

PineStone 鼎石

Pinestone Capital Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8097)

ANNOUNCEMENT OF AUDITED FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

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

This announcement, 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 announcement 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 announcement misleading.

The board of directors (the “**Board**”) of the Pinestone Capital Limited (the “**Company**”) is pleased to announce that the audited consolidated annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		103	192
Intangible asset		500	500
Statutory deposits placed with stock exchange and clearing house		230	230
Deferred tax assets		58	57
		891	979
Current assets			
Trade receivables	<i>10</i>	167,964	173,181
Loans receivable	<i>11</i>	56,668	–
Other receivables, deposits and prepayments		703	693
Tax recoverable		–	691
Trust bank balances held on behalf of customers		6,719	15,536
Cash and bank balances		47,414	25,250
		279,468	215,351
Current liabilities			
Trade payables	<i>12</i>	7,010	15,265
Other payables and accruals		971	910
Borrowings	<i>13</i>	10,000	16,675
Tax payable		2,105	1,257
		20,086	34,107
Net current assets		259,382	181,244
Total assets less current liabilities		260,273	182,223
Non-current liabilities			
Borrowings	<i>13</i>	–	10,000
Net assets		260,273	172,223
CAPITAL AND RESERVES			
Share capital	<i>14</i>	4,910	4,800
Reserves		255,363	167,423
Total equity		260,273	172,223

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital HK\$'000	Share premium* HK\$'000	Capital reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000
At 1 January 2015	1,000	–	–	30,059	31,059
Profit for the year	–	–	–	15,410	15,410
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	15,410	15,410
Transactions with owners:					
Dividend approved in respect of 2014	–	–	–	(30,000)	(30,000)
Issue of shares for settlement of consideration for acquisition of subsidiaries (<i>notes 14(c)</i>)	(1,000)	105,307	(4,866)	–	99,441
Issue of shares for					
– 2015 Placing (<i>note 14(f)</i>)	1,200	58,800	–	–	60,000
– Capitalisation issue (<i>note 14(f)</i>)	3,600	(3,600)	–	–	–
Share issuance expense (<i>note 14(f)</i>)	–	(3,687)	–	–	(3,687)
	3,800	156,820	(4,866)	(30,000)	125,754
At 31 December 2015 and 1 January 2016	4,800	156,820	(4,866)	15,469	172,223
Profit for the year	–	–	–	27,550	27,550
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	27,550	27,550
Transaction with owners:					
Issue of ordinary shares for 2016 Placing (<i>note 14(h)</i>)	110	60,390	–	–	60,500
At 31 December 2016	4,910	217,210	(4,866)	43,019	260,273

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. Its principal place of business is located at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong.

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

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

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

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The financial statements have been prepared under the historical cost basis.

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

The accounting policies used in preparing the consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31 December 2015 with the addition of certain standards and interpretations of HKFRSs issued and became effective in current year as described in note 3 “Adoption of New or Revised HKFRSs”.

3. ADOPTION OF NEW OR REVISED HKFRSs

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

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2016:

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

Amendments to HKAS 1 Disclosure Initiative

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

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

Amendments to HKAS 27 Equity Method in Separate Financial Statements

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

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

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

The following new or revised HKFRSs potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

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

¹ Effective for annual periods beginning on or after 1 January 2017

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

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

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

4. SEGMENT INFORMATION

(a) Operating segment information

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

(b) Geographical segment information

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

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

(c) Information about major customers

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

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

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

5. REVENUE

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

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

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Auditor's remuneration	520	460
Listing expenses	–	8,347
Operating lease charges in respect of building	<u>1,466</u>	<u>1,387</u>

7. INCOME TAX EXPENSE

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

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

The Group is subject to Hong Kong Profits Tax which is calculated at 16.5% (2015: 16.5%) of the estimated assessable profit for the year.

The income tax expense for the year can be reconciled to the profit before income tax in the consolidated statement of comprehensive income as follows:

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

8. DIVIDENDS

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

9. EARNINGS PER SHARE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company	<u>27,550</u>	<u>15,410</u>
	2016	2015
	Number of	Number of
	shares	shares
	'000	'000
		(Restated)
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	<u>4,872,100</u>	<u>4,284,589</u>

The weighted average number of ordinary shares used for the purposes of calculating the basic earnings per share represented the weighted average number of ordinary shares in issue in the respective years, after taking into account the effect of share subdivisions which took place on 22 May 2015 (note 14(d)) and 15 March 2016 (note 14(g)) as if they had occurred on 1 January 2015 and the bonus element in the shares issued under the placing which took place on 2 June 2016 as set out in note 14(h).

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

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

10. TRADE RECEIVABLES

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

Notes:

- (a) The settlement term of trade receivables arising from the business of securities dealing are two business days after trade date (“T+2”).
- (b) No aging analysis is disclosed for trade receivables from margin clients as, in the opinion of the directors, aging analysis is not meaningful in view of the business nature of securities dealing and margin financing. Margin loans due from margin clients are current and repayable on demand for those margin clients subject to margin calls. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. As at 31 December 2016, the total market value of securities pledged as collateral in respect of the receivables from margin clients are approximately HK\$437,000,000 (2015: HK\$297,000,000). Margin loans are interest bearings at fixed rate varying from 12.5% to 24.0% (2015: 12.5% to 20.0%) per annum. Subject to certain conditions, the Group is allowed to repledge collateral from margin clients. There was no repledge of collateral from margin clients as at 31 December 2016 (2015: nil).
- (c) Trade receivables from clearing house, i.e. Hong Kong Securities Clearing Limited, is current which represents pending trades arising from the business of securities dealing and are normally due on “T+2” day in accordance with the requirements of Hong Kong Exchange and Clearing Limited.
- (d) The Group has policy for impairment allowance which requires management’s judgment and estimation. As assessed by the directors, no impairment allowance is necessary in respect of trade receivables at 31 December 2016 (2015: nil).

11. LOANS RECEIVABLE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loans receivable from money lending		
– secured loans	<u>56,668</u>	<u>–</u>

Notes:

- (a) The loans receivable are interest-bearing at 12.5% to 20.0% per annum and are repayable in 2017. The borrowers, which are also margin clients of the Group's securities dealing business, have entered into securities charge agreements with the Group charging certain securities as collateral which are deposited in the designated margin accounts maintained by the borrowers.
- (b) The loans receivable are neither past due nor impaired. Management believes that no impairment allowance is necessary having regard to the creditworthiness of the borrowers and the value of the collaterals.

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

12. TRADE PAYABLES

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

The settlement term of trade payables arising from the business of securities dealing is "T+2". Trade payables arising from securities trading during the "T+2" period are current whereas those which are outstanding after the "T+2" period are repayable on demand.

Margin and cash client payables as at 31 December 2016 and 2015 included balances payable to certain related parties.

13. BORROWINGS

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

Notes:

- (a) The Group's bank loans as at 31 December 2015 were scheduled for repayment within one year after the end of the reporting period. In addition, the related loan agreements contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion.

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

- (b) Other loan as at 31 December 2015 represented a loan obtained from a financial institution, which was scheduled for repayment in June 2016. The loan was interest-bearing at fixed rate of 8% per annum and was secured by the corporate guarantee executed by the Company.
- (c) On 22 December 2015, the Company entered into a subscription agreement (the "**Subscription Agreement**") with a subscriber regarding the issue of non-convertible bonds (the "**Bonds**") in aggregate principal amount of HK\$10,000,000. The Bonds are interest bearing at 5% per annum, unsecured, and will mature on 22 December 2017 unless they are early redeemed by the Company. The Bonds were issued at 100% of the principal amount.

The Company may at any time before the maturity date and from time to time by serving at least three days' prior written notice to the bondholder to redeem the Bonds (in whole or in part) at 100% of the total amount of the Bonds together with payment of interests accrued up to the date of such early redemption. No early redemption may be requested by the bondholder.

The Bonds are initially measured at fair value, net of directly attributable costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	10,000	16,675
More than one year, but not exceeding two years	–	10,000
	10,000	26,675

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

14. SHARE CAPITAL

Ordinary shares	Par value <i>HK\$</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised:			
Upon incorporation (<i>note (a)</i>)	0.10	3,800,000	380
Subdivision of shares (<i>note (d)</i>)	–	34,200,000	–
Increase in authorised share capital (<i>note (e)</i>)	0.01	49,962,000,000	499,620
At 31 December 2015 and 1 January 2016	0.01	50,000,000,000	500,000
Subdivision of shares (<i>note (g)</i>)	–	450,000,000,000	–
At 31 December 2016	0.001	500,000,000,000	500,000
Issued and fully paid:			
Issue of shares upon incorporation (<i>note (b)</i>)	0.10	100	–
Issue of shares for acquisition of subsidiaries (<i>note (c)</i>)	0.10	100	–
Subdivision of shares (<i>note (d)</i>)	–	1,800	–
Capitalisation Issue (<i>note (f)</i>)	0.01	359,998,000	3,600
Placing of shares (<i>note (f)</i>)	0.01	120,000,000	1,200
At 31 December 2015 and 1 January 2016	0.01	480,000,000	4,800
Subdivision of shares (<i>note (g)</i>)	–	4,320,000,000	–
Placing of shares (<i>note (h)</i>)	0.001	110,000,000	110
At 31 December 2016	0.001	4,910,000,000	4,910

Notes:

- (a) The Company was incorporated on 14 January 2015 with initial authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.10 each.
- (b) On 14 January 2015, 100 shares in aggregate were transferred/allotted and issued at par to HCC & Co and Snail Capital Limited (“**Snail Capital**”). HCC & Co and Snail Capital are companies incorporated in the BVI and wholly-owned by Mr. Cheung Yan Leung Henry and Mr. Cheung Jonathan respectively.
- (c) On 12 May 2015, pursuant to a reorganisation carried out for the purposes of the Listing (the “**Reorganisation**”), 100 new shares in aggregate were allocated and issued at par to HCC & Co and Snail Capital for settlement of the aggregate consideration amounting to HK\$105,307,000 for the acquisition of 100% equity interest in Pinestone Capital Group Limited (“**PCGL**”) by the Company’s subsidiary, Pinestone International Limited (“**PIL**”), and the acquisition of 100% equity interest in Pinestone Investment Group Limited (“**PIGL**”) by the Company together with an outstanding non-interest bearing amount due by PIGL to its then shareholder, Gryphuz Group Limited (“**GGL**”), which amounted to HK\$105,307,000. The difference between the par value of the shares issued and the aggregate consideration amounting to HK\$105,307,000 was credited to share premium account.
- (d) On 22 May 2015, each of the Company’s existing issued and unissued shares of HK\$0.10 each was subdivided into 10 shares of HK\$0.01 each.
- (e) On 22 May 2015, the authorised share capital of the Company was increased from HK\$380,000 to HK\$500,000,000 divided into 50,000,000,000 shares of HK\$0.01 each by the creation of an additional 49,962,000,000 shares.
- (f) The Company’s shares were listed on the GEM of the Stock Exchange on 12 June 2015 and the placing of 120,000,000 new shares by the Company became unconditional. In connection to this, (i) the Company issued a total of 120,000,000 ordinary shares at HK\$0.50 per share for subscription (the “**2015 Placing**”); and (ii) the Company issued a total of 359,998,000 ordinary shares at par to HCC & Co and Snail Capital by way of capitalising an amount of HK\$3,600,000 from the share premium (the “**Capitalisation Issue**”) arising from the 2015 Placing. The Company’s total number of issued shares upon completion of the 2015 Placing and the Capitalisation Issue was increased to 480,000,000 shares.

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

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

- (g) On 15 March 2016, each of the Company’s existing issued and unissued shares of HK\$0.01 each was subdivided into 10 shares of HK\$0.001 each. Immediately after this share subdivision, the authorised share capital was increased to 500,000,000,000 shares of HK\$0.001 each and the total number of issued shares of the Company was increased to 4,800,000,000 ordinary shares of HK\$0.001 each.

- (h) On 2 June 2016, the Company issued a total of 110,000,000 ordinary shares at HK\$0.55 each by way of placing (the “**2016 Placing**”). The total number of issued shares of the Company upon completion of the 2016 Placing was increased to 4,910,000,000 ordinary shares of HK\$0.001 each.

Of the total gross proceeds from the 2016 Placing of HK\$60,500,000, HK\$110,000 representing the aggregate par value of shares issued was credited to the share capital of the Company whereas the remaining amount of HK\$60,390,000 was credited to share premium account.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Securities Brokerage

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

Securities-backed Lending

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

(A) *Margin Financing*

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

(B) Money Lending Services

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

Placing and Underwriting

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

Net Profit for the Year

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

Dividend

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

OUTLOOK

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

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

FINANCIAL REVIEW

Revenue

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

Employee Benefits Expenses

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

Other Operating Expenses

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

Income Tax Expense

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

Profits for the Year

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

Capital Structure

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

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

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

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

Liquidity and Financial Resources

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

Foreign Currency Exposure

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

Contingent Liabilities

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

Significant Investments

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

Pledge of Assets

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

Capital Commitments

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

Events After the Reporting Period

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

Remuneration Policy

The remuneration of the executive directors is subject to review by the Remuneration Committee and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Company. The Group's remuneration policies are in line with prevailing market practice. As at 31 December 2016, the Group had 12 employees. Apart from basic salaries, other staff benefits include discretionary bonus, provident funds and medical scheme.

Purchase, Sale or Redemption of the Company's listed securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors' Interests in Significant Transactions, Arrangements and Contracts

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

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

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

Long positions in the ordinary shares of the Company:

Name of Shareholders	Capacity and nature of interests	Notes	Total	Approximate percentage of the total issued share Capital of the Company
HCC	Directly Beneficially owned	1	2,520,000,000	51.3%
SCL	Directly Beneficially owned	2	1,080,000,000	22.0%

Notes:

1. HCC & Co. Limited ("HCC") is 100% owned by Mr. Cheung Yan Leung Henry, who is the beneficial owner of 2,520,000,000 shares in the Company. Mr. Cheung Yan Leung Henry owned 51.3% of the issued shares of the Company.
2. Snail Capital Limited ("SCL") is 100% owned by Mr. Cheung Jonathan, who is the beneficial owner of 1,080,000,000 shares in the Company. Mr. Cheung Jonathan owned 22.0% of the issued shares of the Company.

Save as disclosed above, the Directors and chief executives of the Company are not aware that there is any party who, as at 31 December 2016, had an interest or short position in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Scheme

The Share Option Scheme was adopted by the shareholders of the Company with effective on 22 May 2015. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. The purpose is to provide incentives or rewards to the eligible participants for their contribution to the Company and/or enabling it to recruit and retain high-calibre employees and attract human resources that are valuable. No share option has been granted to any eligible participants under the Share Option Scheme since its adoption.

Corporate Governance Practice

The Company is committed to maintaining a high standard of corporate governance practices. It met all the code provisions of the Corporate Governance Code (the “**Code**”) set out in Appendix 15 of the GEM Listing Rules during the period from the commencement of trading in shares of Company on the GEM for the financial year ended 31 December 2016 (the “**Relevant Period**”). The Company has established an audit committee, a remuneration committee and a nomination committee with specific written terms of reference. The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors.

Director’s securities transactions

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the “**Required Standard of Dealing**”). Following specific enquiries to all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings throughout the period from the Listing Date to the date of this announcement. The Company has not been notified of any incident of non-compliance during such period.

Non-Competition Undertaking

Each of the controlling Shareholders has made an annual declaration to the Company that during the Review Period, has complied with the terms of non-competition undertakings (“**Non-Competition Undertakings**”) given in favour of the Company. The INEDs have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings stipulated in the Non-Competition Undertakings and have confirmed that, as far as the INEDs can ascertain, there is no breach of any of such undertakings.

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 CG Code. The Audit Committee currently comprises three independent non-executive Directors and is chaired by Mr. Yeung King Wah. The annual results of the Company for the year ended 31 December 2016 have been reviewed by the audit committee members who have provided advice and comments thereon.

Review of this Final Results Announcement

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited 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 BDO Limited on the preliminary announcement.

Interest of the Compliance Adviser

As notified by the compliance adviser of the Company, Altus Capital Limited (“**Altus**”), as at the Latest Practicable Date, except for (i) Altus's 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.

Annual General Meeting

The Annual General Meeting for the financial year 2016 of the Company will be held at 11:00 a.m. on 24 March 2017 (Friday) at Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

Board of Directors

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

Executive Directors:

Mr. Cheung Yan Leung Henry

Mr. Cheung Jonathan

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, 16 February 2017

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Listed Company Information” page for at least seven days from the day of its publication and posting and will be published and remains on the website of the Company at <http://www.pinestone.com.hk>.