CASH FINANCIAL SERVICES GROUP LIMITED
時富金融服務集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock code: 510)

ANNOUNCEMENT

OF

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The audited consolidated results of CASH Financial Services Group Limited ("Company" or "CFSG") and its subsidiaries ("Group") for the year ended 31 December 2017 together with the comparative figures for the last corresponding year are as follows:

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	(3)	**133,607**	166,830
Other income		**2,170**	2,565
Other gains (losses)		**9,095**	(2,376)
Salaries and related benefits		**(68,319)**	(62,104)
Commission expenses		**(42,358)**	(51,373)
Depreciation		**(6,033)**	(9,544)
Finance costs		**(5,523)**	(5,044)
Other expenses		**(69,121)**	(78,761)
Change in fair value of investment properties		**449**	(13,593)
Loss before taxation		**(46,033)**	(53,400)
Income tax (expense) credit	(5)	**(49)**	2,202
Loss for the year		**(46,082)**	(51,198)

	Note	2017 HK$'000	2016 HK$'000
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**651**	(1,199)
Other comprehensive income (expense) for the year		**651**	(1,199)
Total comprehensive expense for the year attributable to owners of the Company		**(45,431)**	(52,397)
Loss per share	(6)		
- Basic (HK cents)		**(1.01)**	(1.24)
- Diluted (HK cents)		**(1.01)**	(1.24)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 31 December **2017** **HK$'000**	2016 HK$'000
Non-current assets			
Property and equipment		**8,420**	13,577
Investment properties		**17,818**	16,508
Intangible assets		**9,092**	9,092
Club debentures		**660**	660
Other assets		**11,486**	8,567
Rental and utility deposits		**5,272**	5,514
Available-for-sale financial assets		**8,415**	8,415
		61,163	62,333
Current assets			
Accounts receivable	(7)	**392,069**	432,300
Loans receivable		**1,600**	1,863
Prepayments, deposits and other receivables		**11,685**	11,957
Tax recoverable		**-**	1,286
Investments held for trading		**194,403**	21,725
Bank deposits subject to conditions		**25,076**	25,025
Bank balances - trust and segregated accounts		**909,411**	819,803
Bank balances (general accounts) and cash		**270,658**	334,631
		1,804,902	1,648,590
Current liabilities			
Accounts payable	(8)	**979,608**	968,466
Accrued liabilities and other payables		**21,061**	30,100
Taxation payable		**3,000**	3,000
Bank borrowings - amount due within one year		**124,253**	153,687
Amounts due to fellow subsidiaries		**1,764**	1,807
		1,129,686	1,157,060
Net current assets		**675,216**	491,530
Total assets less current liabilities		**736,379**	553,863

	At 31 December 2017 HK$'000	2016 HK$'000
Non-current liabilities		
Deferred tax liabilities	**40**	40
Bank borrowings - amount due after one year	**7,311**	10,645
	7,351	10,685
Net assets	**729,028**	543,178
Capital and reserves		
Share capital	**99,207**	82,687
Reserves	**629,821**	460,491
Equity attributable to owners of the Company and total equity	**729,028**	543,178

Notes:

(1) Basis of preparation

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

Apart from (2) below, the accounting policies and judgements applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

(2) Application of amendments to HKFRSs

<u>Amendments to HKFRSs that are mandatorily effective for the current year</u>

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 - 2016 cycle

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in consolidated financial statements, the application of these amendments has had no impact on the Group's consolidated financial statements.

(3) Revenue

	2017	2016
	HK$'000	HK$'000
Fees and commission income	**109,399**	148,605
Interest income	**24,208**	18,225
	133,607	166,830

(4) Segment information

The Group is principally engaged in the following activities:

- provision of online and traditional brokerage of securities, futures and options as well as mutual funds and insurance-linked investment products;
- principal investments of debt and the equity securities and derivatives;
- provision of margin financing and money lending services; and
- provision of corporate finance services.

Reportable and operating segment

The Chief Executive Officer of the Company, who is also the chief executive of the brokerage business, being the chief operating decision maker ("CODM"), regularly reviews the income from broking, investment banking, asset management, wealth management and proprietary trading activities for the purpose of resources allocation and performance assessment, however no further discrete information of these activities is presented to the CODM other than the financial services as a whole. Accordingly, financial services business is considered one operating segment.

Segment revenue and result

The accounting policies of the operating segment are the same as the Group's accounting policies. Segment loss represents the loss incurred by the segment before change in fair value of investment properties, gain on disposal of a subsidiary and unallocated corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of performance.

For the year ended 31 December 2017

	Financial services HK$'000	Total HK$'000
Revenue	**133,607**	**133,607**
RESULT		
Segment loss	**(36,759)**	**(36,759)**
Change in fair value of investment properties		**449**
Unallocated expenses		**(9,723)**
Loss before taxation		**(46,033)**

For the year ended 31 December 2016

	Financial services HK$'000	Total HK$'000
Revenue	166,830	166,830
RESULT		
Segment loss	(35,715)	(35,715)
Change in fair value of investment properties		(13,593)
Gain on disposal of a subsidiary		2,623
Unallocated expenses		(6,715)
Loss before taxation		(53,400)

All the segment revenue is derived from external customers.

Segment assets and liabilities

All assets are allocated to the operating segment other than investment properties, available-for-sale financial assets, property and equipment, other receivables and cash. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

All liabilities are allocated to the operating segment other than deferred tax liabilities, amounts due to fellow subsidiaries and taxation payable. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

As at 31 December 2017

	Financial services HK$'000	**Total HK$'000**
ASSETS		
Segment assets	**1,830,089**	**1,830,089**
Investment properties		**17,818**
Available-for-sale financial assets		**8,415**
Other unallocated assets		**9,743**
Consolidated total assets		**1,866,065**
LIABILITIES		
Segment liabilities	**1,132,233**	**1,132,233**
Deferred tax liabilities		**40**
Amounts due to fellow subsidiaries		**1,764**
Taxation payable		**3,000**
Consolidated total liabilities		**1,137,037**

As at 31 December 2016

	Financial services HK$'000	Total HK$'000
ASSETS		
Segment assets	1,680,666	1,680,666
Investment properties		16,508
Available-for-sale financial assets		8,415
Other unallocated assets		5,334
Consolidated total assets		1,710,923
LIABILITIES		
Segment liabilities	1,162,898	1,162,898
Deferred tax liabilities		40
Amounts due to fellow subsidiaries		1,807
Taxation payable		3,000
Consolidated total liabilities		1,167,745

Other information

For the year ended 31 December 2017

	Financial services HK$'000	**Unallocated amount HK$'000**	**Total HK$'000**
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets	**1,239**	**3**	**1,242**
Interest income	**24,208**	**-**	**24,208**
Depreciation	**(6,014)**	**(19)**	**(6,033)**
Write-off of property and equipment	**(370)**	**-**	**(370)**
Finance costs	**(5,523)**	**-**	**(5,523)**
Impairment of other receivables	**-**	**(1,980)**	**(1,980)**
Loss on early redemption of redeemable convertible bonds	**(9,920)**	**-**	**(9,920)**
Net gain on investments held for trading	**36,184**	**-**	**36,184**
Allowance for impaired accounts receivable, net	**(16,204)**	**-**	**(16,204)**
Write back of impaired accounts receivable	**48**	**-**	**48**
Net foreign exchange gain (loss)	**1,368**	**(31)**	**1,337**

For the year ended 31 December 2016

	Financial services HK$'000	Unallocated amount HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets	4,280	100	4,380
Interest income	18,225	-	18,225
Depreciation	(9,529)	(15)	(9,544)
Write-off of property and equipment	-	(699)	(699)
Finance costs	(4,385)	(659)	(5,044)
Impairment on other receivables	(1,632)	-	(1,632)
Net gain on investments held for trading	9	-	9
Allowance for impaired accounts receivable, net	(1,553)	-	(1,553)
Net foreign exchange loss	(452)	(672)	(1,124)

The Group's operations are located in Hong Kong and the People's Republic of China ("PRC").

The Group's segment revenue from external customers determined based on location of operation of the Group and information about its non-current assets (excluding financial instruments) by geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (Place of domicile)	**133,607**	166,830	**34,858**	36,701
PRC	**-**	-	**17,890**	17,217
Total	**133,607**	166,830	**52,748**	53,918

There were no customers for the years ended 31 December 2017 and 2016, contributing over 10% of the Group's total revenue.

(5) Income tax (expense) credit

	2017	2016
	HK$'000	HK$'000
Current tax:		
- Hong Kong Profits Tax	**-**	-
- PRC Profits Tax	**(49)**	-
Underprovision in prior years	-	(167)
Deferred tax	-	2,369
	(49)	2,202

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable to the PRC subsidiaries is 25% from 1 January 2008 onwards.

(6) Loss per share

The calculation of basic and diluted loss per share for the year is based on the following data:

	2017	2016
	HK$'000	HK$'000
Loss		
Loss for the purposes of basic and diluted loss per share	**(46,082)**	(51,198)

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**4,575,647,259**	4,134,359,588
Effect of dilutive potential ordinary shares: Share options of the Company	**-**	-
Weighted average number of ordinary shares for the purpose of diluted loss per share	**4,575,647,259**	4,134,359,588

For the years ended 31 December 2017 and 2016, the computation of diluted loss per share has not taken into account the effects of share options as it would result in decrease in loss per share.

(7) Accounts receivable

	2017	2016
	HK$'000	HK$'000
Accounts receivable arising from the business of dealing in securities:		
Clearing houses, brokers and dealers	**62,285**	42,107
Cash clients	**26,535**	42,336
Margin clients	**229,797**	233,271
Accounts receivable arising from the business of dealing in futures and options:		
Clients	**134**	150
Clearing houses, brokers and dealers	**72,673**	112,375
Commission receivable from brokerage of mutual funds and insurance-linked investment products	**515**	1,521
Accounts receivable arising from the business of provision of corporate finance services	**130**	540
	392,069	432,300

The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date or at specific terms agreed with clients and brokers and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances and intends either to settle on a net basis, or to realise the balances simultaneously.

(8) Accounts payable

	2017	2016
	HK$'000	HK$'000
Accounts payable arising from the business of dealing in securities :		
Clearing houses	**10,468**	7,370
Cash clients	**604,368**	582,997
Margin clients	**203,468**	117,853
Accounts payable to clients arising from the business of dealing in futures and options	**161,304**	260,246
	979,608	968,466

The settlement terms of accounts payable arising from the business of dealing in securities, except for margin clients, are two days after trade date and accounts payable arising from the business of dealing in futures and options are one day after trade date. Accounts payable to margin clients are repayable on demand. No ageing analysis is disclosed as in the opinion of directors of the Company, the ageing analysis does not give additional value in view of the nature of this business.

Accounts payable to clients arising from the business of dealing in futures and options are margin deposits received from clients for their trading of these contracts. The required margin deposits are repayable upon the closure of the corresponding futures and options position. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand.

Except for the accounts payable to clients arising from the business of dealing in securities which bear interest at a fixed rate, all the accounts payable are non-interest bearing.

Accounts payable amounting to HK$909,411,000 (2016: HK$819,803,000) are payable to external clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

(9) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings, and equity attributable to owners of the Company, comprising issued share capital, accumulated losses and other reserves. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the issue of new shares and share options as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Certain group entities are regulated by the Hong Kong Securities and Futures Commission ("SFC") and are required to comply with the financial resources requirements according to the Hong Kong Securities and Futures (Financial Resources) Rules ("SF(FR)R"). The Group's regulated entities are subject to minimum paid-up share capital requirements and liquid capital requirements under the SF(FR)R. Management closely monitors, on a daily basis, the liquid capital level of these entities to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Group's regulated entities have complied with the capital requirements imposed by the SF(FR)R throughout both years.

(10) Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentation.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

REVIEW AND OUTLOOK

Financial Review

For the year ended 31 December 2017, the Group recorded revenue of HK$133.6 million, representing a decrease of 19.9% as compared with HK$166.8 million in 2016.

At the beginning of the year, the Board remained cautious towards the economic outlook of Hong Kong as the local market was still facing various concerns and uncertainties including the accelerated pace of the US interest-rate increases, Renminbi depreciation and the economic growth on the Mainland. As such, the Group had adopted a prudent margin lending policy. The local securities firms have recently been facing ever inflating compliance and legal costs as a result of the introduction of more stringent compliance requirements by the relevant regulatory authorities in recent years. The stringent compliance requirements such as Financial Resources Rules had made the Group, being a Hong Kong based securities house with limited capital, more difficult to achieve impressive growth for its margin financing-driven broking business. Having exercised restraint in making excessive margin loans to our clients for their trading and investment activities due to our limited working capital had caused a drop of approximately 37.8% in securities brokerage incomes for the first half of the year. To strengthen its financial services business by providing more funding for its margin financing and underwriting businesses, the Group had completed two fund raising activities during the year. In June, 826 million new shares at a subscription price of HK$0.28 per share were issued and allotted to an investor, raising approximately HK$231.3 million. In July, convertible bonds at the initial conversion price of HK$0.31 per share were issued and placed to several investors, raising HK$620 million. The completion of these two fund raising activities had resulted in the Group having a stronger financial position and could provide more margin loans to our client investors, thus encouraging them to make more trading activities amid the improving investment sentiment, both locally and overseas. In December 2017, the aforesaid convertible bonds were fully redeemed by the Company. Thus, there were no convertible bonds outstanding in issue at the year-end date. Almost immediately after the completion of the issue of the shares, the unexpected panic selling of several small-cap stocks forced the Group to put its ready-to-launch flexible and lenient lending policy on hold. In late June, more than a dozen small-cap stocks in Hong Kong suffered a price crash almost simultaneously. The Group made a provision for bad debts of HK$15.0 million in respect of the over losses incurred by a few margin clients in this penny-stock meltdown. In order to avoid incurring similar losses, a thorough review on the existing credit risk management had been undertaken immediately after the crisis and much more stringent control measures had been put in place since then. This rather conservative credit policy had to some extent hindered the Group from aggressively granting margin financing to our client investors who actively traded in small-cap stocks and possessed stock holdings heavily concentrated in second- and third-liner shares and the non-acceptable small-cap stocks. This tightening of credit facilities to these clients had explained why the Group's brokerage business had failed to achieve growth in revenue amid the improving investor sentiment across the global market. It also explained why its performance had been lagging behind that of the local stock market the trading of which had been very active for most of the year, with the average daily turnover 32% higher than the average in 2016. In order to boost the turnover of the Group's brokerage business, the Board had adopted a more flexible approach in granting margin loans and trading limits to the clients who had records of high credibility and rating, as well as those had mostly traded and invested in blue- and red-chip stocks. This had helped the Group's brokerage income gradually pick up in the last quarter of the year and recorded net profit for the 3-month period. It is not only the shift in margin financing policy that led to the decrease in securities brokerage revenue, the ever-changing landscape in the derivatives markets had also badly hit the Group's commodity brokerage business. Most of our clients who are mainly retail investors had incurred huge losses these days when making their investment strategies and trading activities in complex securities, especially commodity futures and options which had exhibited extremely high volatility over the past years. As more and more leading financial institutions, corporate investors and hedge-fund managers have been using the most advanced technologies to formulate their sophisticated strategies and models to execute their trading activities, our client investors find it more difficult to take profit from trading in commodity futures and options and therefore had adopted more risk-averse attitude in these securities dealings and reduced the trading volume drastically for the year under review. The Group's commodity broking business recorded a drop of 53.1% in revenue for 2017 as compared with the preceding year. Despite the mild drop in our brokerage revenue, our asset management business recorded 353% growth in revenue and an increase of 56.2% in its assets under management during the year. By providing our clients with high-quality and comprehensive advisory services and tailor-made investment strategies in the fast changing stock market, they had received outperforming annualised returns on their investments and achieved considerable assets appreciation for the current year.

Taking into account the aforesaid the provision for bad debts and the 12-month operating results, the Group recorded a net loss of HK$46.1 million for the year ended 31 December 2017 as compared to a net loss of HK$51.2 million in the preceding year.

Liquidity and Financial Resources

The Group's total equity amounted to HK$729.0 million as at 31 December 2017 as compared to HK$543.2 million as at 31 December 2016. The increase in the total equity was mainly due to the new capital raised from the issue of 826 million new shares mentioned above less the reported loss for the year under review.

As at 31 December 2017, the Group had total outstanding bank borrowings of approximately HK$131.6 million, comprising bank loans of HK$130.7 million and overdraft of HK$0.9 million respectively. Bank borrowings of HK$70.0 million were collateralised by its margin clients' securities pledged to the Group and a bank loan of HK$50.0 million was secured by a pledged Hong Kong dollar deposit of HK$25.0 million. The remaining bank loans and overdrafts in a total of HK$11.6 million were secured by corporate guarantees from the Company. All of the Group's borrowings were denominated in Hong Kong dollars. They were variable-rate borrowings and carried interest with reference to HIBOR or Hong Kong Prime Rate.

As at 31 December 2017, our cash and bank balances including the trust and segregated accounts had slightly increased to HK$1,205.1 million from HK$1,179.5 million as at 31 December 2016.

The Group derives its revenue and maintains bank balances in its house accounts mainly in Hong Kong dollars. Bank balances in its house accounts amounting to HK$205.9 million and HK$89.8 million as at 31 December 2017 were denominated in Hong Kong dollars and other foreign currencies (mainly Renminbi and US dollar) respectively, whereas the bank balances in the trust and segregated accounts were denominated in the same currencies as those of the outstanding balances in the corresponding accounts payable.

The liquidity ratio as at 31 December 2017 slightly improved to 1.60 times from 1.42 times as at 31 December 2016. The gearing ratio as at 31 December 2017, which represents the ratio of interest bearing borrowings of the Group divided by the total equity, decreased to 18.0% from 30.3% as at 31 December 2016. The decrease in gearing ratio was mainly due to the increase in the share capital by the issue of new shares during the year under review. On the other hand, we have no material contingent liabilities at the end of the year.

The Group's treasury policies are to secure healthy liquidity for running its operations smoothly and to maintain a sound financial position at all time throughout the year. Besides meeting its working capital requirements, cash balances and bank borrowings are maintained at healthy levels to meet its customers' investments needs while making sure all relevant financial regulations have been complied.

Foreign Exchange Risks

The Group did not have any material un-hedged foreign exchange exposure or interest rate mismatches at the end of the year.

Material Acquisitions and Disposals

The proposed disposal of 36.28% shareholding interest in the Company by Celestial Investment Group Limited (a wholly-owned subsidiary of Celestial Asia Securities Holdings Limited ("CASH")) to Ever Billion Group Limited under a sale and purchase agreement dated 8 September 2016 at the consideration of HK$765 million (representing a purchase price of HK$0.51 per share), which triggered a possible mandatory general offer for the shares in the Company, had been terminated on 29 March 2017. Details of the transaction were disclosed in the various announcements of the Company and CASH relating to the transaction from September 2016 to March 2017.

In December 2017, CASH obtained a disposal mandate from its shareholders regarding possible disposal of all the 33.62% shareholding interest in the Company held by CASH at minimum disposal price of HK$0.31 per share under the terms of disposal mandate. No share had been disposed by CASH under the disposal mandate for the year under review. Details of the transaction were disclosed in the announcement of the Company and CASH dated 7 November 2017.

Save as aforesaid, the Group did not make any material acquisitions or disposals during the year.

Save as disclosed in this annual report, there is no important event affecting the Group which has occurred since the end of the financial year.

Capital Commitments

The Group did not have any material outstanding capital commitments at the end of the year.

Material Investments

The market values of a portfolio of investments held for trading increased from HK$21.7 million as at 31 December 2016 to approximately HK$194.4 million as at 31 December 2017 mainly due to acquisition of trading investments. A net gain derived from investments held for trading of HK$36.2 million was recorded for the year. Such securities investments represented around 10.4% of the total assets of the Group as at 31 December 2017.

We did not have any future plans for material investments, nor addition of capital assets.

Financial and Operation highlights

Revenue

(HK$'m)	**2017**	2016	% change
Broking income	**109.4**	148.6	(26.4%)
Non broking income	**24.2**	18.2	33.0%
Group total	**133.6**	166.8	(19.9%)

Key Financial Metrics

	2017	2016	% change
Net loss (HK$'m)	**(46.1)**	(51.2)	10.0%
Loss per share (HK cents)	**(1.01)**	(1.24)	18.5%
Total assets (HK$'m)	**1,866.1**	1,710.9	9.1%
Cash on hand (HK$'m)	**295.7**	359.7	(17.8%)
Bank borrowings (HK$'m)	**131.6**	164.3	(19.9%)
Annualised average fee income from broking per active client (HK$'000)	**7.3**	10.2	(28.4%)

Industry and Business Review

Industry Review

Following modest signs of a broad-based recovery in the first half of 2017, the global economy was lifted by a strong pick-up in second half of 2017. Mainland China recorded robust GDP growth of 6.9% in 2017, reversing the downward trend for the first time since 2010. In addition, the US Federal Reserve's intention to gradually raise interest rates and scale back its balance sheet, together with the European Central Bank's pledge of a gradual withdrawal of quantitative easing, indicated growing confidence in stable global economic growth.

In Hong Kong, the economy benefited from the solid global recovery and resilient local demand, with robust growth of 3.8% for 2017. The Hang Seng Index ended 2017 at 29,919.15, a rise of 36% over the year, with average daily turnover reaching HK$88.2 billion, representing a 32% increase in 2017. Mid-year, a sudden massive small-cap sell-off held up retail investors for several months. An appetite for investment returned when IPO activities received a boost during China's 19th Communist Party Congress and more southbound capital inflows headed into the maturing market of Stock Connect programmes.

Business Review

Broking

Brokerage income from securities trading amounted to HK$61.9 million, with a decline of 53.0% in commodities commission recorded due to reduced interest of Mainland clients on international commodities products. Total brokerage commission income decreased by 27.5% from HK$124.9 million to HK$90.5 million year-on-year in 2017. In the third quarter of 2017, the pace of IPO activities slowly started to pick up and the stock market regained its trading momentum, with interest income from IPO and margin financing achieving accelerated growth of 34.9% to HK$22.8 million.

Following the Hong Kong Stock Exchange's proposal to expand Hong Kong's listing regime to ensure Hong Kong remains competitive to attract more listing by innovative companies including considering weighted voting right structure, we anticipate more IPOs and mega companies will seek listings in 2018. The outlook for 2018 is also positive in view of the stable investment environment and optimistic economic outlook. As such, we will continue to expand our margin loan book together with prudent risk management, identify new business opportunities by entering different markets, and revamp our apps and online trading platform to enhance our services. We see relationship management as a key focus to increase customer satisfaction, loyalty, and services that can drive further business growth.

Investment Banking

While the number of IPOs in Hong Kong hit a record high of 160 in 2017, total proceeds dropped to HK$130 billion - the lowest since 2012 (HK$90 billion) - due to a lack of sizeable deals. Hong Kong was therefore unable to retain its leading position as the world's top IPO market in both 2016 and 2017.

In 2017, we advised a number of listed companies on a range of corporate finance transactions, including issuance of securities, acquisitions and disposals, general offers and proposed connected transactions. We also acted as sole book-runner for IPO clients. Our clients included, among others, Hong Kong companies and Mainland China enterprises listing H shares and A shares respectively on the Hong Kong Stock Exchange and Shanghai Stock Exchange.

By leveraging our fund-raising capabilities and financial advisory expertise, we will continue to provide fully fledged investment banking services and maintain our balanced focus on IPOs, corporate finance transactions and fund-raising activities to assist our clients in capturing different capital markets and corporate finance opportunities.

Asset Management

Assets under management rose by around 56.2% by the end of December 2017 compared with the previous year, outperforming the benchmark index. Our focus was on sectors with fast corporate earnings growth, such as technology shares, and bottomed-out industries, for example, Macau gaming.

With the stable macro environment, subsequent increase of capital inflow through Hong Kong Stock Connect, rapid corporate earnings growth and the inclusion of A-shares in the MSCI Index, we are positive about the Hong Kong and Mainland China stock markets. Currently, the Hang Seng Index is trading at around 13.5 times prospective price/earnings, 1.36 times price-to-book and 3.2% dividend yield, an undemanding valuation compared with global stock markets. The Hang Seng Index is likely to set a new record in 2018 and we expect our revenue and assets under management to experience significant growth – unexpected circumstances notwithstanding.

Wealth Management

Despite the effect of the ever-changing economic environment on the overall market, we achieved satisfactory results due to an increase in recurring income. The rebound in the global market resulted in a remarkable performance for portfolios under our discretionary portfolio management service.

In 2018, we will focus on leveraging existing client and business partner networks for business development and continue to broaden our service offerings to provide comprehensive total wealth management solutions to clients. We also plan to open new offices in Mainland China to capture its fast-growing wealth management market.

Financial Technology (FinTech)

In 2017, CFSG continued to transform its services through the use of the latest technologies while leveraging its established brand heritage in premium brokerage, wealth management, and asset management services. Aiming to simplify, standardise, and automate CFSG's product and service offerings, we are currently developing a new trading platform, encompassing web, iOS and Android applications for both premium brokerage and asset management services. We will provide brokerage services for trading on global exchanges, and asset management services for discretionary fund investment and robo-advisory services. With artificial intelligence (AI) redefining the financial industry, we will also integrate innovative AI technologies and big data analytics to provide investment advisory and personalised news recommendations on the new trading platform.

Outlook and Corporate Strategy

Despite some geopolitical risks, interest rate hikes and the scale-back plans of the Federal Reserve and European Central Bank, the global economy gained strength in 2017 and should continue to do so. Mainland China's "One Belt, One Road" initiative, internationalisation of the Renminbi, and development of the Guangdong-Hong Kong-Macau Greater Bay Area will all bring significant opportunities for Hong Kong's growth in the next decades, in particular a demand for international financial services. Together with Hong Kong's new administration's commitment to support a gradual economic transformation to high value-added industries, including innovative ventures and technology enterprises, the Group is cautiously optimistic about our strategy to evolve into a technology-driven financial services business.

With our solid business foundation and enhanced financial strength, CFSG remains dedicated to generating sustainable growth through our customer-centric, technology-driven financial business model; and to a gradual transformation into a leading Hong Kong-based investment advisory group in China, based on service excellence in the four pillars of investment and wealth management, namely broking, investment banking, asset management and FinTech.

EMPLOYEE INFORMATION

As at 31 December 2017, the Group had 165 employees. Our employees were remunerated according to their performance, working experience and market conditions. The total amount of remuneration cost of employees for the year under review was HK$68.3 million.

Benefits

The Company and some of its subsidiaries provide employee benefits including mandatory provident fund scheme, medical insurance scheme, discretionary share options, performance bonus and sales commission for their staff. The Company also provides its employees in the PRC with medical and other subsidies, and contributes to the retirement benefit plans.

Training

The Group has implemented various training policies and organised a number of training programs aimed specifically at improving the skills of its employees and generally to increase the competitiveness, productivity and efficiency of the Group including training in areas such as product knowledge, customer service, selling techniques, team building, communication, languages, presentation, coaching, quality management, listing rules and also professional regulatory training programs as required by regulatory bodies. The Group also arranges for relevant staff, who are licensed persons under the Securities and Futures Ordinance ("SFO"), to attend the requisite training courses to fulfill/ comply with the continuous professional training as prescribed in the SFO. The Group conducts an initial staff orientation for new employees in order to familiarise them with the Group's history and strategy, corporate culture, quality management measures, rules and regulations. This orientation aims to prepare the new employees for the positions by establishing a sense of belongingness and cooperation; by supplying necessary information that resolves an employee's concerns; and by removing any potential barriers for job effectiveness and continuous learning.

CORPORATE GOVERNANCE

The Board has adopted a set of corporate governance principles ("Principles") which aligns with the requirements set out in the Code on Corporate Governance Practices ("CG Code") and the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules. The Board had also in writing made specific enquiry to each executive director and independent non-executive director in respect of the due compliance of the rules and principles relevant to the Model Code.

During the financial year ended 31 December 2017, the Company had duly complied with the Principles, the CG Code and the Model Code, except for the deviations that the Company does not have a nomination committee as provided for in code provision A.5.1 as its function has been performed by the Board as a whole. The Board under the leadership of the Chairman is responsible for reviewing the structure, size and composition of the Board and the appointment of new directors from time to time to ensure that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company, and the Board as a whole is also responsible for reviewing the succession plan for the directors.

REVIEW OF RESULTS

The Group's audited consolidated results for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Bankee P. Kwan
Chairman

Hong Kong, 16 March 2018

As at the date hereof, the directors of the Company are:-

Executive directors:

Mr Kwan Pak Hoo Bankee, JP
Mr Chan Chi Ming Benson
Mr Law Ping Wah Bernard
Mr Cheung Wai Ching Anthony
Mr Kwan Teng Hin Jeffrey
Mr Ho Tsz Cheung Jack

Independent non-executive directors:

Mr Cheng Shu Shing Raymond
Mr Lo Kwok Hung John
Mr Lo Ming Chi Charles

* *for identification purpose only*