

## APPENDIX I

## ACCOUNTANTS' REPORT

The following is the text of a report received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document, it is prepared and addressed to the Directors and to the Sponsor pursuant to the requirement of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



Tel : +852 2218 8288  
Fax: +852 2815 2239  
www.bdo.com.hk

25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

電話 : +852 2218 8288  
傳真 : +852 2815 2239  
www.bdo.com.hk

香港干諾道中111號  
永安中心25樓

29 May 2015

The Directors  
Pinestone Capital Limited  
Altus Capital Limited

Dear Sirs,

We set out below our report on the financial information of Pinestone Capital Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which comprises the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the two years ended 31 December 2013 and 2014 (the "Relevant Periods") and the combined statements of financial position of the Group as at 31 December 2013 and 2014 together with a summary of significant accounting policies and other explanatory notes (the "Financial Information"), for inclusion in the document of the Company dated 29 May 2015 (the "Document") in connection with the initial listing (the "Listing") of the shares of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company in the Cayman Islands with limited liability on 14 January 2015. Pursuant to a group reorganisation (the "Reorganisation") as more fully explained in note 2 to the Financial Information, the Company has since 12 May 2015 become the holding company of the subsidiaries now comprising the Group. The Company has not carried on any business since the date of its incorporation saved for the Reorganisation. The Group is principally engaged in provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services. As of the date of this report, the particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation and type of legal entity	Place of operations	Issued and paid up capital	Effective interest held by the Company		Principal activities
				Directly	Indirectly	
Pinestone Securities Limited ("PSL")	Hong Kong/ 4 January 2010/ Limited liability company	Hong Kong	31 December 2013: HK\$60,000,000 31 December 2014: HK\$90,000,000 (note)	-	100%	Provision of securities brokerage services, placing and underwriting services as well as margin financing services

## APPENDIX I

## ACCOUNTANTS' REPORT

Name of subsidiary	Place and date of incorporation and type of legal entity	Place of operations	Issued and paid up capital	Effective interest held by the Company		Principal activities
				Directly	Indirectly	
Pinestone Capital Group Limited ("PCGL")	Hong Kong/ 30 August 2012/ Limited liability company	Hong Kong	31 December 2013: HK\$1 31 December 2014: HK\$1,000,000	-	100%	Provision of money lending services
Pinestone Investment Group Limited ("PIGL")	British Virgin Islands ("BVI")/ 9 March 2012/ Limited liability company	Hong Kong	US\$1	100%	-	Investment holding
Pinestone International Limited ("PIL")	BVI/ 19 January 2015/ Limited liability company	Hong Kong	US\$1	100%	-	Investment holding

*Note:* On 14 January 2015, the issued share capital of PSL was increased from HK\$90,000,000 to HK\$99,000,000 by issue of additional 9,000,000 shares at HK\$1 each.

All of the above subsidiaries and the Company now comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company as it is newly incorporated and has not been involved in any significant business transactions except for the Reorganisation.

No audited financial statements have been prepared for PIGL and PIL since they are not subject to any statutory audit requirements under their jurisdiction of incorporation.

The statutory financial statements of PSL for the years ended 31 December 2013 and 2014 as well as the statutory financial statements of PCGL for the period from 30 August 2012 (date of incorporation) to 31 December 2013 and for the year ended 31 December 2014 were audited by BDO Limited, Certified Public Accountants. These statutory financial statements were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with the basis of presentation set out in note 2 to the Financial Information below and the accounting policies set out in note 3 to the Financial Information below which conform with HKFRSs issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements with no adjustment made thereon.

---

**APPENDIX I****ACCOUNTANTS' REPORT**

---

**RESPONSIBILITY**

The directors of the Company are responsible for the contents of the Document including the preparation and true and fair presentation of the Financial Information in accordance with the basis of presentation set out in note 2 to the Financial Information below and the accounting policies set out in note 3 to the Financial Information below and the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an independent opinion on the Financial Information based on our examination and to report our opinion to you.

**BASIS OF OPINION**

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information of the Group and carried out appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. For the purpose of this report, no adjustment to the Financial Information is considered necessary.

**OPINION**

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis set out in note 2 to the Financial Information below and in accordance with the accounting policies set out in note 3 to the Financial Information below, gives a true and fair view of the state of affairs of the Group as at 31 December 2013 and 2014 and of the results and cash flows of the Group for the Relevant Periods.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**I. FINANCIAL INFORMATION**

**COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

	<i>Notes</i>	<b>Year ended 31 December</b>	
		<b>2013</b>	<b>2014</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	7	16,474	33,025
Other income	8	162	7
Employee benefit expenses	9	(2,838)	(2,768)
Depreciation		(203)	(204)
Other operating expenses		(2,164)	(4,322)
Finance costs	10	<u>(247)</u>	<u>–</u>
<b>Profit before income tax</b>	11	11,184	25,738
Income tax expense	12	<u>(1,779)</u>	<u>(4,521)</u>
<b>Profit for the year</b>		9,405	21,217
<b>Other comprehensive income for the year</b>		<u>–</u>	<u>–</u>
<b>Total comprehensive income for the year</b>		<u>9,405</u>	<u>21,217</u>
		<i>HK cents</i>	<i>HK cents</i>
<b>Basic and diluted earnings per share</b>	14	<u>2.6</u>	<u>5.9</u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

		<b>As at 31 December</b>	
	<i>Notes</i>	<b>2013</b>	<b>2014</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	<i>16</i>	517	315
Intangible asset	<i>17</i>	500	500
Statutory deposits placed with stock exchange and clearing house		205	230
		<u>1,222</u>	<u>1,045</u>
<b>Current assets</b>			
Trade receivables	<i>18</i>	82,774	101,938
Loans receivable	<i>19</i>	44,700	–
Other receivables, deposits and prepayments	<i>20</i>	425	861
Amounts due from related companies	<i>27(c)(ii)</i>	12	547
Tax recoverable		–	64
Trust bank balances held on behalf of customers	<i>21</i>	10,051	19,174
Cash and bank balances	<i>22</i>	14,815	40,512
		<u>152,777</u>	<u>163,096</u>
<b>Current liabilities</b>			
Trade payables	<i>23</i>	16,455	38,618
Other payables and accruals		189	767
Amounts due to related companies	<i>27(c)(iii)</i>	60,944	90,441
Amounts due to directors	<i>27(c)(iii)</i>	65,790	–
Tax payable		1,779	3,256
		<u>145,157</u>	<u>133,082</u>
<b>Net current assets</b>		<u>7,620</u>	<u>30,014</u>
<b>Total assets less current liabilities/Net assets</b>		<u><u>8,842</u></u>	<u><u>31,059</u></u>
<b>Capital and reserves</b>			
Share capital	<i>24</i>	–	1,000
Reserves		8,842	30,059
<b>Total equity</b>		<u><u>8,842</u></u>	<u><u>31,059</u></u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**COMBINED STATEMENTS OF CHANGES IN EQUITY**

	<b>Share capital</b> <i>HK\$'000</i>	<b>(Accumulated losses)/ Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2013	–	(563)	(563)
Profit for the year	–	9,405	9,405
Other comprehensive income for the year	–	–	–
Total comprehensive income for the year	–	9,405	9,405
<b>At 31 December 2013 and 1 January 2014</b>	–	8,842	8,842
Profit for the year	–	21,217	21,217
Other comprehensive income for the year	–	–	–
Total comprehensive income for the year	–	21,217	21,217
Transaction with owners: Issue of shares ( <i>note 24</i> )	1,000	–	1,000
<b>At 31 December 2014</b>	<u>1,000</u>	<u>30,059</u>	<u>31,059</u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**COMBINED STATEMENTS OF CASH FLOWS**

	<b>Year ended 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Operating activities</b>		
Profit before income tax	11,184	25,738
Adjustments for:		
Depreciation on property, plant and equipment	203	204
Bank interest income	(2)	(7)
	<u>11,385</u>	<u>25,935</u>
Operating profit before working capital changes	11,385	25,935
Increase in statutory deposits placed with stock exchange and clearing house	–	(25)
Increase in trade receivables	(82,774)	(19,164)
(Increase)/Decrease in loans receivable	(44,700)	44,700
Decrease in other receivables, deposits and prepayments	11	15
Increase in amounts due from related companies	(12)	(535)
Increase in trust bank balances held on behalf of customers	(10,051)	(9,123)
Increase in trade payables	16,455	22,163
Increase in other payables and accruals	83	127
Decrease in amounts due to related companies	(402)	(17)
Decrease in amounts due to directors	(25)	(6)
	<u>(110,030)</u>	<u>64,070</u>
Income tax paid	–	(3,108)
	<u>(110,030)</u>	<u>60,962</u>
<b>Net cash (used in)/from operating activities</b>		
	<u>(110,030)</u>	<u>60,962</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(36)	(2)
Bank interest income	2	7
	<u>(34)</u>	<u>5</u>
<b>Net cash (used in)/from investing activities</b>		
	<u>(34)</u>	<u>5</u>
<b>Financing activities</b>		
Advances from related companies	73,200	8,024
Repayment to related companies	(11,854)	(10,706)
Advances from directors	69,800	47,500
Repayment to directors	(18,000)	(80,088)
	<u>113,146</u>	<u>(35,270)</u>
<b>Net cash from/(used in) financing activities</b>		
	<u>113,146</u>	<u>(35,270)</u>
<b>Net increase in cash and cash equivalents</b>	3,082	25,697
<b>Cash and cash equivalents at beginning of year</b>	11,733	14,815
	<u>14,815</u>	<u>40,512</u>
<b>Cash and cash equivalents at end of year</b>		
	<u>14,815</u>	<u>40,512</u>
<b>Analysis of the balances of cash and cash equivalents</b>		
– Cash and bank balances	<u>14,815</u>	<u>40,512</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

### II. NOTES TO THE FINANCIAL INFORMATION

#### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 14 January 2015. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at Unit 1506, 15<sup>th</sup> Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

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

#### 2. REORGANISATION AND BASIS OF PRESENTATION

Prior to the Reorganisation, all the entities which took part in the Reorganisation (except for PIL which was set up by the Company as mentioned below) were directly or indirectly wholly-owned by Gryphuz Group Limited ("GGL", formerly known as Pinestone Group Limited). GGL is a limited liability company incorporated in the BVI on 4 July 2011 and is collectively controlled by Mr. Henry Cheung and his son, Mr. Jonathan Cheung.

Pursuant to the Reorganisation conducted by the companies now comprising the Group to prepare for the Listing, the Company has since 12 May 2015 become the holding company of its subsidiaries now comprising the Group. Part of the steps under the Reorganisation is described below:

- (1) The Company was incorporated in the Cayman Islands on 14 January 2015. The initial authorised share capital of the Company was HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.10 each. On 14 January 2015, (i) the fully-paid subscriber share was transferred to HCC & Co Limited ("HCC & Co"); (ii) 30 shares were allotted and issued at par to Snail Capital Limited ("Snail Capital"); and (iii) 69 shares were allotted and issued at par to HCC & Co. Upon completion of the above transfer and allotments, the issued share capital of the Company was held as to 30% by Snail Capital and 70% by HCC & Co. Snail Capital and HCC & Co are companies incorporated in the BVI and wholly-owned by Mr. Jonathan Cheung and Mr. Henry Cheung, respectively.
- (2) On 19 January 2015, PIL was incorporated in the BVI to act as an intermediary holding company to hold the interest of PCGL. The authorised share capital of PIL was US\$50,000 divided into 50,000 shares of US\$1 each. On 19 January 2015, 1 share was allotted and issued at par to the Company. PIL then becomes a wholly-owned subsidiary of the Company.
- (3) On 6 May 2015, PIL acquired 100% interest in PCGL from GGL at a consideration of HK\$725,982, which was determined with reference to the net asset value of PCGL taking into account dividend proposed. The consideration for acquisition was satisfied by the creation of a non-interest bearing loan in the amount of HK\$725,982 owing by PIL to GGL ("PIL Loan") as evidenced by a promissory note dated 6 May 2015 issued by PIL to GGL. Upon completion of the acquisition, PCGL becomes a wholly-owned subsidiary of PIL.

On 6 May 2015, by a deed of assignment, GGL assigned all its rights and interests in the PIL Loan to Snail Capital.

On 6 May 2015, by a deed of novation, the Company assumed all the liabilities of PIL under the PIL Loan, such that the PIL Loan was owed by the Company to Snail Capital.

On 12 May 2015, the PIL Loan was settled by the Company by the allotment and issue of 30 new shares of HK\$0.10 each, credited as fully paid, to Snail Capital.

- (4) On 6 May 2015, the Company acquired 100% interest in PIGL from GGL together with an outstanding non-interest bearing amount due by PIGL to GGL, at an aggregate consideration of HK\$104,581,184, which was determined with reference to (i) the net asset value of PIGL and PSL taking into account dividend proposed, and (ii) the outstanding non-interest bearing amount due by PIGL to GGL, which amounted to HK\$99,441,091 as at 31 March 2015. The consideration for the acquisition was satisfied by the creation of a non-interest bearing loan in the amount of HK\$104,581,184 owing by the Company to GGL ("PIGL Loan") as evidenced by a promissory note dated 6 May 2015 issued by the Company to GGL. Upon completion of the acquisition, PIGL becomes a wholly-owned subsidiary of the Company.

On 6 May 2015, by a deed of assignment, GGL assigned all its rights and interests in the PIGL Loan to HCC & Co.



## APPENDIX I

## ACCOUNTANTS' REPORT

On 12 May 2015, the PIGL Loan was settled by the Company by the allotment and issue of 70 new shares of HK\$0.10 each, credited as fully paid, to HCC & Co.

After the completion of the aforementioned steps of Reorganisation, the issued share capital of the Company was held as to 30% by Snail Capital and 70% by HCC & Co.

Mr. Henry Cheung is the father of Mr. Jonathan Cheung and there is a contractual arrangement between Mr. Henry Cheung and Mr. Jonathan Cheung to control the business of the Group collectively. Further, throughout the Relevant Periods, Mr. Jonathan Cheung was a director of PSL and PCGL, the main operating entities of the Group, whereas Mr. Henry Cheung was a director of PSL and a senior management of PCGL. Mr. Henry Cheung and Mr. Jonathan Cheung are regarded as the controlling parties of the Group throughout the Relevant Periods.

The Group is regarded as a continuing entity since all entities which took part in the Reorganisation were controlled by the same ultimate controlling parties, Mr. Henry Cheung and Mr. Jonathan Cheung, before and immediately after the Reorganisation. Consequently, immediately after the Reorganisation, there was a continuation of the risks and benefits to the ultimate controlling parties that existed prior to the Reorganisation. The Reorganisation has been accounted for in accordance with Hong Kong Accounting Guideline 5 *Merger Accounting for Common Control Combinations*. The Financial Information has been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the Relevant Periods.

The combined statements of comprehensive income and combined statements of cash flows of the Group for the Relevant Periods include the results and cash flows of the companies now comprising the Group as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever was shorter. The combined statements of financial position of the Group as at 31 December 2013 and 2014 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence as at the respective dates.

The assets and liabilities of the companies now comprising the Group are combined using the existing book values from the controlling parties' perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of combination.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The Financial Information has been prepared in accordance with the basis of presentation set out in note 2 and the accounting policies set out below, which conform to HKFRSs (which collective term includes Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Group and became effective during the Relevant Periods. In preparing this Financial Information, the Group has adopted all these new or revised HKFRSs consistently throughout the Relevant Periods.

At the date of this report, HKICPA has issued certain new or amended HKFRSs but are not yet effective and have not been adopted early by the Group. Details of which are set out in note 4.

The Financial Information have been prepared under the historical cost basis.

The Financial Information are presented in Hong Kong dollars ("HK\$"), which is same as the functional currency of the Company and its major subsidiaries.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately different from those estimates. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5.

## APPENDIX I

## ACCOUNTANTS' REPORT

### (b) Basis of combination

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods. As explained in note 2 above, the Reorganisation is accounted for using merger basis of accounting.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

### (c) Subsidiaries

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

### (d) Property, plant and equipment

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

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

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

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

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

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 3(m)).

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

### (e) Leasing

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

#### *The Group as lessee under operating lease*

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

## APPENDIX I

## ACCOUNTANTS' REPORT

### (f) Intangible assets

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses (note 3(m)). Amortisation is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses (note 3(m)).

### (g) Financial instruments

#### (i) Financial assets

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

#### *Loans and receivables*

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

#### (ii) Impairment loss on financial assets

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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

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

## APPENDIX I

## ACCOUNTANTS' REPORT

### *(iii) Financial liabilities*

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

#### *Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade payables, other payables and accruals, amounts due to related companies and directors are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

### *(iv) Effective interest method*

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

### *(v) Equity instruments*

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

### *(vi) Derecognition*

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

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

## **(h) Recognition of revenue and other income**

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

- (i) Commission income from securities brokerage services is recognised on a trade date basis when the relevant transactions are executed.
- (ii) Handling fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.
- (iii) Income from placing and underwriting services is recognised when the services are provided.
- (iv) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

## **(i) Cash and cash equivalents**

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

## **(j) Income taxes**

Income taxes comprise current tax and deferred tax.

## APPENDIX I

## ACCOUNTANTS' REPORT

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

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

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

### **(k) Foreign currency**

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

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

### **(l) Employee benefits**

#### ***(i) Short-term employee benefits***

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

#### ***(ii) Defined contribution retirement plan***

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

#### ***(iii) Termination benefits***

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

### **(m) Impairment of non-financial assets**

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

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

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

## APPENDIX I

## ACCOUNTANTS' REPORT

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

### (n) Provisions and contingent liabilities

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

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

### (o) Segment reporting

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

### (p) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 4. NEW OR REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The following new or revised HKFRSs have been issued, but are not yet effective and have not been early adopted by the Group in the preparation of the Financial Information.

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle <sup>2</sup>
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle <sup>1</sup>
HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>3</sup>
Amendments to HKAS 19 (2011)	Defined Benefit Plans : Employee Contributions <sup>1</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup>
HKFRS 9 (2014)	Financial Instruments <sup>5</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>3</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

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

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2018

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Company are currently assessing the possible impact of the new or revised standards on the Group's results and financial position in the first year of application. Those new or revised HKFRSs that is expected to have a significant effect on the Group's financial statements are set out below.

#### HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

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

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

#### HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and related interpretations.



## APPENDIX I

## ACCOUNTANTS' REPORT

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

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

### 5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

#### (a) Key sources of estimation uncertainty

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

##### (i) *Useful lives of property, plant and equipment*

Management determines the estimated useful lives, and related depreciation charges for the Group's property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation where useful lives are less than previously estimated lives. Management will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

##### (ii) *Impairment of non-financial assets*

Management assesses impairment by evaluating conditions specific to the Group that may lead to impairment of non-financial assets. When an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market conditions existing at the reporting date and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. Significant estimates and assumptions used by the directors for the impairment assessment of intangible asset are disclosed in note 17.



## APPENDIX I

## ACCOUNTANTS' REPORT

### *(iii) Impairment of receivables*

The Group determines impairment losses for bad and doubtful debts resulting from the inability of the customers/debtors to make the required payments. A considerable amount of estimate and judgement is required in assessing the ultimate realisation of these receivables which is based on the ageing of the receivables, credit-worthiness of the customers and debtors and historical write-off experience. If the financial conditions of customers and debtors deteriorate, additional allowance for bad and doubtful debts may be required.

### **(b) Critical judgement in applying accounting policies**

#### *Business combination under common control*

The Group is collectively controlled by Mr. Henry Cheung and Mr. Jonathan Cheung throughout the Relevant Periods.

As disclosed in note 3(c), control exists when an investor has power over the investee; exposure, or right to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's return. Management is of the view that Mr. Henry Cheung has existing right that gives him current ability to direct the relevant activities of the Group because (i) Mr. Henry Cheung is the father of Mr. Jonathan Cheung and has high influential standing over Mr. Jonathan Cheung; (ii) the Group had relied on the funding provided by Mr. Henry Cheung for business expansion and Mr. Henry Cheung has the ability to monitor the application of the funding through his role as the director/senior management of the major operating entities; and (iii) Mr. Henry Cheung and Mr. Jonathan Cheung are jointly responsible for directing those financing and operating activities of the Group that significantly affect the Group's returns, including determining the Group's overall business strategies, carrying out the Group's business plans and monitoring the Group's business activities. Mr. Henry Cheung is able to direct the Group's business activities that affect the Group's returns as well as his returns from the Group, which is in the form of dividend at a later date.

Mr. Henry Cheung is the father of Mr. Jonathan Cheung and has high influential standing over Mr. Jonathan Cheung. In addition, there is a contractual arrangement between Mr. Henry Cheung and Mr. Jonathan Cheung to control the business of the Group collectively as mentioned above. Accordingly, Mr. Henry Cheung and Mr. Jonathan Cheung are regarded as the controlling parties of the Group throughout the Relevant Periods. The Group remains under the collective control of Mr. Henry Cheung and Mr. Jonathan Cheung both before and after the Reorganisation as set out in note 2. The Reorganisation is thereby a business combination under common control and has been accounted for using the merger basis of accounting as detailed in note 2.

## **6. SEGMENT INFORMATION**

### **(a) Operating segment information**

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

### **(b) Geographical segment information**

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

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

## APPENDIX I

## ACCOUNTANTS' REPORT

### (c) Information about major customers

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

	Year ended 31 December	
	2013 HK\$'000	2014 HK\$'000
Customer I	4,577	3,847
Customer II	2,582	N/A
Customer III	2,464	N/A
Customer IV	1,831	3,879
Customer V	N/A	4,246
	<u>                    </u>	<u>                    </u>

### 7. REVENUE

The Group is principally engaged in provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services. Revenue, which is also the Group's turnover, represents the followings:

	Year ended 31 December	
	2013 HK\$'000	2014 HK\$'000
Commission income from securities brokerage services	2,153	8,610
Interest income from securities-backed lending services	13,936	18,839
Handling fee	108	236
Income from placing and underwriting services	265	5,335
Others	12	5
	<u>                    </u>	<u>                    </u>
	<u>16,474</u>	<u>33,025</u>

### 8. OTHER INCOME

	Year ended 31 December	
	2013 HK\$'000	2014 HK\$'000
Arrangement fee	150	–
Bank interest income	2	7
Exchange gain	10	–
	<u>                    </u>	<u>                    </u>
	<u>162</u>	<u>7</u>

### 9. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2013 HK\$'000	2014 HK\$'000
Staff costs (including directors' emoluments (note 15(a)) comprise:		
Salaries, allowances and benefits	2,739	2,658
Contributions to defined contribution retirement plan	99	110
	<u>                    </u>	<u>                    </u>
	<u>2,838</u>	<u>2,768</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

### 10. FINANCE COSTS

	Year ended 31 December	
	2013	2014
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years	247	–

*Note:* Finance costs for the year ended 31 December 2013 represented interest expense incurred on borrowings from a financial institution with principal of HK\$30,000,000. The borrowings were fully settled during the year ended 31 December 2013 and no facility has been drawn down by the Group as at 31 December 2013. This facility was terminated during the year ended 31 December 2014.

### 11. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December	
	2013	2014
	HK\$'000	HK\$'000
Auditor's remuneration	76	183
Listing expenses	–	1,672
Operating lease charges in respect of building	1,182	1,189

### 12. INCOME TAX EXPENSE

The amounts of income tax expense in the combined statements of comprehensive income represent:

	Year ended 31 December	
	2013	2014
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	1,779	4,578
– over-provision in respect of prior years	–	(57)
	1,779	4,521

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled to the profit before income tax per the combined statements of comprehensive income as follows:

	Year ended 31 December	
	2013	2014
	HK\$'000	HK\$'000
Profit before income tax	11,184	25,738
Tax calculated at tax rate of 16.5%	1,845	4,247
Tax effect of revenue not taxable for tax purposes	–	(1)
Tax effect of expenses not deductible for tax purposes	–	303
Utilisation of tax losses previously not recognised	(94)	–
Tax effect of other temporary differences not recognised	28	29
Over-provision in respect of prior years	–	(57)
Income tax expense	1,779	4,521

## APPENDIX I

## ACCOUNTANTS' REPORT

No deferred tax has been provided in the Financial Information as there were no material temporary differences as at 31 December 2013 and 2014.

### 13. DIVIDENDS

	Year ended 31 December	
	2013	2014
	HK\$'000	HK\$'000
Proposed final dividend	—	30,000

For the purpose of this report, the proposed final dividend for the year ended 31 December 2014 represented final dividend proposed by the directors of PCGL and PIGL totalling HK\$30,000,000. The dividend was subsequently approved by the shareholder and was settled by cash payments of HK\$8,300,000 and HK\$21,700,000 on 30 April 2015 and 8 May 2015 respectively.

The final dividend proposed subsequent to 31 December 2014 has not been recognised as a liability as at 31 December 2014 in the Financial Information.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this Financial Information.

### 14. EARNINGS PER SHARE

The calculations of earnings per share for the Relevant Periods are based on the profit for the years ended 31 December 2013 and 2014 of HK\$9,405,000 and HK\$21,217,000 respectively, and on the basis of 360,000,000 shares of the Company in issue, being the number of shares in issue immediately after the completion of Capitalisation Issue as further described in note 31(a), as if these shares had been issued throughout the Relevant Periods.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the Relevant Periods.

### 15. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

#### (a) Directors' emoluments

No emoluments were paid or payable to the executive directors and independent non-executive directors during the Relevant Periods.

#### (b) Five highest paid individuals

Of the five individuals whose emoluments were the highest in the Group during each of the Relevant Periods, none was a director of the Company. The emoluments payable to the five highest paid individuals are as follows:

	Year ended 31 December	
	2013	2014
	HK\$'000	HK\$'000
Salaries, allowances and benefits	1,973	1,861
Contribution to defined contribution retirement plan	70	73
	<u>2,043</u>	<u>1,934</u>

The emoluments of each of the above non-director highest paid individuals during the Relevant Periods were all within the band of nil to HK\$1,000,000.

(c) During the Relevant Periods, no emoluments were paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived or agreed to waive any emoluments during the Relevant Periods.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**(d) Senior management's emoluments**

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

	Year ended 31 December	
	2013	2014
	No. of individuals	No. of individuals
Nil to HK\$1,000,000	4	5

**16. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer system and software <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>				
At 1 January 2012	–	–	–	–
Additions	400	127	188	715
At 31 December 2012 and 1 January 2013	400	127	188	715
Additions	2	6	28	36
At 31 December 2013 and 1 January 2014	402	133	216	751
Additions	–	2	–	2
At 31 December 2014	402	135	216	753
<b>Accumulated depreciation</b>				
At 1 January 2012	–	–	–	–
Charge for the year	22	4	5	31
At 31 December 2012 and 1 January 2013	22	4	5	31
Charge for the year	135	26	42	203
At 31 December 2013 and 1 January 2014	157	30	47	234
Charge for the year	134	27	43	204
At 31 December 2014	291	57	90	438
<b>Net carrying amount</b>				
At 31 December 2012	378	123	183	684
At 31 December 2013	245	103	169	517
At 31 December 2014	111	78	126	315

## APPENDIX I

## ACCOUNTANTS' REPORT

### 17. INTANGIBLE ASSET

	<b>Trading right</b> <i>HK\$'000</i>
<b>Cost</b>	
At 1 January 2012	–
Additions	500
	<hr/>
At 31 December 2012, 31 December 2013 and 31 December 2014	500
	<hr/>
<b>Accumulated impairment</b>	
At 1 January 2012	–
Impairment loss recognised	–
	<hr/>
At 31 December 2012 and 1 January 2013	–
Impairment loss recognised	–
	<hr/>
At 31 December 2013 and 1 January 2014	–
Impairment loss recognised	–
	<hr/>
At 31 December 2014	–
	<hr/>
<b>Net carrying amount</b>	
At 31 December 2012	500
	<hr/> <hr/>
At 31 December 2013	500
	<hr/> <hr/>
At 31 December 2014	500
	<hr/> <hr/>

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

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

Trading right is tested for impairment by the directors by estimating its recoverable amount based on value-in-use calculation. For such purposes, trading right is allocated to the businesses of securities brokerage, placing and underwriting services and margin financing as one cash generating unit ("CGU"). The value-in-use of the CGU is determined using cash flow projection which is based on the financial budget approved by the management covering a period of 3 and 2 years for the years ended 31 December 2013 and 2014, respectively.

The key assumptions used in the budget plans are:

- (a) For the year ended 31 December 2013, revenue is projected to be stable throughout the budget period.

For the year ended 31 December 2014, revenue from providing margin financing services is projected based on the expected credit facilities available to customers during the budget period which are subject to fulfilment of regulatory requirements and the expected liquidity position of the Group. Commission income from securities brokerage services is derived from customers' trading activities which in turn is influenced by the amount of credit facilities available to margin financing clients. Income from providing placing and underwriting services is budgeted based on the number of placement and underwriting assignments expected to be secured in the budget period.

## APPENDIX I

## ACCOUNTANTS' REPORT

- (b) Operating expenses will grow in line with the general inflation in Hong Kong throughout the budget periods.
- (c) Zero growth rate is used to extrapolate cash flow projection beyond the period covered by the recent financial budgets.
- (d) The discount rate applied to the cash flow projections is 10% and 10% for the years ended 31 December 2013 and 2014, respectively. The discount rates used are pre-tax and reflect specific risks relating to the relevant businesses.

The key assumptions adopted by the management have been determined based on past performance and management's expectation on market development. Based on the result of the above impairment testing, the directors determined that there is no impairment in respect of the trading right as at 31 December 2013 and 2014.

### 18. TRADE RECEIVABLES

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables arising from securities dealing and margin financing		
– Cash clients	–	49
– Margin clients	73,647	101,889
– Clearing house	6,960	–
	<u>80,607</u>	<u>101,938</u>
Trade receivables arising from money lending		
– Interest receivables	2,167	–
	<u>82,774</u>	<u>101,938</u>

#### Notes:

- (a) The settlement terms of trade receivables arising from the business of securities dealing are two days after trade date.
- (b) Trade receivables from cash clients as at 31 December 2014 are past due within 30 days.
- (c) No ageing analysis is disclosed for trade receivables from margin clients as, in the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing and margin financing. Margin loans due from margin clients are current and repayable on demand for those margin clients subject to margin calls. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. As at 31 December 2013 and 2014, the total market value of securities pledged as collateral in respect of the receivables from margin clients are approximately HK\$809,000,000 and HK\$258,000,000, respectively. Margin loans as at 31 December 2013 and 2014 are interest bearing at a fixed rate of 12.5% per annum and 12.5% to 20% per annum, respectively. Subject to certain conditions, the Group is allowed to repledge collateral from margin clients. There was no repledge of collateral from margin clients as at 31 December 2013 and 2014.
- (d) Trade receivables from clearing house, i.e. Hong Kong Securities Clearing Company Limited, is current which represents pending trades arising from the business of dealing in securities and are normally due within two days after trade date in accordance with the requirements of Hong Kong Exchange and Clearing Limited.
- (e) As at 31 December 2013, interest receivables arising from money lending business amounting to HK\$1,580,000 were neither past due nor impaired and the remaining balance of HK\$587,000 were due for payment on 31 December 2013. These interest receivables were fully settled during the year ended 31 December 2014.

## APPENDIX I

## ACCOUNTANTS' REPORT

As at 31 December 2014, there were no outstanding interest receivables.

- (f) The Group has policy for impairment allowance which is based on the evaluation of collectability of accounts and on management's judgement, including the current creditworthiness and the past collection history of each client or receivable. As assessed by the directors, no impairment allowance is necessary in respect of trade receivables at 31 December 2013 and 2014.

### 19. LOANS RECEIVABLE

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans receivable from money lending		
– secured loans receivable ( <i>note (a)</i> )	26,700	–
– unsecured loans receivable ( <i>note (b)</i> )	18,000	–
	<u>44,700</u>	<u>–</u>

*Notes:*

- (a) The loans receivable as at 31 December 2013 are secured by listed equity securities and interest-bearing at fixed interest rate of 30% to 36% per annum.
- (b) The loan is interest-bearing at 36% per annum and is guaranteed in full amount by an independent third party. In addition, the loan agreement signed with the borrower, which is also a margin client of the Group's securities dealing business, has imposed restriction to the borrower on withdrawing or transferring assets under the margin account set up with the Group.
- (c) Loans receivable at 31 December 2013 were neither past due nor impaired. Management believes that no impairment allowance is necessary having considered the value of collaterals and other credit enhancement obtained.

As at 31 December 2014, the Group did not have any outstanding loan receivable.

### 20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables	12	–
Deposits	394	394
Prepayments	19	467
	<u>425</u>	<u>861</u>

### 21. TRUST BANK BALANCES HELD ON BEHALF OF CUSTOMERS

In respect of the Group's business of dealing in securities, the Group maintains segregated trust accounts with authorised institutions to hold clients' monies. The Group classifies clients' monies separately under current assets in the combined statements of financial position and has recognised the corresponding trade payables to respective clients (*note 23*) on the grounds that it is liable for any loss or misappropriation of clients' monies and does not have a currently enforceable right to offset those payables with the deposits placed.

### 22. CASH AND BANK BALANCES

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



## APPENDIX I

## ACCOUNTANTS' REPORT

### 23. TRADE PAYABLES

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables arising from securities dealing:		
– Cash clients	5,084	1,538
– Margin clients	11,371	18,209
– Clearing house	–	18,871
	16,455	38,618
	16,455	38,618

The settlement terms of trade payables arising from the business of dealing in securities are two days after the trade date. The trade payables to certain margin and cash clients arising from the business of dealing in securities are repayable on demand subsequent to settlement date.

Included in trade payables as at 31 December 2013 and 2014 were payables to clients of approximately HK\$10,051,000 and HK\$19,174,000, respectively in respect of trust and segregated bank balances received and held for the clients in the course of the conduct of regulated activities.

Included in margin and cash client payables as at 31 December 2013 and 2014 were balances payable to Ms. Rowena Chick of HK\$383,000 and HK\$83,000 respectively. Ms. Rowena Chick is a related party as set out in note 27(a)(ii).

Margin and cash client payables as at 31 December 2013 and 2014 also included balances payable to Mr. Henry Cheung and Mr. Jonathan Cheung, directors of the Company, and a related company. Further details of these balances are set out in note 27(c)(i).

### 24. SHARE CAPITAL

The Company was incorporated on 14 January 2015 with authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.1 each. On the same date, 100 shares in aggregate were transferred/allotted and issued at par to HCC & Co and Snail Capital. On 6 May 2015, upon completion of the acquisition of PCGL by PIL and the acquisition of PIGL by the Company, 100 new shares in aggregate were allocated and issued at par to HCC & Co and Snail Capital by the Company. On 22 May 2015, the Company sub-divided each of all its issued and unissued shares with par value of HK\$0.10 each into 10 shares of HK\$0.01 each. On the same date, the Company increased its authorised share capital from HK\$380,000 to HK\$500,000,000 divided into 50,000,000,000 shares of HK\$0.01 each by the creation of an additional 49,962,000,000 shares.

For the purpose of this report, the share capital balances in the combined statements of financial position as at 31 December 2013 and 2014 represented the issued share capital of PIGL and PCGL as at those dates.

On 9 June 2014, the issued share capital of PCGL has been increased from HK\$1 to HK\$1,000,000 by the allotment of additional 999,999 ordinary shares at HK\$1 each. The additional ordinary shares were issued to GGL and were settled through the current account with a director.

### 25. OPERATING LEASE COMMITMENTS

#### Operating leases – The Group as lessee

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

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,500	1,162
Later than one year and not more than five years	1,162	–
	2,662	1,162
	2,662	1,162

## APPENDIX I

## ACCOUNTANTS' REPORT

### 26. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

- (a) During the year ended 31 December 2014, the issued share capital of PCGL has been increased from HK\$1 to HK\$1,000,000 by the allotment of 999,999 shares of HK\$1 each to GGL and the consideration was settled through the current account with a director (note 24).
- (b) During the year ended 31 December 2014, amounts due to directors amounting to HK\$32,196,000 were transferred and settled through the current account with a related company.

### 27. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in this Financial Information, the Group has the following significant transactions with related parties.

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

Name of related party	Related party relationship	Type of transaction	Transaction amount	
			Year ended 31 December	
			2013	2014
			HK\$'000	HK\$'000
Mr. Henry Cheung	Director	Brokerage income	80	59
Mr. Jonathan Cheung	Director	Brokerage income	32	38
Ms. Rowena Chick	Close family member of key management (note (ii))	Brokerage income	224	304
Blackbox Capital Limited	Related company (note (i))	Brokerage income	24	1
Grit Capital Limited	Related company (note (i))	Share of rental and staff costs (note (iii))	389	–
Gryphuz Advisory Limited (formerly known as Pinestone Advisory Limited)	Related company (note (i))	Share of rental and staff costs (note (iii))	–	547

*Notes:*

- (i) Blackbox Capital Limited, Grit Capital Limited and Gryphuz Advisory Limited are wholly-owned subsidiaries of GGL. Mr. Henry Cheung and Mr. Jonathan Cheung have equity interests in GGL.
- (ii) Ms. Rowena Chick is the spouse of Mr. Wong Chi Kan, a member of the key management of the Group.
- (iii) Certain portion of the Group's office premises were occupied by the related company and thus the related company shared the office rental expense with the Group. In addition, certain employees of the Group rendered services to the related company and thus the related company shared the employee benefit expenses with the Group. The aggregate amount of office rental expenses and employee benefit expenses shared by the related company for the years ended 31 December 2013 and 2014 were HK\$389,000 and HK\$547,000, respectively.
- (b) As at 31 December 2014, Mr. Henry Cheung and Mr. Jonathan Cheung, directors of the Company provided personal guarantee to secure for the banking facilities granted to the Group amounting to HK\$22,000,000. The personal guarantee provided by Mr. Henry Cheung and Mr. Jonathan Cheung will be fully released, discharged or replaced by corporate guarantee or other securities provided by the Group upon the Listing.

As at 31 December 2014, the Group has not drawn down any amount under the aforementioned facility.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

(c) As at 31 December 2013 and 2014, the Group had the following balances with related companies and directors:

(i) Balances arising from securities dealing transactions included in trade payables (note 23).

	As at 1 January 2013 <i>HK\$'000</i>	Maximum outstanding during the year <sup>^</sup> <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>	Securities held
Mr. Henry Cheung	–	693	470	Marketable securities
Mr. Jonathan Cheung	–	2,405	307	Marketable securities
Blackbox Capital Limited	–	1,539	36	Marketable securities
	<u>          </u>	<u>          </u>	<u>          </u>	

	As at 1 January 2014 <i>HK\$'000</i>	Maximum outstanding during the year <sup>^</sup> <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>	Securities held
Mr. Henry Cheung	470	420	5,554	Marketable securities
Mr. Jonathan Cheung	307	650	1,904	Marketable securities
Blackbox Capital Limited	36	–	–	N/A
	<u>          </u>	<u>          </u>	<u>          </u>	

<sup>^</sup> these amounts represented the maximum amounts due from the directors and the related company during the respective years

(ii) Amounts due from related companies

	As at 1 January 2013 <i>HK\$'000</i>	Maximum amount outstanding during the year <sup>#</sup> <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>
Blackbox Capital Limited	–	6	6
Gryphuz Advisory Limited	–	12	6
	<u>          </u>	<u>          </u>	<u>          </u>
	–		12

	As at 1 January 2014 <i>HK\$'000</i>	Maximum amount outstanding during the year <sup>#</sup> <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>
Blackbox Capital Limited	6	11	–
Gryphuz Advisory Limited	6	547	547
	<u>          </u>	<u>          </u>	<u>          </u>
	12		547

<sup>#</sup> these amounts represented the maximum amounts due from the related companies during the respective years

The amounts due are unsecured, interest-free and repayable on demand.

## APPENDIX I

## ACCOUNTANTS' REPORT

- (iii) Amounts due to related companies and directors

The amounts due are unsecured, interest-free and repayable on demand.

- (d) Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods was as follows:

	Year ended 31 December	
	2013	2014
	HK\$'000	HK\$'000
Salaries, allowances and benefits	1,379	1,637
Contributions to defined contribution retirement plan	48	63
	<u>1,427</u>	<u>1,700</u>

### 28. CAPITAL MANAGEMENT

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

The directors of the Company actively and regularly reviews and manages the Group's capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholders' returns.

For capital management purpose, the directors of the Company regard total equity presented on the combined statements of financial position as capital.

A subsidiary of the Company is regulated by the Securities and Futures Commission ("SFC") and required to maintain minimum liquid capital and paid up capital according to the Securities and Futures Ordinance. Management monitors this subsidiary's liquid capital and paid up capital to ensure they meet the minimum requirement in accordance with the Securities and Futures (Financial Resources) Rules. Other than this, the Company and other subsidiaries are not subject to externally imposed capital requirements.

### 29. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	As at 31 December	
	2013	2014
	HK\$'000	HK\$'000
<b>Financial assets</b>		
<i>Loans and receivables</i>		
– Trade receivables	82,774	101,938
– Loans receivable	44,700	–
– Other receivables and deposits	406	394
– Amounts due from related companies	12	547
– Trust bank balances held on behalf of customers	10,051	19,174
– Cash and bank balances	14,815	40,512
	<u>152,758</u>	<u>162,565</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

	As at 31 December	
	2013	2014
	HK\$'000	HK\$'000
<b>Financial liabilities</b>		
<i>Financial liabilities at amortised costs</i>		
– Trade payables	16,455	38,618
– Other payables and accruals	189	767
– Amounts due to related companies	60,944	90,441
– Amounts due to directors	65,790	–
	143,378	129,826
	143,378	129,826

### (a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade receivables, loans receivable, other receivables and deposits, trust bank balances held on behalf of customers, cash and bank balances, trade payables, other payables and accruals and amounts due from/to related companies and directors.

Due to their short term nature, the carrying value of these financial instruments approximates its fair value.

### (b) Financial instruments measured at fair value

As at 31 December 2013 and 2014, the Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

## 30. FINANCIAL RISK MANAGEMENT

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

### (a) Credit risk

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

In respect of the securities dealing and margin financing businesses, the Group's credit risk exposure is spread over a number of customers. Accordingly, the Group has no significant concentration of credit risk on a single customer in this respect. The Group does not hold any collateral or other credit enhancement to cover its credit risk except for margin client receivables.

In respect of the money lending business, in granting loans to customers, management assesses background information and financial condition of the customers and requests collaterals from the customers in order to minimise credit risk. Management also reviews regularly the repayment pattern of the customers. Monitoring of credit risk on loans and interests receivable is performed on an on-going basis.

At the end of each of the Relevant Periods, management reviews the recoverable amount of receivables to ensure that adequate impairment provision is made for irrecoverable amounts. In determining the recoverable amounts of receivables, management takes into account the fair value of the underlying collateral, if any. In this regard, the directors of the Company consider that the Group's credit risk associated with trade receivables and loans receivable is effectively controlled and significantly reduced.

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

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

## APPENDIX I

## ACCOUNTANTS' REPORT

### (b) Interest rate risk

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

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

### (c) Liquidity risk

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

For maturity analysis purpose, the amounts due to related companies and directors as at 31 December 2013 and 2014 of HK\$126,734,000 and HK\$90,441,000 respectively are due for repayment upon demand whereas other financial liabilities of HK\$16,644,000 and HK\$39,385,000 respectively are due for repayment either on demand or within one year. The carrying amounts of the Group's financial liabilities approximate their contractual undiscounted cash flows.

## 31. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this Financial Information, the following significant events took place subsequent to 31 December 2014:

- (a) Pursuant to the resolution passed by the shareholders of the Company on 22 May 2015, conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the [REDACTED] as mentioned below, the issue of a total of 359,998,000 shares at par by the Company to Snail Capital and HCC & Co on a pro-rata basis by way of capitalising an amount of HK\$3,599,980 from the share premium account of the Company ("Capitalisation Issue") has been approved.
- (b) Pursuant to the resolutions passed by the shareholders of the Company on 22 May 2015, and subject to the same conditions as stated in the sub-paragraph headed "Conditions of the Placing" under the section headed "Structure and conditions of the Placing" included in the Document, the following have been approved:
  - (i) The [REDACTED] of [REDACTED] of the Company at [REDACTED] of not more than HK\$[REDACTED] per [REDACTED] and not less than HK\$[REDACTED] per [REDACTED] share; and
  - (ii) The principal terms of the share option scheme as set out in the section headed "Other information" in Appendix IV to the Document.

---

**APPENDIX I**

**ACCOUNTANTS' REPORT**

---

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2014.

Yours faithfully,

**BDO Limited**

*Certified Public Accountants*

**LEE MING WAI**

Practising Certificate number: P05682

Hong Kong