

PineStone 鼎石

Pinestone Capital Limited

鼎石資本有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

(Stock Code 股份代號 : 8097)



INTERIM REPORT

中期業績報告

2016

Characteristics of The Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (The “Stock Exchange”)

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

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

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

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Corporate Information

Board of Directors (The "Board")

Executive Directors

Mr. Cheung Yan Leung Henry (*Chairman*)

Mr. Cheung Jonathan

Independent Non-Executive Directors

Mr. Yeung King Wah

Mr. Lai Tze Leung George

Mr. So Stephen Hon Cheung

Audit Committee

Mr. Yeung King Wah (*Chairman*)

Mr. Lai Tze Leung George

Mr. So Stephen Hon Cheung

Nomination Committee

Mr. Cheung Yan Leung Henry (*Chairman*)

Mr. Yeung King Wah

Mr. Lai Tze Leung George

Mr. So Stephen Hon Cheung

Remuneration Committee

Mr. Yeung King Wah (*Chairman*)

Mr. Lai Tze Leung George

Mr. So Stephen Hon Cheung

Mr. Cheung Jonathan

Compliance Officer

Mr. Cheung Jonathan

Company Secretary

Mr. Au Kin Kee Kinson ACS ACIS

Authorised Representatives

Mr. Cheung Yan Leung Henry

Mr. Cheung Jonathan

Trading Stock Code

8097

Registered Office

Clifton House, 75 Fort Street

P.O. Box 1350

Grand Cayman, KY1-1108

Cayman Islands

Headquarter and Principal Place of Business in Hong Kong

Unit 1506, 15th Floor, Wheelock House

20 Pedder Street, Central

Hong Kong

Hong Kong Branch Share Registrar & Transfer Office

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

Compliance Adviser

Altus Capital Limited

21 Wing Wo Street

Central

Hong Kong

Principal Banker

Chong Hing Bank Limited

Chong Hing Bank Centre

24 Des Voeux Road Central

Hong Kong

Auditor

BDO Limited

Certified Public Accountants

25th Floor Wing On Centre

111 Connaught Road Central

Hong Kong

Company's Website

www.pinestone.com.hk

Unaudited Condensed Consolidated Interim Results for the Six Months Ended 30 June 2016

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the unaudited condensed consolidated interim results of the Group for the three months and the six months ended 30 June 2016, together with the comparative unaudited figures for the corresponding periods in 2015, as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
REVENUE	3	12,153	8,548	20,484	16,019
Other income	5	1	27	3	52
Employee benefit expenses		(1,116)	(1,007)	(2,246)	(1,963)
Depreciation		(22)	(52)	(44)	(103)
Other operating expenses		(1,743)	(5,853)	(2,831)	(9,564)
Finance costs	7	(314)	(34)	(686)	(44)
PROFIT BEFORE INCOME TAX	6	8,959	1,629	14,680	4,397
Income tax expense	8	(1,541)	(1,181)	(2,615)	(2,194)
PROFIT FOR THE PERIOD		7,418	448	12,065	2,203
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		7,418	448	12,065	2,203
		HK cents	HK cents (Restated)	HK cents	HK cents (Restated)
EARNINGS PER SHARE	10				
Basic and diluted		0.15	0.01	0.25	0.06

Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	147	192
Intangible asset		500	500
Statutory deposits placed with stock exchange and clearing house		230	230
Deferred tax assets		57	57
		934	979
Current assets			
Trade receivables	12	185,624	173,181
Loan receivables		45,000	–
Other receivables, deposits and prepayments		1,508	693
Tax recoverable		691	691
Trust bank balances held on behalf of customers	13	9,998	15,536
Cash and bank balances		29,917	25,250
		272,738	215,351
Current liabilities			
Trade payables	14	11,067	15,265
Other payables and accruals		884	910
Borrowings	15	3,061	16,675
Tax payable		3,872	1,257
		18,884	34,107
Net current assets		253,854	181,244
Total assets less current liabilities		254,788	182,223
Non-current liabilities			
Borrowings	15	10,000	10,000
Net assets		244,788	172,223
CAPITAL AND RESERVES			
Share capital	16	4,910	4,800
Reserves		239,878	167,423
Total equity		244,788	172,223

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Share capital HK\$'000	Share premium* HK\$'000	Capital reserves* HK\$'000	Retained profits* HK\$'000	Total HK\$'000
Six months ended 30 June 2015					
(unaudited)					
At 1 January 2015	1,000	–	–	30,059	31,059
Profit for the period	–	–	–	2,203	2,203
Other comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	2,203	2,203
Transaction with owners:					
Dividend approved in respect of 2014	–	–	–	(30,000)	(30,000)
Issue of shares for settlement of consideration for acquisition of subsidiaries	(1,000)	105,307	(4,866)	–	99,441
Issue of shares for:					
– Placing	1,200	58,800	–	–	60,000
– Capitalisation issue	3,600	(3,600)	–	–	–
Share issuance expense	–	(3,687)	–	–	(3,687)
	3,800	156,820	(4,866)	(30,000)	125,754
At 30 June 2015	4,800	156,820	(4,866)	2,262	159,016
Six months ended 30 June 2016					
(unaudited)					
At 1 January 2016	4,800	156,820	(4,866)	15,469	172,223
Profit for the period	–	–	–	12,065	12,065
Other comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	12,065	12,065
Transactions with owners:					
Issue of ordinary shares by way of placing (Note 16)	110	60,390	–	–	60,500
	110	60,390	–	–	60,500
At 30 June 2016	4,910	217,210	(4,866)	27,534	244,788

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Net cash used in operating activities	(42,143)	(40,328)
Net cash generated from investing activities	3	29
Net cash generated from financing activities	46,807	27,132
Net increase/(decrease) in cash and cash equivalents	4,667	(13,167)
Cash and cash equivalents at beginning of period	25,250	40,512
Cash and cash equivalents at end of period	29,917	27,345
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	29,917	27,345

Notes to the Financial Statements

1. Corporate Information

Pinestone Capital Limited (the “**Company**”) was incorporated as an exempted company in the Cayman Islands with limited liability on 14 January 2015. The shares of the Company were listed on the Growth Enterprise Market (“**GEM**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 12 June 2015. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

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

The Company’s parent is HCC & Co Limited (“**HCC & Co**”), a limited liability company incorporated in the British Virgin Islands. In the opinion of the directors, HCC & Co is also the ultimate parent of the Company.

The condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee and the external auditor, BDO Limited, of the Company. The unaudited condensed consolidated statements were approved and authorised for issue by the directors on 9 August 2016.

Notes to the Financial Statements

2. Basis of Preparation and Accounting Policies

These condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and thereby should be read in conjunction with the annual financial statements for the year ended 31 December 2015 (the “**2015 Financial Statements**”) which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA. These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted by the Group in 2015 Financial Statements except for the adoption of new or revised HKFRSs issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2016.

The Group has not adopted ahead of the effective date for the new and revised HKFRSs that have been issued by the HKICPA.

The unaudited condensed consolidated financial statements are prepared under the historical cost basis.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is same as the functional currency of the Company.

Notes to the Financial Statements

3. Revenue

The Company together with its subsidiaries (the “Group”) is principally engaged in the provision of securities brokerage services, securities-backed lending services as well as placing and underwriting services. Revenue from the Group’s principal activities recognised during the period is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission income from securities brokerage services	1,097	3,389	1,713	5,538
Interest income from securities backed lending services	9,580	5,045	17,021	10,329
Handling fee	11	7	11	44
Income from placing and underwriting services	1,464	71	1,737	71
Others	1	36	2	37
	12,153	8,548	20,484	16,019

Notes to the Financial Statements

4. Segment Information

(a) Operating segment information

The information reported to the executive Directors, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, is the financial information of the Group as a whole as reported under HKFRSs. Such information does not contain profit or loss information of particular product or service line or geographical area. Therefore, the executive Directors determined that the Group has only one single reportable segment which is the provision of securities brokerage services, the securities-backed lending services as well as the placing and underwriting services. The executive Directors have allocated 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 customers are derived from activities in Hong Kong and all non-current assets of the Group are located in Hong Kong. Accordingly, no geographical information is presented.

(c) Information about major customers

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

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Customer I	1,507	2,675	3,006	4,534
Customer II	1,526	940	2,920	1,975
Customer III	1,602	N/A	2,855	N/A
Customer IV	1,529	N/A	2,516	N/A

Note: N/A – Not applicable as revenue generated from the customer was less than 10% of the Group's revenue for the respective period.

Notes to the Financial Statements

5. Other Income

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank interest income	1	27	3	52

6. Profit Before Income Tax

The Group's profit before income tax is arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration	134	47	285	93
Listing expenses	–	5,173	–	8,181
Operating lease charges in respect of building	367	341	734	682

7. Finance Costs

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on borrowings	314	34	686	44

Notes to the Financial Statements

8. Income Tax Expense

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

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	1,541	1,181	2,615	2,194

The Group is subject to Hong Kong Profits Tax which is calculated at 16.5% of the estimated assessable profit for the period.

9. Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Notes to the Financial Statements

10. Earnings Per Share

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

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings				
Profit for the period attributable to owners of the Company	7,418	448	12,065	2,203
	Number of shares (thousands)			
Weighted average number of ordinary shares				
Weighted average number of ordinary shares in issue during the period	4,848,230	3,866,062	4,833,784	3,740,928

The weighted average number of ordinary shares represented the weighted average number of ordinary shares in issue in the respective periods, after taking into account the effect of share subdivisions which took place on 22 May 2015 and 15 March 2016 as if they were incurred on 1 January 2015 and the bonus element in the shares issued under the placing (the "Placing") which took place on 2 June 2016 as set out in note 16.

The comparative figures for the basic earnings per share for the three months and six months ended 30 June 2015 are restated to reflect for the effect of the aforementioned share subdivisions and bonus element arising from the Placing.

Diluted earnings per share is same as the basic earnings per share as there have been no dilutive potential ordinary shares in existence during the periods.

Notes to the Financial Statements

11. Property, Plant and Equipment

During the six months ended 30 June 2016, the Group did not incur any expenditure on acquisition of property, plant and equipment (six months ended 30 June 2015: HK\$23,000).

12. Trade Receivables

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Trade receivables arising from securities dealing and margin financing		
– Cash clients	–	–
– Margin clients	185,624	173,181
	185,624	173,181

Notes:

- (a) The settlement terms of trade receivables arising from the business of securities dealing are two business days after trade date.
- (b) No aging analysis is disclosed for trade receivables from margin clients as, in the opinion of the Directors, aging analysis is not meaningful in view of the business nature of securities dealing and margin financing. Margin loans due from margin clients are current and repayable on demand for those margin clients subject to margin calls. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. As at 30 June 2016, the total market value of securities pledged as collateral in respect of the receivables from margin clients are approximately HK\$444 million (31 December 2015: HK\$297 million). Margin loans as at 30 June 2016 are interest bearing at a fixed rate ranged from 12.5% to 24.0% per annum (31 December 2015: 12.5% to 20.0% per annum). Subject to certain conditions, the Group is allowed to repledge collateral from margin clients. There was no repledge of collateral from margin clients as at 30 June 2016 (31 December 2015: nil).
- (c) 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 30 June 2016 (31 December 2015: nil).

Notes to the Financial Statements

13. Trust Bank Balances Held on Behalf of Customers

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

14. Trade Payables

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Trade payables arising from securities dealing:		
– Cash clients	4,584	2,513
– Margin clients	6,005	11,508
– Clearing house	478	1,244
	11,067	15,265

The settlement terms of trade payables arising from the business of securities dealing are two business days after the trade date ("T+2"). Trade payables arising from securities trading during the "T+2" period are current whereas those which are outstanding after the "T+2" period are repayable on demand.

Margin and cash client payables as at 30 June 2016 and 31 December 2015 included balances payable to certain related parties. Further details of these balances are set out in note 19.

Notes to the Financial Statements

15. Borrowings

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Current		
Bank Loans (Note a)	3,061	6,675
Other loan (Note b)	–	10,000
	3,061	16,675
Non-current		
Bonds (Note c)	10,000	10,000
	13,061	26,675

Notes:

- (a) The Group's bank loans as at 30 June 2016 and 31 December 2015 are scheduled for repayment within one year after the end of the reporting period. In addition, the related loan agreements contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion. Accordingly, these bank loans are classified as current liabilities in the condensed consolidated statement of financial position.

The bank loans are interest-bearing at the bank's prime lending rate adjusted by certain basis points and are secured by the corporate guarantee executed by the Company. The average interest rate of the Group's bank loans as at 30 June 2016 was 3.5% (31 December 2015: 3.5%) per annum.

- (b) Other loan as at 31 December 2015 represented a loan obtained from a financial institution, which was secured by the corporate guarantee and interest-bearing at fixed rate of 8% per annum. This loan was repaid in full at maturity in June 2016.

Notes to the Financial Statements

15. Borrowings (continued)

Notes: (continued)

- (c) On 22 December 2015, the Company entered into a subscription agreement (the “**Subscription Agreement**”) with a subscriber regarding the issue of non-convertible bonds (the “**Bonds**”) in aggregate principal amount of HK\$10,000,000. The Bonds are interest bearing at 5% per annum, and unsecured, and will mature on 22 December 2017 unless they are early redeemed by the Company. The Bonds were issued at 100% of the principal amount on 22 December 2015. The Company may at any time before the maturity date and from time to time by serving at least three days’ prior written notice to the bondholder to redeem the Bonds (in whole or in part) at 100% of the total amount of the Bonds together with payment of interests accrued up to the date of such early redemption. No early redemption may be requested by the bondholder. The Bonds are initially measured at fair value, net of directly attributable costs incurred, and subsequently measured at amortised cost using the effective interest method.

As at 30 June 2016, the Group’s total current and non-current borrowings were scheduled for repayment as follows:

	30 June 2016 (Unaudited) HK\$’000	31 December 2015 (Audited) HK\$’000
On demand or within one year	3,061	16,675
More than one year, but not exceeding two years	10,000	10,000
	13,061	26,675

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

Notes to the Financial Statements

16. Share Capital

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

On 2 June 2016, the Company issued a total of 110,000,000 ordinary shares at HK\$0.55 each by way of placing i.e. the Placing. The total number of issued shares of the Company upon completion of the Placing was increased to 4,910,000,000 ordinary shares of HK\$0.001 each. Of the total gross proceeds from the Placing of HK\$60,500,000, HK\$110,000 representing the aggregate par value of shares issued was credited to the share capital of the Company whereas the remaining amount of HK\$60,390,000 was credited to share premium account. Further details of the Placing are set out in the Company's announcements dated 13 May 2016 and 2 June 2016.

17. Commitments

(a) Operating leases commitments – the Group as lessee

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

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Within one year	1,466	1,466
Later than one year and not more than five years	1,868	2,601
	3,334	4,067

(b) Capital commitments

The Group did not have any material capital commitments as at 30 June 2016 (31 December 2015: nil).

Notes to the Financial Statements

18. Contingent Liabilities

As at 30 June 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

19. Related Party Transactions

The Group has the following significant transactions with related parties.

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

Name of related party	Related party Relationship	Type of transaction	Transaction amount	
			Six months ended	
			30 June	
			2016	2015
			HK\$'000	HK\$'000
Mr. Henry Cheung	Director	Brokerage income	11	192
Mr. Jonathan Cheung	Director	Brokerage income	2	40
Mr. Wong Chi Kan	Senior Management	Brokerage income	70	–
Ms. Rowena Chick	Close family member of senior management (Note (i))	Brokerage income	–	3

Note (i): Ms. Rowena Chick is the spouse of Mr. Wong Chi Kan, a member of the senior management of the Group.

Notes to the Financial Statements

19. Related Party Transactions (continued)

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

Balances arising from securities dealing transactions included in trade payables.

Name of related party	Related party relationship	As at	As at
		30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Mr. Henry Cheung	Director	937	1,264
Mr. Jonathan Cheung	Director	441	205
Mr. Wong Chi Kan	Senior Management	48	59

(c) Compensation of senior management personnel

The remuneration of directors and other members of senior management during the periods was as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Salaries, allowances and other benefits	703	626	1,417	1,322
Contributions to defined contribution retirement plan	24	28	51	55
	727	654	1,468	1,377

Management Discussion and Analysis

Business Review

The Group is principally engaged in providing bespoke services encompassing securities brokerage, securities-backed lending and placing and underwriting businesses. Since the Company's successful listing by way of placing (the "Placing"), there has been no significant change in the business operations of the Group.

During the period under review, we recognised commission income from our securities brokerage services, interest income from our securities-backed lending services as well as income from placing and underwriting services.

Securities Brokerage

During the first half of 2016, the performance of the Hong Kong Stock Market has remained sluggish. The Hang Seng Index hovered between the range of 18,279 and 21,795 points. The average daily turnover for the first six months of 2016 was approximately HK\$67.5 billion, a decrease of about 46% when compared with approximately HK\$125.3 billion recorded for the same period last year. The securities brokerage business continued to be adversely affected by the lackluster performance of the Hong Kong Stock Market. Commission income from our securities brokerage decreased to approximately HK\$1.7 million for the six months ended 30 June 2016, representing a drop of approximately 69% from approximately HK\$5.5 million in the prior year. We will continue to strengthen our client relationships, deeper client engagement, offer quality and custom-made services to alleviate the impact of adverse market sentiment.

Securities-backed Lending Services

Among our businesses, the securities-backed lending services continued to take the lead for the first half of 2016. During the first six months ended 30 June 2016, interest income for securities-backed lending services increased to HK\$17.0 million, representing an increase of approximately 65% from approximately HK\$10.3 million recorded for the corresponding period in 2015. Both our businesses of margin financing services and money lending services have recorded growth.

(a) *Margin Financing Services*

During the six months ended 30 June 2016, the size of our margin finance loan portfolio continued to grow. We recorded an average month-end margin finance loan balance of approximately HK\$176.0 million, compared to an average of loan balance of approximately HK\$118.8 million for the six months ended 30 June 2015. During the period for the six months ended 30 June 2016, interest income from margin financing services surged to approximately HK\$15.5 million, recording about 50% increase from approximately HK\$10.3 million recorded for the six months ended 30 June 2015.

Management Discussion and Analysis

Business Review (continued)

Securities-backed Lending Services (continued)

(b) Money Lending Services

The Group is licensed under the Money Lenders Ordinance to engage in money lending business. As at 30 June 2016, the Group deployed a total loan portfolio amounting to approximately HK\$45.0 million to various borrowers. Interests are charged between 12% to 24% with different terms and maturities. Total interest income derived from money lending activities for the six months ended 30 June 2016 amounted to approximately HK\$1.5 million, compared to nil for the six months ended 30 June 2015.

Placing and Underwriting Business

For the first six months ended 30 June 2016, the Group received placing fees of approximately HK\$1.7 million compared to approximately HK\$0.1 million for the corresponding period in 2015. During the period, the Group successfully participated in five placing activities compared to three in the corresponding period last year. The Group acted once as a placing agent in the current reporting period.

Net Profit for the period

The Group's consolidated net profit for the six months ended 30 June 2016 was approximately HK\$12.1 million (six months ended 30 June 2015: HK\$2.2 million), representing about 5.5 times increase of approximately HK\$9.9 million over the corresponding period last year. Such growth was mostly attributable to the revenue growth of approximately HK\$6.7 million in the securities-backed lending business and the absence of listing expenses of approximately HK\$8.2 million recognized in the corresponding period in 2015. Excluding the one-off listing expense of HK\$8.2 million incurred during the six months ended 30 June 2015, the Group would have recorded a growth of approximately 16% in net profit from an adjusted net profit of approximately HK\$ 10.4 million for the six months ended 30 June 2015 to approximately HK\$12.1 million for the six months ended 30 June 2016.

Management Discussion and Analysis

Outlook

The Group will continue to develop our existing businesses namely securities brokerage, securities-backed lending, placing and underwriting. The Group has continued to grow as compared to corresponding period in 2015 despite sluggish market conditions and investor sentiment. However, in view of recent market volatility, the Group will closely monitor our risk and credit exposure; and examine how the conditions could potentially affect our positions. Going forward, we will continue to cultivate strong client relationships and develop existing services. Moreover, we will explore opportunities with respect to products and services expansion with a view to further diversify our revenue sources and thereby fortify our foundation for long term development.

Financial Review

Revenues

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Commission income from securities brokerage services	1,713	5,538
Interest income from securities-backed lending services	17,021	10,329
Income from placing and underwriting services	1,737	71
Others*	13	81
	20,484	16,019

* Others include services and handling charges.

The Group's revenue is mainly derived from (i) commission income from securities brokerage services; (ii) interest income from securities-backed lending services and (iii) income from placing and underwriting service respectively.

Total revenue for the six months ended 30 June 2016 was approximately HK\$20.5 million (six months ended 30 June 2015: HK\$16.0 millions), representing an increase of approximately HK\$4.5 million or 28% compared to the same period in 2015. The growth was mainly attributable to the increase of approximately HK\$6.7 million in interest income from securities backed lending services which was offset by a decrease of approximately HK\$3.8 million in commission income from securities brokerage services.

Management Discussion and Analysis

Financial Review (continued)

Revenues (continued)

During the first half of 2016, the average monthly transaction value for the Group was HK\$114.9 million, compared to approximately HK\$391.9 million of the corresponding period last year. Commission income decreased by about 69% to approximately HK\$1.7 million for the six months ended 30 June 2016, compared to HK\$5.5 million for the corresponding period in 2015. Interest income from securities-backed lending services increased to HK\$17.0 million for the six months ended 30 June 2016, representing an increase of approximately 65% from HK\$10.3 million for the corresponding period ended 30 June 2015. Such growth was attributable to the expansion of the Group's loan portfolio to approximately to HK\$185.6 million as at 30 June 2016 (as at 30 June 2015: HK\$140.0 million). In addition, HK\$45 million loans have been deployed under our money lenders licences, contributing an interest income of approximately HK\$1.5 million during the six months ended 30 June 2016. No interest income with regards to our money lending activities was recorded for the corresponding period in 2015. Placing and underwriting services contributed an income of approximately HK\$1.7 million for the six months ended 30 June 2016, when compared to approximately HK\$0.1 million for the corresponding period in 2015.

Employee benefits expenses

For the six months ended 30 June 2016, the Group recorded approximately HK\$2.2 million employee benefit expenses, representing an increase of approximately 10% from HK\$2.0 million of the corresponding period in 2015. Employee benefits expenses include staff salaries and allowances and benefits, directors' emoluments and contribution to defined contribution retirement scheme. The increment was due to directors' emoluments to independent non-executive Directors which commenced from the Listing of the Company in June 2015, increase in number of staff and general salaries increment in the first half of 2016.

Other operating expenses

At approximately HK\$2.8 million, other operating expenses represented approximately 49% of the total expenses during the six months ended 30 June 2016 (30 June 2015: 82%). The decrease in other operating expenses is due to the one-off listing expense of approximately HK\$8.2 million incurred in relation to the Listing in 2015. Excluding such one-off expense, other operating expenses amounted to HK\$2.8 million in 2016, representing an increase of 50%, compared to 2015's HK\$1.4 million, resulting from higher administrative expenses and ongoing compliance fees since the Company is listed.

Management Discussion and Analysis

Financial Review (continued)

Income tax expense

Income tax expense for the six months ended 30 June 2016 was approximately HK\$2.6 million (six months ended 30 June 2015: HK\$2.2 million). Such increase was in line with the rise in net profit during the six months ended 30 June 2016 compared to the corresponding period in the prior year.

Profit for the period

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Profit for the period	12,065	2,203
Add: listing expense	–	8,181
Reconciled profit for the period	12,065	10,384

The Group recorded a net profit of approximately HK\$12.1 million which was about 5.5 times higher than the comparative period in 2015 (six months ended 30 June 2015: HK\$2.2 million). The increase was mainly attributable to the significant increase of contribution from the securities-backed lending services of approximately HK\$17.0 million. Once adjusted for the one-off listing expense of HK\$8.2 million incurred during the corresponding period last year, the Group would have recorded a net profit growth of approximately 16% from the comparative period in 2015.

Placing of 110 million new shares under the General Mandate

On 2 June, 2016, the Company successfully placed 110,000,000 new shares at the placing price of HK\$0.55 each to raise approximately HK\$59.9 million. Among the proceeds from the placing, HK\$10,000,000 were used to repay the 8% corporate loan to reduce the financing cost of the Group. The remaining proceeds have been used for the expansion of the securities-backed lending services and for the general working capital of the Group.

Management Discussion and Analysis

Liquidity and Financial Resources and Capital Structure

The Group financed its operations mostly by shareholders' equity, bank loans, issuing of bonds and cash generated from operations.

Liquidity and Financial Resources

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Current assets	272,738	215,351
Current liabilities	18,884	34,107
Current ratio (<i>times</i>) (<i>Note i</i>)	14.44	6.31
Interest Coverage (<i>times</i>) (<i>Note ii</i>)	22.40	125.74
Gearing ratio (%) (<i>Note iii</i>)	5	15

Notes:

- (i) Current ratio is calculated as current assets divided by current liabilities.
- (ii) Interest coverage is calculated as profit before interest and taxes divided by interest payable.
- (iii) Gearing ratio is calculated as total debt divided by shareholders' equity X 100%.

The Group recorded a current ratio of approximately 14.44 times as at 30 June 2016 (31 December 2015: 6.31 times), reflecting a significant improvement in the Group's financial strength. The substantial increase in current ratio was due to the expansion of the loan portfolio made possible by the proceeds of approximately HK\$59.9 million from the Placing. In addition, the repayment of corporate loan of HK\$10.0 million reduced the liabilities of the Group.

As at 30 June 2016, the Group's cash and bank balances amounted to approximately HK\$29.9 million (31 December 2015: HK\$25.3 million). The Group recorded an interest coverage of approximately 22.40 times (31 December 2015: 125.74 times).

Management Discussion and Analysis

Liquidity and Financial Resources and Capital Structure (continued)

Liquidity and Financial Resources (continued)

As at 30 June 2016, overall interest bearing liabilities of the Group were approximately HK\$13.1 million. With an equity base of HK\$244.8 million, the Group had a low gearing ratio of approximately 5% (31 December 2015: 15%). Please refer to Note 16 to the financial statements above for further information.

The Group had outstanding tax loans of approximately HK\$3,061,000 from a bank and a 5% coupon Bond in principal amount of HK\$10,000,000 as at 30 June 2016 (31 December 2015: tax loan HK\$6,675,000, corporate loan HK\$10,000,000 and a 5% coupon bond of HK\$10,000,000). During the period under review, the Group's operations, capital expenditure and other capital requirements were funded by: internal operations, credit facilities from banks, bond issuance and net proceeds from the Placing.

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

Nature of Loan	Pinestone Securities Limited HK\$'000	Pinestone Capital Group Limited HK\$'000
Tax Loan	2,911	150

Issuance of 5% Coupon Bonds

On 22 December, 2015, the Company issued two-year corporate bonds of 5% coupon rate to raise HK\$10,000,000 in principal amount. The proceeds were used for the expansion of securities-backed lending services as intended.

Foreign Currency Exposure

The Group's reporting currency is Hong Kong dollar. During the six months ended 30 June 2016 and year ended 31 December 2015, the Group's transactions were denominated in Hong Kong dollars ("HK\$"). The Group had no material exposure to foreign currency risk.

Management Discussion and Analysis

Contingent Liabilities

As at 30 June 2016 and 31 December 2015, the Group did not have any material contingent liabilities.

Use of Proceeds from the Placing of New Shares

In respect of the placing of new shares of the Company completed on 2 June 2016, up to the latest practicable date for the purpose of this report, approximately HK\$10,000,000 was used to repay the 8% interests of corporate loan, HK\$39.0 million from the net proceeds of HK\$59.9 million was used for the securities-backed lending services as intended. The remaining balance has been kept in the Company's bank accounts. The Directors intend to utilize such remaining balance as general working capital and securities-backed lending services as stated in the announcements of the Company dated 13 May 2016 and 2 June 2016 in relation to this placing.

Event after the Reporting Period

Up to the date of results announcement and interim report issuance, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the six months ended 30 June 2016.

Significant Investments

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

Pledge of Assets

As at 30 June 2016 (31 December 2015: Nil), the Group did not pledge any of its assets.

Capital Commitments

As at 30 June 2016 and 31 December 2015, the Group did not have any significant capital commitments.

Other Information

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

As at 30 June 2016, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in the ordinary shares of the Company:

Name of directors	Number of the shares interested and nature of interest			Approximate percentage of the total issued share capital of the Company (%)
	Personal	Corporate	Total	
Henry Cheung (Note 1)	–	2,520,000,000	2,520,000,000	51.3
Jonathan Cheung (Note 2)	–	1,080,000,000	1,080,000,000	22.0

Notes:

1. The interests disclosed includes 2,520,000,000 Shares of the Company beneficially held by HCC & Co. Limited ("HCC"), which is wholly owned by Mr. Henry Cheung.
2. The interests disclosed includes 1,080,000,000 Shares of the Company beneficially held by Snail Capital Limited ("SCL"), which is wholly owned by Mr. Jonathan Cheung.

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executives of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

Other Information

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Directors' Interests in shares and underlying shares" above and "Share Option Scheme" below, at no time during the period for the six months ended 30 June 2016 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

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

As at 30 June 2016, substantial shareholders (not being the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of shareholders	Capacity and nature of interest	Notes	Total number	Approximate percentage of the total issued share capital of the Company (%)
HCC	Directly beneficially owned	1	2,520,000,000	51.3
SCL	Directly beneficially owned	2	1,080,000,000	22.0

Notes:

- HCC is 100% owned by Mr. Henry Cheung, who is the beneficial owner of 2,520,000,000 shares in the Company. Mr. Henry Cheung owned approximately 51.3% of the issued shares of the Company.
- SCL is 100% owned by Mr. Jonathan Cheung, who is the beneficial owner of 1,080,000,000 shares in the Company. Mr. Jonathan Cheung owned approximately 22.0% of the issued shares of the Company.

Save as disclosed above, the Directors and chief executives of the Company are not aware that there is any party who, as at 30 June 2016, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Other Information

Purchase, sale or Redemption of the Listed Shares of The Company

Neither the Company, nor any of its subsidiaries has purchased, sale or redeemed any of the listed shares of the Company from the date of listing on 12 June 2015 to the end of the reporting period, being 30 June 2016.

Employees and Remuneration Policy

As at 30 June 2016, the Group had 16 staff (30 June 2015: 15) in total. The Group's remuneration policy is based on the relevant director or member of senior management's duties, responsibilities, experiences, skills, time commitment, performance of our Group and are made with reference to those paid by comparable companies. Our employees are remunerated with monthly salaries and discretionary bonuses based on individual performance, market performance, our Group's profit as a whole and comparable market levels. Apart from salary payments, other staff benefits include provident fund contributions, medical insurance coverage, other allowances and benefits.

Share Option Scheme

The Group has adopted a share option scheme on 22 May 2015 (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible persons who contributed to the success of the Group's operation. The board of directors, may at their absolute discretion, offer any eligible person options to subscribe for shares in the Company subject to the terms and conditions as stipulated in the Share Option Scheme. Unless otherwise cancelled or amended, the share option scheme will remain in force for a period of 10 years. There is no outstanding option and no option has been granted under the Share Option Scheme since its adoption.

Corporate Governance

Pursuant to the GEM Listing rules 17.22, and 17.24, the Company has complied with and does not have advances to any entity nor advances to affiliated companies. In addition, pursuant to the GEM Listing Rule 17.23, our major shareholders have not pledged of the shares of the Company.

Throughout the six months ended 30 June 2016, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rule.

Other Information

Directors' Securities Transactions

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

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

Competing Interests

As at 30 June 2016, none of the Directors, substantial Shareholders and their repetitive associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Interest of the Compliance Adviser

As at the date of this report, Altus Capital Limited (**"Altus"**), the compliance advisor of the Company, except for (i) Altus participation as the sponsor in relation to the Company's listing on GEM, and (ii) the compliance adviser agreement entered into between the Company and Altus dated 16 February 2015, neither Altus nor its directors, employees or associates had any interest in relation to the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee

The Audit Committee has been established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision C.3.3 of the Corporate Governance Code. The Audit Committee currently comprises three independent non-executive Directors and is chaired by Mr. Yeung King Wah. The other members are Mr. Lai Tze Leung George and Mr. So Stephen Hon Cheung respectively. The primary duty of the Audit Committee is to review and supervise the Company's financial reporting process, the internal control systems of the Group and the monitoring of continuing connected transactions. Pursuant to C.3.3 of the Code on Corporate Governance Practices, the Audit Committee has reviewed the unaudited condensed consolidated results of the Group for the six months ended 30 June 2016 and confirmed that the preparation of such complied with applicable accounting principles and practices adopted by the Company and the requirements of the Stock Exchange, and adequate disclosure had been made.

Other Information

Board of Directors

As at the date of this report, the directors of the Company are:

Executive Directors:

Mr. Cheung Yan Leung Henry

Mr. Jonathan Cheung

Independent Non-executive Directors:

Mr. Yeung King Wah

Mr. Lai Tze Leung George

Mr. So Stephen Hon Cheung

By Order of the Board of
PINESTONE CAPITAL LIMITED
Cheung Yan Leung Henry
Chairman

Hong Kong, 9 August 2016

