rates of companies operating in other jurisdictions	<b>112</b>	240
Tax losses utilised from previous periods	<b>(2,559)</b>	(4,106)
Previously unrecognised tax loss recognised	<b>(7,160)</b>	–
Temporary differences not recognised	<b>510</b>	(52)
 Tax expense for the year at the Group's effective rate (2015: 9.1%; 2014: 7.5%)	<b>18,372</b>	7,567

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 10. DIVIDEND

	2015 HK\$'000	2014 HK\$'000
Proposed final – HK9 cents (2014: HK5 cents) per ordinary share	<b>71,652</b>	39,807

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### 11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Group had no potentially dilutive ordinary shares in issue during those years. As at 31 December 2015, the total number of the issued ordinary shares was 796,138,689 shares (2014: 530,759,126 shares).

	2015	2014
Earnings Profit for the year attributable to ordinary equity holders of the Company (HK\$'000)	<b>184,314</b>	93,934
Number of shares Weighted average number of ordinary shares in issue (in thousands) ( <i>note (a)</i> )	<b>794,242</b>	709,584
Earnings per share, basic and diluted (HK cents per share)	<b>23.21</b>	13.24

*Note:*

- (a) During the year, the Group issued 265,379,563 new shares and raised approximately HK\$621.5 million by way of rights issue on the basis of one rights share for every two existing shares held by shareholders of the Company at the price of HK\$2.342, which represent a discount to the prevailing fair value at the date of rights issue of the existing shares. After deducting the expense in connection with this rights issue amounting to HK\$1.2 million, the net proceeds of HK\$620.3 million were credited to the Company's share capital account.

The effect of the bonus element resulting from the rights issue has been included in the calculation of basic and diluted earnings per share and prior year basic and diluted earnings per share is adjusted in order to provide a comparable basis for the rights issue in the current year.

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>31 December 2015</b>					
At 31 December 2014 and 1 January 2015:					
Cost	4,095	23,098	42,254	2,463	71,910
Accumulated depreciation	(2,559)	(17,190)	(36,772)	(2,130)	(58,651)
Net carrying amount	1,536	5,908	5,482	333	13,259
Opening net carrying amount	1,536	5,908	5,482	333	13,259
Additions	-	1,025	3,185	-	4,210
Depreciation provided during the year	(123)	(1,353)	(3,612)	(160)	(5,248)
Closing net carrying amount	1,413	5,580	5,055	173	12,221
At 31 December 2015:					
Cost	4,095	24,123	45,439	2,463	76,120
Accumulated depreciation	(2,682)	(18,543)	(40,384)	(2,290)	(63,899)
Net carrying amount	1,413	5,580	5,055	173	12,221

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 12. PROPERTY, PLANT AND EQUIPMENT (*Cont'd*)

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
31 December 2014					
At 1 January 2014:					
Cost	4,095	23,651	41,768	2,463	71,977
Accumulated depreciation	(2,437)	(23,283)	(33,478)	(1,970)	(61,168)
Net carrying amount	1,658	368	8,290	493	10,809
Opening net carrying amount	1,658	368	8,290	493	10,809
Additions	-	7,288	1,046	-	8,334
Depreciation provided during the year	(122)	(1,748)	(3,854)	(160)	(5,884)
Closing net carrying amount	1,536	5,908	5,482	333	13,259
At 31 December 2014:					
Cost	4,095	23,098	42,254	2,463	71,910
Accumulated depreciation	(2,559)	(17,190)	(36,772)	(2,130)	(58,651)
Net carrying amount	1,536	5,908	5,482	333	13,259

The Group's leasehold land and buildings included in property, plant and equipment with a net carrying amount of HK\$1,413,000 (2014: HK\$1,536,000) are situated in Hong Kong and are held under a long term lease.

### 13. STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	HK\$'000
Cost and carrying amount at 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	4,212

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 14. INVESTMENTS

	2015 HK\$'000	2014 HK\$'000
<b>Available-for-sale investments, at fair value</b>		
Unlisted equity investment	–	5,140
Unlisted club debentures	<b>2,470</b>	2,470
	<b>2,470</b>	<b>7,610</b>
<b>Investments at fair value through profit or loss</b>		
Listed equity investments in Hong Kong, at fair value	–	11,637
Unlisted investment funds, at fair value	–	130,193
Unlisted debt investments, at fair value	<b>42,980</b>	58,049
	<b>42,980</b>	<b>199,879</b>

The investments at fair value through profit or loss at 31 December 2015 of HK\$42,980,000 (2014: HK\$199,879,000) were classified as held for trading.

During the year, no gains or losses in respect of the Group's available-for-sale investments were recognised in other comprehensive loss (2014: gross loss of HK\$2,314,000). The gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounting to HK\$167,000 was reclassified to the consolidated statement of profit or loss for the year ended 31 December 2015 (2014: Nil).

## NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

### 15. DEFERRED TAX

The movements in deferred tax assets and liability during the year are as follows:

#### Deferred tax assets

	Losses available for offsetting against future taxable profits HK\$'000	Deductible temporary differences HK\$'000	Total HK\$'000
At 1 January 2014	–	223	223
Deferred tax credited to the consolidated statement of profit or loss during the year (note 9)	–	13	13
At 31 December 2014 and 1 January 2015	–	236	236
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 9)	<u>7,160</u>	<u>(92)</u>	<u>7,068</u>
At 31 December 2015	<u>7,160</u>	<u>144</u>	<u>7,304</u>

#### Deferred tax liability

	Accelerated tax depreciation HK\$'000
At 1 January 2014	506
Deferred tax credited to the consolidated statement of profit or loss during the year (note 9)	(236)
At 31 December 2014 and 1 January 2015	270
Deferred tax credited to the consolidated statement of profit or loss during the year (note 9)	(4)
At 31 December 2015	266

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 15. DEFERRED TAX (*Cont'd*)

Other than the losses available for offsetting against future taxable profits for which deferred tax assets are recognised as at 31 December 2015, the Group has unrecognised tax losses arising in Hong Kong of HK\$128,572,000 (2014: HK\$183,909,000), subject to agreement by the Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be available from these group companies against which the tax losses can be utilised.

At 31 December 2015, there was no significant unrecognised deferred tax liability (2014: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 16. ACCOUNTS RECEIVABLE

	2015 HK\$'000	2014 HK\$'000
Accounts receivable before provision for impairment	<b>879,937</b>	1,140,380
Less: Provision for impairment	-	-
<b>Accounts receivable</b>	<b>879,937</b>	1,140,380

The movements in provision for impairment of accounts receivable are as follows:

	2015 HK\$'000	2014 HK\$'000
At 1 January	-	21,770
Amount written off as uncollectible	-	(21,770)
<b>At 31 December</b>	<b>-</b>	<b>-</b>

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 16. ACCOUNTS RECEIVABLE (*Cont'd*)

Save for the credit period allowed by the Group, the accounts receivable shall be due on the settlement dates of the respective securities and futures contract transactions. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Although the Group does not hold any collateral or other credit enhancements over its accounts receivable balances, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts. Overdue accounts receivable from cash clients of HK\$69,039,000 (2014: HK\$76,936,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2014: with reference to the Hong Kong dollar prime rate).

An aged analysis of accounts receivable before provision for impairment based on the trade date is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 month	<b>828,936</b>	1,111,263
1 to 2 months	<b>6,687</b>	12,002
2 to 3 months	<b>3,165</b>	3,116
Over 3 months	<b>41,149</b>	13,999
	<b>879,937</b>	1,140,380

There was no provision for impairment of accounts receivable at 31 December 2015 (2014: Nil).

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 16. ACCOUNTS RECEIVABLE (*Cont'd*)

The aged analysis of the accounts receivable that are not individually nor collectively considered to be impaired, i.e. based on the settlement date, is as follows:

	2015 HK\$'000	2014 HK\$'000
Not past due	<b>810,898</b>	1,063,444
Less than 1 month past due	<b>18,333</b>	49,192
1 to 3 months past due	<b>9,712</b>	14,003
Over 3 months past due	<b>40,994</b>	13,741
	<b>879,937</b>	1,140,380

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default or are covered by securities deposited with the Group.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 17. LOANS AND ADVANCES

	2015 HK\$'000	2014 HK\$'000
Loans and advances to customers before provision for impairment:		
Secured	<b>2,053,818</b>	1,717,634
Unsecured	-	-
	<b>2,053,818</b>	1,717,634
Less: Provision for impairment	-	-
	<b>2,053,818</b>	1,717,634

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 17. LOANS AND ADVANCES (*Cont'd*)

Customers are required to provide collateral to the Group for the loans and advances granted. As at 31 December 2015, the total market value of the securities pledged by customers to the Group as collateral in respect of the above loans and advances to customers was HK\$9,196,684,000 (2014: HK\$5,717,947,000), of which a total market value of HK\$687,743,000 (2014: HK\$368,756,000) of such collateral was pledged with banks to secure certain of the Group's bank loans (*note 23*) as at 31 December 2015. The Group is allowed to dispose of the collateral in settlement of the customers' obligation to maintain the agreed level of margin and any other liability of the customers due to the Group. The Group is allowed to deposit the collateral with an authorised institution as collateral for financial accommodation provided to the Group according to the applicable legislations and regulations.

In view of the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans and advances to margin clients of HK\$2,053,818,000 (2014: HK\$1,717,634,000) bear interest at interest rates mainly with reference to the Hong Kong dollar prime rate (2014: with reference to the Hong Kong dollar prime rate).

The Group's loans and advances to customers were repayable on demand at the end of the reporting period.

There was no provision for impairment of loans and advances at 31 December 2015 (2014: Nil).

The movements in provision for impairment of loans and advances are as follows:

	2015 HK\$'000	2014 HK\$'000
At 1 January	-	13,173
Amount written off as uncollectible	-	(13,173)
At 31 December	-	-

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Prepayments	<b>8,771</b>	10,371
Deposits and other receivables	<b>12,482</b>	14,071
	<b>21,253</b>	24,442

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 19. BANK BALANCES HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold clients' monies in accordance with the relevant legislation. The Group is allowed to retain some or all of the interest on the clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

## 20. CASH AND BANK BALANCES

	2015 HK\$'000	2014 HK\$'000
Cash and bank balances	<b>361,804</b>	272,413
Time deposit	<b>150,000</b>	–
	<b>511,804</b>	272,413

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$8,524,000 (2014: HK\$33,191,000). The onshore RMB balance of the Group amounted to HK\$1,692,000 (2014: HK\$686,000) and such onshore RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange onshore RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposit is made for one week, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 21. ACCOUNTS PAYABLE

An aged analysis of accounts payable, based on the trade date is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 month	<b>4,448,656</b>	<b>3,653,108</b>

Accounts payable are non-interest-bearing except for the accounts payable to clients of HK\$3,605,214,000 (2014: HK\$2,337,075,000).

## 22. OTHER PAYABLES AND ACCRUALS

	2015 HK\$'000	2014 HK\$'000
Other payables	<b>21,918</b>	31,672
Accruals	<b>105,681</b>	73,698
	<b>127,599</b>	105,370

Other payables are non-interest-bearing and have an average term of within one year.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 23. INTEREST-BEARING BANK BORROWINGS

	2015			2014		
	Effective interest rate	Maturity	HK\$'000	Effective interest rate	Maturity	HK\$'000
<b>Current</b>						
Bank overdrafts – secured	–	–	–	Prime rate	On demand	218
Bank loans – secured	Hong Kong Interbank Offered Rate ("HIBOR") +1.5% to fixed rate of 6.97%	On demand	749,680	HIBOR +1.5% to HIBOR +1.6%	On demand	1,008,879
			749,680			1,009,097
				<b>2015 HK\$'000</b>		2014 HK\$'000
Analysed into:						
Bank loans and overdrafts repayable within one year or on demand			749,680			1,009,097

*Notes:*

- (a) At 31 December 2015, the Group had no bank overdraft drawn down.

At 31 December 2014, the Group's bank overdrafts of HK\$218,000 was not secured by the pledge of any marketable securities pledged by customers to the Group as collateral. In addition, the Company had guaranteed the bank overdrafts up to HK\$153,380,000 as at 31 December 2014.

- (b) The Group's bank loans of HK\$749,680,000 (2014: HK\$1,008,879,000) were secured by certain marketable securities pledged by customers to the Group and/or corporate guarantee to banks by the Company.

The Group's utilised bank loans of HK\$150,000,000 (2014: HK\$193,879,000) were secured by certain marketable securities pledged by customers to the Group as collateral amounting to HK\$687,743,000 (2014: HK\$368,756,000) as at 31 December 2015 (*note 17*).

The Company had guaranteed the bank loans up to HK\$1,613,500,000 (2014: HK\$1,830,000,000), of which bank loans of HK\$749,680,000 (2014: HK\$1,008,879,000) were utilised as at 31 December 2015.

- (c) Certain of the Group's unutilised banking facilities including overdraft facilities are secured by guarantees given by the Company.

- (d) As at 31 December 2015, except for the bank loan of HK\$59,680,000 which is denominated in RMB, all borrowings are denominated in Hong Kong dollars. As at 31 December 2014, all borrowings were denominated in Hong Kong dollars.

- (e) The carrying amounts of the Group's borrowings approximate to their fair values.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 24. SHARE CAPITAL

	2015 HK\$'000	2014 HK\$'000
Issued and fully paid: 796,138,689 (2014: 530,759,126) ordinary shares	<b>1,200,457</b>	580,120

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2014	530,759,126	265,380	314,740	580,120
Transition to no-par value regime on 3 March 2014 ( <i>Note (a)</i> )	-	314,740	(314,740)	-
At 31 December 2014 and 1 January 2015	<b>530,759,126</b>	<b>580,120</b>	-	<b>580,120</b>
Shares issued upon rights issue ( <i>Note (b)</i> )	<b>265,379,563</b>	<b>620,337</b>	-	<b>620,337</b>
At 31 December 2015	<b>796,138,689</b>	<b>1,200,457</b>	-	<b>1,200,457</b>

*Notes:*

- (a) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance, on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.
- (b) During the year, the Group issued 265,379,563 new shares and raised approximately HK\$621.5 million by way of rights issue on the basis of one rights share for every two existing shares held by shareholders of the Company at the price of HK\$2.342, which represent a discount to the prevailing fair value at the date of rights issue of the existing shares. After deducting the expense in connection with this rights issue amounting to HK\$1.2 million, the net proceeds of HK\$620.3 million were credited to the Company's share capital account.

The effect of the bonus element resulting from the rights issue has been included in the calculation of basic and diluted earnings per share and prior period basic and diluted earnings per share is adjusted in order to provide a comparable basis for the rights issue in the current year.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 25. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The Group's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

## 26. COMMITMENTS

### (a) Capital commitments

	2015 HK\$'000	2014 HK\$'000
Contracted, but not provided for the purchases of furniture, fixtures and equipment	377	989

### (b) Operating lease commitments as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years (2014: one to five years).

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	26,674	24,277
In the second to fifth years, inclusive	41,169	38,840
	<b>67,843</b>	<b>63,117</b>

At 31 December 2015, the Group did not have any other significant commitments (2014: Nil).

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 27. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Notes	2015 HK\$'000	2014 HK\$'000
Commission expenses for brokerage services in relation to the PRC capital markets paid to a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) (i)	<b>4,669</b>	2,026
Research fee for supporting services in relation to research paid to a subsidiary of the ultimate holding company (ii)	<b>11,500</b>	5,000
Consultancy fee for supporting services in relation to PRC market paid to a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) (iii)	<b>5,800</b>	2,500
Consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) (iv)	<b>12,494</b>	1,300
Consultancy fee for supporting services in relation to corporate finance business paid to the ultimate holding company (v)	—	203
Interest expense paid to an intermediate holding company (vi)	<b>1,132</b>	—

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 27. RELATED PARTY TRANSACTIONS (*Cont'd*)

*Notes:*

- (i) The commission expenses paid to a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) were calculated based on the prescribed percentage stated in the signed cooperation agreement for clients' transaction amount in Shenzhen and Shanghai B shares.
- (ii) The research fees paid to a subsidiary of the ultimate holding company were charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.
- (iii) The consultancy fee for supporting services in relation to PRC market paid to a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.
- (iv) The consultancy fee for supporting services in relation to Hong Kong and overseas markets paid by a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) was charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.
- (v) During the year ended 31 December 2015, no consultancy fee was charged. During the year ended 31 December 2014, the consultancy fees for supporting services in relation to corporate finance business paid to the ultimate holding company were charged at a fixed amount in accordance with the signed agreement with reference to actual cost incurred.
- (vi) The interest expense paid to an intermediate holding company was calculated based on the prescribed interest rate on the outstanding loan amount stated in the signed loan agreement.
- (vii) Included in the accounts receivable balance as at 31 December 2015 was a receivable due from a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) of HK\$65,870,000 (2014: HK\$14,247,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.
- (viii) Included in the accounts payable balance as at 31 December 2015 was a payable to a wholly-owned subsidiary of the ultimate holding company (2014: the ultimate holding company) of the Company of HK\$14,357,000 (2014: HK\$22,525,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and payable on the settlement date of the relevant transactions.
- (ix) Included in the other payables and accruals balance as at 31 December 2015 was a consultancy fee payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK\$1,500,000 (2014: Nil) arising from supporting services for PRC market. This balance is unsecured, interest-free and payable on demand.
- (x) Included in the accounts receivable balance as at 31 December 2015 was a consultancy fee receivable due from a wholly-owned subsidiary of the ultimate holding company of HK\$4,323,000 (2014: Nil) arising from supporting services relating to Hong Kong and overseas markets. This balance is unsecured, interest-free and repayable on the settlement date of the relevant transactions.
- (xi) Included in the accounts payable balance as at 31 December 2015 was the amount of segregated client money held on behalf of an intermediate holding company of the Company of HK\$163,182,000 (2014: HK\$29,352,000). This balance is unsecured, bears interest at the bank deposit rate and is payable on demand.

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 27. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Compensation of key management personnel of the Group:

	2015 HK\$'000	2014 HK\$'000
Short term employee benefits	<b>54,737</b>	37,594
Post-employment benefits	<b>1,664</b>	1,425
	<b>56,401</b>	39,019

Further details of directors' emoluments are included in note 7 to the financial statements.

The related party transactions in respect of items (a)(i-v) above also constitute continuing connected transactions to be disclosed in the annual report as defined in Chapter 14A of the Listing Rules.

## 28. FINANCIAL INSTRUMENTS BY CATEGORY

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

2015

### Financial assets

	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Other assets	–	26,006	–	26,006
Available-for-sale investments	–	–	2,470	2,470
Investments at fair value through profit or loss	42,980	–	–	42,980
Accounts receivable	–	879,937	–	879,937
Loans and advances	–	2,053,818	–	2,053,818
Financial assets included in prepayments, deposits and other receivables	–	12,482	–	12,482
Bank balances held on behalf of clients	–	3,862,085	–	3,862,085
Cash and bank balances	–	511,804	–	511,804
	42,980	7,346,132	2,470	7,391,582

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 28. FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

2015

### Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Accounts payable	<b>4,448,656</b>
Financial liabilities included in other payables and accruals	<b>51,569</b>
Interest-bearing bank borrowings	<b>749,680</b>
	<b>5,249,905</b>

2014

### Financial assets

	Financial assets at fair value through profit or loss – held for trading HK\$'000	Loans and receivables HK\$'000	Available- for-sale financial assets HK\$'000	Total HK\$'000
Other assets	–	43,983	–	43,983
Available-for-sale investments	–	–	7,610	7,610
Investments at fair value through profit or loss	199,879	–	–	199,879
Accounts receivable	–	1,140,380	–	1,140,380
Loans and advances	–	1,717,634	–	1,717,634
Financial assets included in prepayments, deposits and other receivables	–	14,071	–	14,071
Bank balances held on behalf of clients	–	2,664,938	–	2,664,938
Cash and bank balances	–	272,413	–	272,413
	<b>199,879</b>	<b>5,853,419</b>	<b>7,610</b>	<b>6,060,908</b>

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 28. FINANCIAL INSTRUMENTS BY CATEGORY (*Cont'd*)

2014

### Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Accounts payable	3,653,108
Financial liabilities included in other payables and accruals	57,859
Interest-bearing bank borrowings	1,009,097
	<hr/>
	4,720,064

## 29. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	2015					
	Gross		Net amounts of financial assets presented		Related amounts not set off in the consolidated statement of financial position	
	Gross amounts of recognised financial liabilities set off in the consolidated statement	Gross amounts of recognised financial assets HK\$'000	in the consolidated statement	of financial position HK\$'000	Financial instruments HK\$'000	Cash collateral received HK\$'000
<b>Assets</b>						
Accounts receivable	1,102,775	(222,838)	879,937	-	-	879,937

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 29. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Cont'd)

	2015				
	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000	Related amounts not set off in the consolidated statement of financial position	Cash Financial instruments HK\$'000	collateral pledged HK\$'000
<b>Liabilities</b>					
Accounts payable	4,671,494	(222,838)	4,448,656	-	-
	2014				
	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial assets HK\$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK\$'000	Related amounts not set off in the consolidated statement of financial position	Cash Financial instruments HK\$'000	collateral received HK\$'000
<b>Assets</b>					
Accounts receivable	1,601,488	(461,108)	1,140,380	-	-
	2014				
	Gross amounts of recognised financial assets set off in the consolidated statement of financial liabilities HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000	Related amounts not set off in the consolidated statement of financial position	Cash Financial instruments HK\$'000	collateral pledged HK\$'000
<b>Liabilities</b>					
Accounts payable	4,114,216	(461,108)	3,653,108	-	-

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 30. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Financial instruments measured at fair value:

As at 31 December 2015

	Fair value measurement using		
	Level 1 (Quoted prices in active markets) HK\$'000	Level 2 (Significant observable inputs) HK\$'000	Total HK\$'000
<b>Available-for-sale investments:</b>			
Unlisted club debentures	–	2,470	2,470
<b>Investments at fair value through profit or loss:</b>			
Unlisted debt investments, at fair value	–	42,980	42,980
	–	45,450	45,450

As at 31 December 2014

	Fair value measurement using		
	Level 1 (Quoted prices in active markets) HK\$'000	Level 2 (Significant observable inputs) HK\$'000	Total HK\$'000
<b>Available-for-sale investments:</b>			
Unlisted equity investment	–	5,140	5,140
Unlisted club debentures	–	2,470	2,470
<b>Investments at fair value through profit or loss:</b>			
Listed equity investments in Hong Kong, at fair value	11,637	–	11,637
Unlisted investment funds, at fair value	–	130,193	130,193
Unlisted debt investments, at fair value	–	58,049	58,049
	11,637	195,852	207,489

During the years ended 31 December 2015 and 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's operating segments include brokerage business, corporate finance business, asset management business, financing and loans business, investment business and other business.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

### Interest rate risk

The Group's borrowings from banks during the year are for the provision of financing and loans to customers. The bank borrowings bear interest at interest rates with reference to the HIBOR whereas loans to customers bear interest at interest rates with reference to the Hong Kong dollar prime rate. As the Hong Kong dollar prime rate basically changes in line with the HIBOR, the Group's exposure to the risk of changes in market interest rates is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings, interest-bearing accounts receivable, cash and bank balances and loans and advances) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
<b>2015</b>			
Hong Kong dollar	25	3,679	–
Hong Kong dollar	(25)	(3,679)	–
<b>2014</b>			
Hong Kong dollar	25	2,783	–
Hong Kong dollar	(25)	(2,783)	–

\* Excluding retained profits

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (*Cont'd*)

### Foreign currency risk

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars and RMB. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the consolidated statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and take necessary measures when the situations so justify. The Group's revenue denominated in currencies other than Hong Kong dollars and United States dollars constituted approximately 5% (2014: 1%) of the total revenue.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
<b>2015</b>			
If the Hong Kong dollar weakens against RMB	3	687	–
If the Hong Kong dollar strengthens against RMB	(3)	(687)	–
<b>2014</b>			
If the Hong Kong dollar weakens against RMB	3	5,875	–
If the Hong Kong dollar strengthens against RMB	(3)	(5,875)	–

\* Excluding retained profits

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (*Cont'd*)

### Credit risk

The Group has put in place a well-established credit policy governing the granting of credit limit to customers. Customers are generally required to deposit their securities with the Group as collateral to their borrowings. The credit department is responsible for assisting the directors in formulating the credit policy of the Group, monitoring the credit risks of customers with reference to the realisable values of the collateral, managing the concentration of credit risk by customer and recommending measures to the directors for granting credit facilities which exceed the authority limit of the credit department. There are no significant concentrations of credit risk within the Group as it relates to a large number of diversified customers.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, bank balances held on behalf of clients, available-for-sale investments, investments at fair value through profit or loss, other assets, and deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and loans and advances are disclosed in notes 16 and 17 to the financial statements, respectively.

### Liquidity risk

There is a constant need of funding for the settlement of securities transactions and for the provision of financing and loans to the customers. The source of funding is either from the Group's own capital or borrowings from financial institutions, if necessary.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both of its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

The Group's borrowings from banks during the year are for the provision of financing and loans to customers for their purchases and continuous holding of securities. The maturity of bank borrowings of the Group usually ranges from overnight to six months, where the borrowings are either rolled over or repaid by the Group's own funding. In addition, for those clients who are unable to settle their settlement obligations or margin deficits, the Group may dispose of the securities collateral pledged by the customers to the Group. The Group always ensures that the securities collateral pledged by customers is able to be realised in the market within a reasonable period of time.

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (*Cont'd*)

### Liquidity risk (*Cont'd*)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**2015**

	<b>On demand HK\$'000</b>	<b>Less than 1 year HK\$'000</b>	<b>Total HK\$'000</b>
Accounts payable	<b>3,998,866</b>	<b>449,790</b>	<b>4,448,656</b>
Financial liabilities included in other payables and accruals	–	<b>51,569</b>	<b>51,569</b>
Interest-bearing bank borrowings	<b>749,837</b>	–	<b>749,837</b>
	<b>4,748,703</b>	<b>501,359</b>	<b>5,250,062</b>

**2014**

	<b>On demand HK\$'000</b>	<b>Less than 1 year HK\$'000</b>	<b>Total HK\$'000</b>
Accounts payable	2,861,982	791,126	3,653,108
Financial liabilities included in other payables and accruals	–	57,859	57,859
Interest-bearing bank borrowings	1,009,380	–	1,009,380
	<b>3,871,362</b>	<b>848,985</b>	<b>4,720,347</b>

Included in interest-bearing bank borrowings were certain of the Group's bank loans in the amount of HK\$749,680,000 (2014: HK\$1,008,879,000), of which the loan agreements contain repayment on demand clauses giving the banks the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

### Price risk

Price risk is the risk that the fair values or future cash flows due to changes in market prices. The Group was exposed to price risk through its investments at fair value through profit or loss (*note 14*) and available-for-sale investments (*note 14*) as at 31 December 2015 and 2014.

# NOTES TO FINANCIAL STATEMENTS (Cont'd)

31 December 2015

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

### Price risk (Cont'd)

The following table demonstrates the sensitivity to every 1% change in the fair values of the investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the consolidated statement of profit or loss.

	Increase/ (decrease) in fair value %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
<b>2015</b>			
Unlisted investments:			
– Debt investments	1 (1)	430 (430)	– –
<b>2014</b>			
Investments listed in Hong Kong:			
– Held-for-trading	1 (1)	116 (116)	– –
Unlisted investments:			
– Equity investments	1 (1)	– –	51 (51)
– Investment funds	1 (1)	1,302 (1,302)	– –
– Debt investments	1 (1)	580 (580)	– –

\* Excluding retained profits

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (*Cont'd*)

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Certain subsidiaries of the Group are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The gearing ratio is reviewed and assessed regularly by the board of directors. The gearing ratios as at the end of the reporting periods were as follows:

	2015	2014
Interest-bearing bank borrowings (HK\$'000)	<b>749,680</b>	1,009,097
Total equity (HK\$'000)	<b>2,081,172</b>	1,316,496
Gearing ratio	<b>36.0%</b>	76.7%

## NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

### 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2015 HK\$'000	As at 31 December 2014 HK\$'000
<b>NON-CURRENT ASSETS</b>		
Interests in subsidiaries	<b>1,354,407</b>	718,909
<b>CURRENT ASSETS</b>		
Prepayments, deposits and other receivables	1,478	2,195
Cash and bank balances	6,958	7,940
Total current assets	<b>8,436</b>	10,135
<b>CURRENT LIABILITIES</b>		
Other payables and accruals	2,916	5,758
Tax payable	350	–
	<b>3,266</b>	5,758
<b>NET CURRENT ASSETS</b>	<b>5,170</b>	4,377
Net assets	<b>1,359,577</b>	723,286
<b>EQUITY</b>		
Share capital	1,200,457	580,120
Other reserves	159,120	143,166
Total equity	<b>1,359,577</b>	723,286

**Chu Xiaoming**  
*Director*

**Guo Chun**  
*Director*

# NOTES TO FINANCIAL STATEMENTS (*Cont'd*)

31 December 2015

## 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (*Cont'd*)

*Notes:*

A summary of the Company's reserves is as follows:

	General reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2014	656	19,998	20,654
Total comprehensive income for the year	–	143,742	143,742
Dividend paid	–	(21,230)	(21,230)
At 31 December 2014 and 1 January 2015	656	142,510	143,166
Total comprehensive income for the year	–	55,761	55,761
Dividend paid	–	(39,807)	(39,807)
At 31 December 2015	656	158,464	159,120

The Company's general reserve represents prior year appropriations of profits which are distributable to the shareholders.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 4 March 2016.



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