華融投資股份有限公司

**HUARONG INVESTMENT STOCK CORPORATION LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2277)**

# ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

**FINANCIAL HIGHLIGHTS**

– Revenue was approximately HK$821 million for the Reporting Period, representing an increase of approximately 144% as compared with the same for the Corresponding Period.

– Profit was approximately HK$58 million for the Reporting Period, representing a decrease of approximately 7% as compared with the same for the Corresponding Period.

– Basic earnings per share of the Company amounted to HK1.47 cents (Corresponding Period: HK3.87 cents).

– The Board does not recommend payment of interim dividend for the Reporting Period.

The board (the "**Board**") of directors (the "**Directors**") of Huarong Investment Stock Corporation Limited (the "**Company**") is pleased to present the unaudited condensed consolidated interim financial results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018 (the "**Reporting Period**") together with the comparative figures for the six months ended 30 June 2017 (the "**Corresponding Period**").

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2018*

| | Notes | Six months ended 30 June 2018 HK$'000 (Unaudited) | 2017 HK$'000 (Unaudited) |
|---|---|---|---|
| **Revenue** | | | |
| Income from construction services | | **320,355** | 185,269 |
| Dividend and service income | | **167,170** | 113,776 |
| Interest income | | **333,435** | 38,057 |
| | 4 | **820,960** | 337,102 |
| Net unrealised (loss) gain on financial assets at fair value through profit or loss | | **(126,887)** | 15,610 |
| Net realised (loss) gain on financial assets at fair value through profit or loss | | **(725)** | 66,913 |
| Other gain or losses | 5 | **(13,678)** | (8,701) |
| Net reversal (recognition) of impairment losses | | **55,274** | (11,741) |
| Other income | | **20,515** | 7,791 |
| Labour costs for construction business | | **(24,520)** | (28,047) |
| Other staff costs | | **(51,089)** | (38,700) |
| Material and subcontractor costs | | **(244,877)** | (85,786) |
| Other construction costs | | **(27,130)** | (41,626) |
| Other operating expenses | | **(124,727)** | (50,371) |
| Finance costs | | **(221,855)** | (66,216) |
| Profit before tax | | **61,261** | 96,228 |
| Income tax expense | 6 | **(2,776)** | (33,119) |
| | | **58,485** | 63,109 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **26,680** | 63,109 |
| Holder of the perpetual capital instruments | | **31,805** | – |
| | | **58,485** | 63,109 |
| Other comprehensive (expense) income for the period | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Change in fair value of available-for-sale investments | | **–** | 53,141 |
| Reclassification adjustments to profit or loss on disposal of available-for-sale investments | | **–** | (61,221) |
| Exchange differences arising on translating foreign operations | | **(16,442)** | 14,187 |
| Other comprehensive (expense) income for the period, net of tax | | **(16,442)** | 6,107 |
| Total comprehensive income for the period | | **42,043** | 69,216 |
| Profit and total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **10,238** | 69,216 |
| Holder of perpetual capital instruments | | **31,805** | – |
| | | **42,043** | 69,216 |
| Earnings per share (HK cents) | | | |
| – Basic | 8 | **1.47** | 3.87 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 30 June 2018*

| | Notes | 30 June 2018 HK$'000 (Unaudited) | 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | *9* | **68,683** | 77,572 |
| Intangible asset | | **1,840** | 1,840 |
| Finance lease receivables | *12* | **1,284,123** | 1,447,928 |
| Loan and debt instruments | *10* | **885,649** | 1,225,702 |
| Financial investments | *11* | **1,940,273** | 2,172,787 |
| Rental deposit | | **28,266** | 28,277 |
| Total non-current assets | | **4,208,834** | 4,954,106 |
| **CURRENT ASSETS** | | | |
| Amounts due from customers for contract work | | **–** | 62,369 |
| Contract assets | | **113,577** | – |
| Trade and other receivables | *13* | **357,060** | 192,797 |
| Financial investments | *11* | **3,049,295** | 5,496,114 |
| Finance lease receivables | *12* | **472,367** | 473,671 |
| Loan and debt instruments | *10* | **2,635,691** | 971,257 |
| Amounts due from fellow subsidiaries | | **1,149** | 100,965 |
| Amount due from the immediate holding company | | **226,900** | 2,800 |
| Amounts due from related parties | | **–** | 26 |
| Deposits in other financial institutions | | **315,141** | 146,341 |
| Tax recoverable | | **6,804** | – |
| Pledged bank deposits | | **957,449** | 953,658 |
| Bank balances and cash | | **1,173,252** | 552,884 |
| Total current assets | | **9,308,685** | 8,952,882 |

| | Notes | 30 June 2018 HK$'000 (Unaudited) | 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Amounts due to customers for contract work | | – | 3,839 |
| Trade and other payables | *14* | **255,678** | 255,385 |
| Obligations under finance leases | *15* | **5,704** | 7,692 |
| Interest-bearing borrowings | *16* | **7,622,962** | 8,102,639 |
| Amounts due to fellow subsidiaries | | **656,571** | 9,085 |
| Amount due to an intermediate holding company | | – | 8,696 |
| Amounts due to related parties | | **14,221** | 12,202 |
| Deposit from finance lease customers | | **3,632** | – |
| Tax payables | | **68,345** | 91,033 |
| Financial investments | *11* | **8,392** | 17,384 |
| Total current liabilities | | **8,635,505** | 8,507,955 |
| **NET CURRENT ASSETS** | | **673,180** | 444,927 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,882,014** | 5,399,033 |
| **NON-CURRENT LIABILITIES** | | | |
| Obligations under finance leases | *15* | **5,747** | 5,637 |
| Interest-bearing borrowings | *16* | **2,586,186** | 2,943,941 |
| Deposit from finance lease customers | | **65,044** | 65,455 |
| Deferred tax liabilities | | **15,374** | 21,028 |
| Total non-current liabilities | | **2,672,351** | 3,036,061 |
| **NET ASSETS** | | **2,209,663** | 2,362,972 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *17* | **18,160** | 18,160 |
| Perpetual capital instruments | | **1,298,138** | 1,266,333 |
| Reserves | | **893,365** | 1,078,479 |
| **TOTAL EQUITY** | | **2,209,663** | 2,362,972 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 1. CORPORATE INFORMATION

Huarong Investment Stock Corporation Limited (the "**Company**") is an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 29 December 2014. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of operations of the Company is situated at Room 3201, 32/F, Two Pacific Place, 88 Queensway, Hong Kong.

The Company acts as an investment holding company and the principal activities of the Company and its subsidiaries (the "**Group**") are (i) direct investments; (ii) financial services and others; and (iii) foundation and substructure construction services.

The unaudited condensed consolidated financial statements of the Group are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

Certain comparative figures have been reclassified or restated to conform to the current period presentation.

## 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

### Significant events in the current interim period

On 17 April 2018, the relevant authorities in Mainland China instigated a disciplinary investigation into the former chairman of China Huarong Asset Management Co., Ltd. ("**China Huarong**"), a company established in the People's Republic of China and the indirect controlling shareholder of the Company whose shares are listed on The Stock Exchange of Hong Kong Limited.

China Huarong and the Company have been closely co-operating with the relevant authorities. If any information relevant to the Group comes out of the disciplinary investigation, the Company has indicated that it will give careful consideration as to whether there are any implications for the Group. In light of the disciplinary investigation, China Huarong and the Company are closely monitoring the situation and have taken proactive measures to protect the interests of the Group. In addition, the Company has decided to initiate an internal investigation, including, into loan arrangements and related recoverability. It is not practicable for the Company to estimate the impact, if any, of the above mentioned matters on the condensed consolidated financial statements.

**Application of new and amendments to HKFRSs**

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

**2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers**

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Foundation and substructure construction services
- Dividend income
- Interest income from loan and debt instruments, finance lease receivables and FVTPL
- Income from provision of business consulting services and others

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

***2.1.1 Key changes in accounting policies resulting from application of HKFRS 15***

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue including income from provision of business consultancy service is recognised at a point in time when the customer obtains control of the distinct good or service.

#### 2.1.2 *Summary of effects arising from initial application of HKFRS 15*

In relation to construction contracts previously accounted under HKAS 11, the Group continues to apply output method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Under HKAS 11, construction costs were charged to profit or loss by reference to the stage of completion of the contract, which is measured by reference to the estimated total revenue for contracts entered into by the Group that have been performed to date. Under HKFRS 15, costs that related to satisfy performance obligations are expensed as incurred. Construction costs of HK$27,777,000 that have been incurred but deferred to be recognised in profit or loss under HKAS 11 included in amounts due from/to customers for contract work were charged to retained earnings. The related tax effect of HK$3,518,000 and HK$1,065,000 were recognised in tax recoverable and deferred tax liabilities respectively and included in adjustment to retained earnings.

At the date of initial application, retention receivables of HK$60,541,000 arising from the construction contracts are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, and such balance was reclassified from trade and other receivables to contract assets.

At the date of initial application, unbilled revenue of HK$29,355,000 arising from the construction contracts are conditional on the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certification by the customers, and such balance was reclassified from amounts due from customers for contract work to contract assets.

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 "Financial Instruments" ("**HKFRS 9**") and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9 i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

### ***2.2.1 Key changes in accounting policies resulting from application of HKFRS 9***

*Classification and measurement of financial assets*

Trade receivables arising from contract with customers are initially measured in accordance with HKFRS 15 "Revenue from Contract with Customers" ("**HKFRS 15**").

All recognised financial assets that are within the scope of HKFRS 9 are as subsequently measured at either amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

<u>Equity instruments designated as at FVTOCI</u>

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Dividend and service income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Net unrealised (loss) gain on financial assets at fair value through profit or loss" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

*Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including financial assets at amortised costs, finance lease receivables and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and other receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other financial assets and finance lease receivables which are subject to impairment under HKFRS 9, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

<u>Measurement and recognition of ECL</u>

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivable in accordance with HKAS 17 "Leases".

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for contract assets, finance lease receivables, and financial assets at amortised cost by adjusting through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets at amortised costs, finance lease receivables and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

### *2.2.2 Summary of effects arising from initial application of HKFRS 9*

*Available-for-sale investments ("**AFS**")*

<u>From AFS equity investment to FVTOCI</u>

The Group elected to present in OCI for the fair value changes of all its unquoted equity investments previously classified as AFS of which HK$650,000 related to unquoted equity investment previously carried at fair value under HKAS 39. At the date of initial application of HKFRS 9, the unquoted equity investment was reclassified from AFS investments to equity instruments at FVTOCI.

From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group's fund investments, listed bond and asset management plan of HK$1,909,088,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gains of HK$1,813,000 relating to those investments previously carried at fair value were transferred from AFS reserve to retained earnings.

From AFS debt investments to amortised cost

At the date of initial application of HKFRS 9, all unlisted debt instruments of HK$2,404,497,000 were reclassified from available-for-sale to amortised cost since the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. The adjustment to the carrying amounts at the date of transition is not material.

*Financial assets at FVTPL and/or designated at FVTPL*

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the convertible bond and fund investments which are managed and their performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of HK$1,391,650,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

All debt and equity securities held for trading and derivatives are required to be classified as FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade and other receivables. To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of loan and debt instruments and finance lease receivables are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$169,468,000 has been recognised against retained earnings. The additional loss allowance is charged against the respective asset,

## 3. OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers are the group of persons that allocates resources to and assesses the performance of the operating segments of an entity.

For the management reporting purpose, the Group is currently organised into three business lines. These business lines are the basis on which the Group reports information to its chief operating decision makers, who are the executive Directors and the senior management of the Company, for the purposes of resource allocation and assessment of segment performance.

Specifically, the Group's reportable segments are as follows:

(1) Direct investments – direct investment in equities, bonds, funds, derivative instruments, loan and other financial products.

(2) Financial services and others – finance lease services, business consulting services and other related services.

(3) Foundation and substructure construction services – excavation and lateral support works, pile cap construction and substructure construction for residential, commercial and infrastructure projects and rental of relevant equipment.

**Segment revenues and results**

The following tables present the revenue and results for the six months ended 30 June 2018 and 2017 and certain assets, liabilities and expenditure information for the Group's operating segments as at 30 June 2018 and 31 December 2017 and for the period then ended.

The following is an analysis of the Group's revenue and results by reportable and operating segments.

Segment revenue represent income from construction services, dividend, interest and service income.

**Six months ended 30 June 2018 (unaudited)**

| | **Direct investments** *HK$'000* | **Financial services and others** *HK$'000* | **Foundation and substructure construction services** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| **Segment revenue** | **308,434** | **192,171** | **320,355** | **820,960** |
| Segment result | **(44,840)** | **119,381** | **4,263** | **78,804** |
| Segment result have been arrived at after crediting (charging): | | | | |
| Net reversal of impairment losses | **44,796** | **5,778** | **4,700** | |
| Net unrealised loss on financial assets at fair value through profit or loss | **(126,887)** | **–** | **–** | |
| Net realised loss on financial assets at fair value through profit or loss | **(725)** | **–** | **–** | |
| Finance costs | **(176,835)** | **(35,748)** | **(2,680)** | |
| Unallocated income and expenses | | | | |
| Other losses | | | | **(13,678)** |
| Other income | | | | **12,203** |
| Staff cost and other operating expenses | | | | **(9,476)** |
| Finance costs | | | | **(6,592)** |
| Profit before tax | | | | **61,261** |

**Six months ended 30 June 2017 (unaudited)**

| | Direct investments *HK$'000* | Financial services and others *HK$'000* | Foundation and substructure construction services *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Segment revenue** | 62,930 | 88,903 | 185,269 | 337,102 |
| Segment result | 52,504 | 76,767 | (4,741) | 124,530 |
| Segment result have been arrived at after crediting (charging): | | | | |
| Net recognition of impairment losses | | | (11,741) | |
| Net unrealised gain on financial assets at fair value through profit or loss | 15,610 | – | – | |
| Net realised gain on financial assets at fair value through profit or loss | 66,913 | – | – | |
| Finance costs | (40,924) | (1,298) | (4,858) | |
| Unallocated income and expenses | | | | |
| Other losses | | | | (8,701) |
| Other income | | | | 7,207 |
| Staff cost and other operating expenses | | | | (7,672) |
| Finance costs | | | | (19,136) |
| Profit before tax | | | | 96,228 |

The accounting policies of the operating segments are same as the Group's accounting policies. Segment result represents the profit earned by each segment without allocation of certain other gain or losses, certain other income, certain staff cost and other operating expenses, certain finance costs and income tax expense. The Group allocated certain finance costs to segments without allocating the related interest-bearing borrowings to that segment. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

| | **As at 30 June 2018** *HK$'000* **(Unaudited)** | As at 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| **Segment assets** | | |
| Direct investments | **9,675,581** | 10,062,994 |
| Financial services and others | **1,933,660** | 1,982,512 |
| Foundation and substructure construction services | **261,964** | 230,752 |
| Total segment assets | **11,871,205** | 12,276,258 |
| Unallocated corporate assets | **1,646,314** | 1,630,730 |
| Total consolidated assets | **13,517,519** | 13,906,988 |
| **Segment liabilities** | | |
| Direct investments | **1,543,348** | 2,142,522 |
| Financial services and others | **452,138** | 417,083 |
| Foundation and substructure construction services | **628,584** | 496,878 |
| Total segment liabilities | **2,624,070** | 3,056,483 |
| Unallocated corporate liabilities | **8,683,786** | 8,487,533 |
| Total consolidated liabilities | **11,307,856** | 11,544,016 |

Included in unallocated segment assets and liabilities, certain bank balances and cash, plant and equipment, amounts due from related parties, other receivables, tax payables, interest-bearing borrowings, deferred tax liabilities and other payables were managed in a centralised manner for the purpose of monitoring segment performance and allocating resources between segments.

## 4. REVENUE

An analysis of the Group's revenue is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** *HK$'000* **(Unaudited)** | 2017 *HK$'000* (Unaudited) |
| **Income from construction services** | | |
| Foundation and substructure construction services | **320,355** | 185,269 |
| **Dividend and service income** | | |
| Dividend income | **32,484** | 32,729 |
| Income from provision of business consulting services and others | **134,686** | 81,047 |
| | **167,170** | 113,776 |
| **Interest income** | | |
| Interest income from loan and debt instruments | **194,973** | 25,547 |
| Interest income from finance lease receivables | **72,452** | 7,856 |
| Interest income from FVTPL | **66,010** | 4,654 |
| | **333,435** | 38,057 |
| Total | **820,960** | 337,102 |

## 5. OTHER GAIN OR LOSSES

An analysis of other gain or losses is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Net exchange losses | **(15,370)** | (9,196) |
| Net gain on disposal of plant and equipment | **1,692** | 495 |
| | **(13,678)** | (8,701) |

## 6. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**"), the tax rate of the PRC subsidiaries is 25% (30 June 2017: 25%).

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current tax | | |
| Hong Kong | **11,086** | 15,623 |
| PRC | **19,520** | 17,496 |
| | **30,606** | 33,119 |
| Overprovision in prior year | | |
| PRC | **(23,241)** | – |
| | **7,365** | 33,119 |
| Deferred tax | **(4,589)** | – |
| Total | **2,776** | 33,119 |

## 7. DIVIDENDS

No dividends were paid, declared or proposed by the Company during the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share | **26,680** | 63,109 |

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***'000*** | *'000* |
| | **(Unaudited)** | (Unaudited) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,816,000** | 1,630,144 |

No diluted earnings per share were presented as there were no potential ordinary shares in issue for the six months ended 30 June 2018 and 2017.

## 9. PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired approximately HK$9,749,000 (six months ended 30 June 2017: HK$26,469,000) of plant and equipment.

Plant and equipment with a net carrying amount of approximately HK$1,315,000 (six months ended 30 June 2017: HK$12,075,000) were disposed of by the Group during the six months ended 30 June 2018, resulting in a net gain on disposal of approximately HK$1,692,000 (six months ended 30 June 2017: HK$495,000).

## 10. LOAN AND DEBT INSTRUMENTS

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Loan receivables | **1,419,698** | 2,038,892 |
| Less: Provision for impairment losses | **(29,374)** | (31,232) |
| | **1,390,324** | 2,007,660 |
| Unlisted debt instruments | **2,177,898** | 192,182 |
| Less: Provision for impairment losses | **(46,882)** | (2,883) |
| | **2,131,016** | 189,299 |
| Analysed for reporting purpose as: | | |
| Current assets | **2,635,691** | 971,257 |
| Non-current assets | **885,649** | 1,225,702 |
| | **3,521,340** | 2,196,959 |

As 30 June 2018, the effective interest rate on the fixed rate financial assets at amortised cost is ranging from 7.0% to 20.0% per annum (31 December 2017: from 7.0% to 15.0% per annum).

## 11. FINANCIAL INVESTMENTS

| | **30 June 2018 *HK$'000* (Unaudited)** | 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| FVTOCI | | |
| Non-current | | |
| – Unlisted equity securities | **650** | N/A |
| AFS | | |
| Current | | |
| – Listed debt instruments | **N/A** | 523,387 |
| – Unlisted debt instruments | **N/A** | 1,869,990 |
| | **N/A** | 2,393,377 |
| Non-current | | |
| – Unlisted funds | **N/A** | 1,038,774 |
| – Unlisted debt instruments | **N/A** | 534,507 |
| – Unlisted equity securities | **N/A** | 650 |
| – Unlisted asset management plan | **N/A** | 346,927 |
| | **N/A** | 1,920,858 |
| Financial assets designated at FVTPL | | |
| Non-current | | |
| – Unlisted fund investments ***(Note(i))*** | **N/A** | 251,929 |
| Current | | |
| – Unlisted fund investments ***(Note (i))*** | **N/A** | 500,280 |
| – Unlisted convertible bonds ***(Note (ii))*** | **N/A** | 639,441 |
| | **N/A** | 1,139,721 |
| Held-for-trading investments | | |
| Current assets | | |
| – Listed equity securities listed in Hong Kong and Australia | **N/A** | 467,919 |
| – Listed debt securities ***(Note (iv))*** | **N/A** | 1,364,907 |
| – Unlisted warrant | **N/A** | 713 |
| – Unlisted put options on equity securities ***(Note (iii))*** | **N/A** | 129,477 |
| | **N/A** | 1,963,016 |
| Current liability | | |
| – Unlisted foreign exchange forward contracts | **N/A** | (17,384) |
| Financial assets at FVTPL | | |
| Non-current | | |
| – Unlisted asset management plan | **344,159** | N/A |
| – Unlisted fund investments ***(Note (i))*** | **1,595,464** | N/A |
| | **1,939,623** | N/A |

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Financial assets at FVTPL – continued | | |
| Current | | |
| – Listed equity securities listed in Hong Kong and Australia | **377,585** | N/A |
| – Listed debt securities ***(Note (iv))*** | **1,712,277** | N/A |
| – Unlisted warrant | **713** | N/A |
| – Unlisted put options on equity securities ***(Note (iii))*** | **141,912** | N/A |
| – Unlisted fund investments ***(Note (i))*** | **216,263** | N/A |
| – Unlisted equity securities | **35,583** | N/A |
| – Unlisted convertible bonds ***(Note (ii))*** | **563,794** | N/A |
| – Unlisted foreign exchange forward contracts | **1,168** | N/A |
| | **3,049,295** | N/A |
| Financial liability at FVTPL | | |
| Current | | |
| – Unlisted foreign exchange forward contracts | **(8,392)** | N/A |
| Analysed for reporting purposes as: | | |
| Current assets | **3,049,295** | 5,496,114 |
| Non-current assets | **1,940,273** | 2,172,787 |
| | **4,989,468** | 7,668,901 |
| Current liabilities | **(8,392)** | (17,384) |

*Notes:*

(i) The unlisted fund investments represent investment in different private equity funds.

(ii) The fair value of the convertible bonds were determined by independent valuers not connected to the Group.

(iii) The fair value of the put options on equity securities were determined by independent valuers not connected to the Group.

(iv) As at 30 June 2018, the listed debt instruments of HKD1,280,563,000 have been pledged as security for the borrowing (31 December 2017: HKD1,364,907,000).

## 12. FINANCE LEASE RECEIVABLES

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Analysed for reporting purposes as: | | |
| Current assets | **472,367** | 473,671 |
| Non-current assets | **1,284,123** | 1,447,928 |
| | **1,756,490** | 1,921,599 |

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) | **(Unaudited)** | (Audited) |
| Finance lease receivables comprise: | | | | |
| Within one year | **617,178** | 615,427 | **497,785** | 481,140 |
| After one year but within two years | **543,369** | 522,941 | **451,608** | 422,550 |
| After two years but within five years | **985,979** | 1,152,473 | **901,612** | 1,033,926 |
| After five years | **–** | 14,683 | **–** | 14,283 |
| | **2,146,526** | 2,305,524 | **1,851,005** | 1,951,899 |
| Less: Unearned finance income | **(295,521)** | (353,625) | | |
| | **1,851,005** | 1,951,899 | | |
| Less: Allowance for impairment losses | **(94,515)** | (30,300) | | |
| Present value of lease receivables | **1,756,490** | 1,921,599 | | |

Effective interest rate of the above finance leases ranges from 5.92% to 10.23% per annum (31 December 2017: 5.90% to 10.23% per annum).

As at 30 June 2018, the gross carrying amount of the finance lease receivables which have been pledged as security for the borrowing, is RMB378,880,000 (equivalent to HK$449,390,000) (31 December 2017: RMB41,414,000 (equivalent to HK$49,544,000)).

## 13. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of the reporting period:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables *(Note (i))* | **137,240** | 82,657 |
| Deposits, prepayments and other receivables | **220,146** | 64,600 |
| Retention receivables | **N/A** | 60,540 |
| | **357,386** | 207,797 |
| Less: Provision for impairment loss on retention receivables | **(326)** | (15,000) |
| Trade and other receivables | **357,060** | 192,797 |

*Note:*

(i) Trade receivables are normally due within 30 days (2017: within 30 days) from the date of billing. The following is an aged analysis of trade receivables, presented based on the invoice date at the end of the reporting period:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Within 1 month | **137,052** | 81,572 |
| 1 to 2 months | **188** | 1,085 |
| Over 3 months | **–** | – |
| | **137,240** | 82,657 |

## 14. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the end of the reporting period:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables from foundation and substructure construction services *(Note (i))* | **117,164** | 88,094 |
| Retention money payables | **50,062** | 32,940 |
| Other payables, accruals and others | **88,452** | 134,351 |
| | **255,678** | 255,385 |

*Note:*

(i) The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | ***(Unaudited)*** | *(Audited)* |
| Within 1 month | **59,113** | 23,177 |
| 1 to 3 months | **16,807** | 23,305 |
| 3 to 6 months | **5,037** | 1,577 |
| Over 6 months | **36,207** | 40,035 |
| | **117,164** | 88,094 |

## 15. OBLIGATIONS UNDER FINANCE LEASES

| | **30 June 2018** *HK$'000* **(Unaudited)** | 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current liabilities | **5,704** | 7,692 |
| Non-current liabilities | **5,747** | 5,637 |
| | **11,451** | 13,329 |

It is the Group's policy to lease certain of its machinery and motor vehicles under finance leases. As at 30 June 2018, the average lease term is 3 years (31 December 2017: 3 years). As at 30 June 2018, interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.60% to 4.80% per annum (31 December 2017: 2.60% to 4.80% per annum).

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **30 June 2018** *HK$'000* **(Unaudited)** | 31 December 2017 *HK$'000* (Audited) | **30 June 2018** *HK$'000* **(Unaudited)** | 31 December 2017 *HK$'000* (Audited) |
| Analysed for reporting purposes as: | | | | |
| Within one year | **5,926** | 7,965 | **5,704** | 7,692 |
| Within a period of more than one year but not more than two years | **3,738** | 2,906 | **3,632** | 2,795 |
| Within a period of more than two years but not more than five years | **2,138** | 2,890 | **2,115** | 2,842 |
| | **11,802** | 13,761 | **11,451** | 13,329 |
| Less: Future finance charges | **(351)** | (432) | **N/A** | N/A |
| Present value of lease obligations | **11,451** | 13,329 | **11,451** | 13,329 |
| Less: Amount due for settlement within twelve months (shown under current liabilities) | | | **(5,704)** | (7,692) |
| Amount due for settlement after twelve months | | | **5,747** | 5,637 |

All finance lease obligations are denominated in Hong Kong dollars.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

As at 30 June 2018, finance leases of approximately HK$925,000 (31 December 2017: HK$2,681,000) were secured by the corporate guarantee issued by the Company.

## 16. INTEREST-BEARING BORROWINGS

| | **30 June 2018** *HK$'000* **(Unaudited)** | 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| Bank overdrafts | **624,813** | 655,403 |
| Bank loans | **6,294,878** | 7,177,873 |
| | **6,919,691** | 7,833,276 |
| Other loans | **3,289,457** | 3,213,304 |
| | **10,209,148** | 11,046,580 |
| Secured | **2,197,805** | 2,300,353 |
| Unsecured | **8,011,343** | 8,746,227 |
| | **10,209,148** | 11,046,580 |
| The carrying amounts of the above borrowings are repayable*: | | |
| On demand or within one year | **7,622,962** | 8,102,639 |
| Within a period of more than one year but not exceeding two years | **20,887** | 689,773 |
| Within a period of more than two years but not exceeding five years | **1,720,520** | 1,412,733 |
| Within a period of more than five years | **844,779** | 841,435 |
| | **10,209,148** | 11,046,580 |
| Less: Amounts due within one year shown under current liabilities | **(7,622,962)** | (8,102,639) |
| Amounts due from settlement after 12 months and shown under non-current liabilities | **2,586,186** | 2,943,941 |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 30 June 2018, the Group's borrowings bear fixed interest rates ranging from 1.00% to 6.50% per annum (31 December 2017: 3.00% to 6.50%per annum), and variable interest rates ranging from 2.83% to 4.91% per annum (31 December 2017: 2.34% to 3.83% per annum).

## 17. SHARE CAPITAL

| | **Number of shares** *'000* | **Total value** *HK$'000* |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 31 December 2017 and 30 June 2018 | 20,000,000 | 20,000 |

| | **Number of shares** *'000* | **Total value** *HK$'000* |
|---|---|---|
| Issued and fully paid: | | |
| At 1 January 2017 | 1,236,000 | 12,360 |
| Issue of new shares upon placing *(Note)* | 580,000 | 5,800 |
| At 31 December 2017 and 30 June 2018 | 1,816,000 | 18,160 |

*Note:*

Pursuant to the subscription, the subscription shares have been duly allotted and issued to Right Select International Limited ("**Right Select**"), a wholly-owned subsidiary of China Huarong International Holdings Limited ("**CHIH**"), on 28 February 2017. Immediately after the completion of the subscription, there are 1,816,000,000 shares of the Company in issue and the shareholding held indirectly by CHIH represented approximately 50.99% of the issued share capital of the Company as enlarged by the issue of the subscription shares.

All shares issued rank pari passu in all respects with all shares then in issue.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS AND FINANCIAL REVIEW

### Strengthen the business foundation and maintain stable development

Since September 2016, the Company has adopted the strategy of diversification in its business operation, by adding direct investment and financial services and others as the two new business segments while continuing the foundation and substructure construction services segment. In 2017, the Group rapidly developed the new business segments and the total assets as at 31 December 2017 has been increased by 3.85 times as compared to the balance as at 31 December 2016. In 2018, facing the fluctuation in the global financial market and the uncertainty of American policies on global economy, the Group plans to strengthen its business foundation and maintain stable development, by way of enhancing the quality of its investment portfolios and pathing the way for future development.

During the Reporting Period, the Group's revenue recorded a strong growth to approximately HK$821 million, representing an increase of approximately 144% as compared to approximately HK$337 million in the Corresponding Period. Direct investment business segment recorded a revenue of approximately HK$308 million, representing an increase of approximately 389% as compared to approximately HK$63 million in the Corresponding Period. The revenue of financial services and other business segments was approximately HK$192 million during the Reporting Period, representing an increase of approximately 116% as compared to approximately HK$89 million in the Corresponding Period. In addition, the revenue of foundation and substructure construction services segment was approximately HK$320 million during the Reporting Period, representing an increase of approximately 73% as compared to approximately HK$185 million in the Corresponding Period. All three business segments of the Group recorded their growth, of which the driving force was the significant increase in the two new business segments, namely direct investment and financial services and others, which are also the key development focus of the Group in the future.

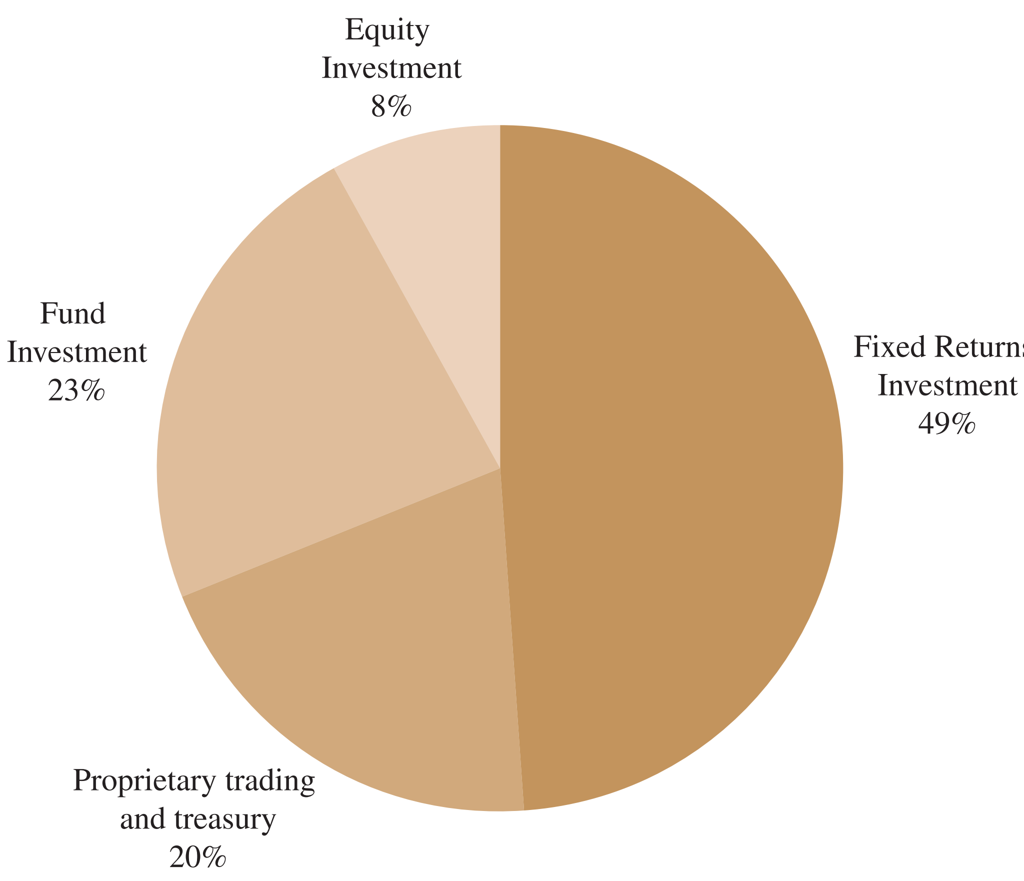
During the Reporting Period, the Group recorded profit of approximately HK$58 million, which showed a drop of approximately 7% as compared to approximately HK$63 million in the Corresponding Period. The decrease in profit for the Reporting Period was mainly due to unrealised loss on financial assets. During the Reporting Period, the Group's losses from unrealised loss on financial assets was approximately HK$127 million (the Corresponding Period: gain of HK$16 million). The relevant losses were mainly due to the decrease in fair value of investment products related to Hong Kong listed stocks. The diversified investment portfolios provided a stable income and growth in profit to the Group, and reduced the negative impact to the Group caused by the decrease in valuations of part of financial assets held by the Group affected by the wide capital market fluctuations. Excluding the impact of unrealised changes in fair values of financial assets during the Reporting Period, the profit for the Reporting Period was HK$185 million, representing a growth of 290% as compared to HK$47 million in the Corresponding Period. The Group believes the short-term market volatility and the effects of change in fair value of a few of individual investments will cause no material impact on the long-term development of the Group.

**Direct Investment**

Direct investment business mainly invested in equities, bonds, funds, derivative instruments and other financial products. As at 30 June 2018, the segment assets of direct investment business was approximately HK$9,676 million (31 December 2017: HK$10,063 million), representing a decrease of approximately 4% as compared with that of 31 December 2017. During the Reporting Period, segment revenues of approximately HK$308 million (the Corresponding Period: HK$63 million) and segment loss of approximately HK$45 million (the Corresponding Period: segment profit of approximately HK$53 million) were recorded.

The direct investment business of the Group is divided into four major categories, namely fixed returns investment, fund investment, equity investment and proprietary trading and treasury. Fixed returns investment mainly represented investment in private bonds, loans, convertible bonds and fixed income funds, which accounting for approximately 49% of the total investment assets. Such investment provided the Company with stable income and cash flow. The fund investment mainly represented investment in various funds investing in equity, which accounting for approximately 23% of the total investment assets. Equity investment accounted for approximately 8% of the total investment assets, mainly comprising shares of listed companies and equity investment of unlisted companies with strong potential. The proprietary trading and treasury accounted for approximately 20% of the total investment assets, which mainly invested in global bonds and conducted liquidity management and foreign exchange risk management for the Group through bond market, financing arrangement with banks and other financial instruments. The Group believes that while the stable income of the Company is guaranteed by fixed returns investment, fund and equity investment may bring potential and remarkable profit to the Group.

**Direct Investment Assets (by Investment Categories)**



### Financial Services and Others

Financial services and other related services mainly include provision of finance lease services, business consulting services and other related services. The Group has set up a professional financial leasing company with relevant licences in the Peoples Republic of China (the "**PRC**"). It is focusing on providing services to the basic industries which conform to the PRC's industrial policy and economic development trend, by way of introducing financial leasing to those industries, including the logistics, automobile, aviation, solar energy and wind power generation and liquified natural gas, to obtain constant and stable rental income. In addition, based on the Group's domestic and overseas business network and the experience of investing in various industries, the Group also provided consulting services on macro-economic, industry analysis, financial product design and other aspects for customers.

As at 30 June 2018, the segment assets of the business of the financial services and others amounted to approximately HK$1,934 million (31 December 2017: HK$1,983 million). During the Reporting Period, the segment revenue of approximately HK$192 million (the Corresponding Period: HK$89 million) and the segment profit of approximately HK$119 million (the Corresponding Period: HK$77 million) were recorded, representing an increase of approximately 116% and 56% as compared with that of the Corresponding Period.

***Significant Investments***

As at 30 June 2018, the Group's investment portfolio mainly comprised the following financial assets:

| Investment | Stock code | Carrying amount *(HK$'000)* | Percentage of portfolio | Fair value change during the Reporting Period *(HK$'000)* | Date of relevant announcements |
|---|---|---|---|---|---|
| Convertible bonds issued by Carnival Group International Holdings Limited[(Note)] | 00996.hk | 127,451 | 1.2% | 5,009 | 13 September 2016 |
| Notes and warrants issued by Zhuguang Holdings Group Company Limited | 01176.hk | 93,077 | 0.9% | 0 | 23 September 2016 |
| Interest in Shenzhen China Merchant Huarong Investment Consultancy (Limited Partnership) | N/A | 94,888 | 0.9% | 0 | 19 October 2016 |
| Interest in Edge Venture Partners L.P. (Limited Partnership) | N/A | 620,970 | 6.0% | 3,711 | 25 October 2016<br>1 December 2016 |
| Shares in Altonics Holding Limited | 00833.hk | 82,214 | 0.8% | (22,722) | 31 October 2016 |
| Net investment in Cogobuy Group | 00400.hk | 119,505 | 1.1% | (381) | 18 November 2016 |
| Notes issued by Master Glory Group Limited | 00275.hk | 388,840 | 3.8% | 0<br>0 | 24 November 2016<br>23 November 2017 |
| Finance leasing arrangement with Zhangye Pingshan Lake Wind Power Co., Ltd | N/A | 78,772 | 0.8% | 0 | 04 January 2017 |
| Interest in Leadingchina Creative Fund L.P. (Limited Partnership) | N/A | 49,447 | 0.5% | 922 | 05 January 2017 |
| Interest in Tianli Private Debt Fund L.P. (Limited Partnership) | N/A | 201,913 | 2.0% | 1,639 | 06 January 2017 |
| Finance leasing arrangement with Shenzhen Yestock Automobile Service Co., Ltd. | N/A | 224,280 | 2.2% | 0 | 16 March 2017<br>09 June 2017<br>21 December 2017 |
| Finance leasing arrangement with Jiangsu Huifeng Wood Co., Ltd. | N/A | 186,752 | 1.8% | 0 | 10 May 2017 |

| Investment | Stock code | Carrying amount (HK$'000) | Percentage of portfolio | Fair value change during the Reporting Period (HK$'000) | Date of relevant announcements |
|---|---|---|---|---|---|
| Finance leasing arrangement with Lhasa Fengdian Photovoltaic Power Generation Co., Ltd. | N/A | 157,697 | 1.5% | 0 | 09 June 2017 |
| Finance leasing arrangement with Heze Shenzhou Environmental Services Co., Ltd. | N/A | 114,514 | 1.1% | 0 | 20 July 2017<br>13 April 2018 |
| Finance leasing arrangement with Anhui Changfeng Cable Group Co., Ltd. | N/A | 92,910 | 0.9% | 0 | 01 August 2017 |
| Subscription of (1) notes; and (2) interest in HK Bridge Special Situations Fund L.P. | N/A | 214,666 | 2.1% | 8,231 | 02 August 2017 |
| Investment in Chelsea Manifest Fund | N/A | 501,311 | 4.9% | (957) | 14 August 2017 |
| Finance leasing arrangement with Yanan Xinwoda LNG Co., Ltd. | N/A | 344,750 | 3.4% | 0 | 17 August 2017 |
| Finance leasing arrangement with Youhe Daotong Aviation Co., Ltd. | N/A | 399,443 | 3.9% | 0 | 21 August 2017 |
| Secured convertible bonds issued by Freeman Fintech Corporation Limited | 00279.hk | 396,931 | 3.9% | (73,266) | 24 August 2017 |
| Loan arrangement with Qingdao Jiayaohua Real Estate Co., Ltd. | N/A | 789,045 | 7.7% | 0 | 24 August 2017<br>30 August 2017<br>28 September 2017 |
| Bonds issued by Intrend Ventures Limited | N/A | 442,359 | 4.3% | 0 | 30 August 2017 |
| Finance leasing arrangement with Lihua Energy Co., Ltd. | N/A | 54,715 | 0.5% | 0 | 15 September 2017 |
| Class B shares issued by All-Stars SP IV A Limited | N/A | 156,959 | 1.5% | 0 | 29 September 2017 |
| Notes issued by an independent third party | N/A | 484,038 | 4.7% | 0 | 18 October 2017 |
| (1) Acquisition of Sale CDIs; (2) Subscription of Subscription CDIs; and (3) Subscription of Convertible Notes | ASX:RTE | 153,887 | 1.5% | (10,654) | 09 November 2017 |
| Notes issued by Mercury Union Limited | N/A | 228,442 | 2.2% | 0 | 21 November 2017 |
| Entered into an Asset Management Agreement with China Merchants Wealth Asset Management Co. Ltd. | 002142 | 344,158 | 3.4% | 196 | 08 December 2017 |
| Provision of financial assistance to an independent third party | N/A | 344,057 | 3.4% | 0 | 11 December 2017 |
| Finance leasing arrangement with Anhui Pacific Cable Group Co., Ltd. | N/A | 68,219 | 0.7% | 0 | 27 December 2017 |
| Bonds issued by Superactive Group Company Limited | 0176.hk | 288,539 | 2.8% | 0 | 29 December 2017 |
| Subscription for interest in the All-Stars Investment Private Partners Fund L.P. | N/A | 19,560 | 0.2% | (568) | 16 January 2018 |
| Others | | 2,403,089 | 23.4% | (38,047) | |
| | | 10,267,398 | 100% | (126,887) | |

*Notes:* On 16 July 2018, the Company was informed by Carnival Group International Holdings Limited (the "**Issuer**") that the terms and conditions of the 8% secured convertible bonds due 2018 of the Issuer in principal amount of US$15 million issued by the Issuer on 15 August 2016 have been amended with effect from the same date. Details of the amendments are disclosed in the Company's announcement dated 16 July 2018.

Further details of the above investments are disclosed in notes of the condensed consolidated financial statements for the Reporting Period.

**Foundation and Substructure Construction Services**

The construction contract income of foundation and substructure construction services was recognised based on stage of completion. Stage of completion was established by reference to the construction works certified by our customers. The portion of total construction contract amount that was certified to have been completed in a period was recognised as revenue from foundation and substructure construction services in the respective period.

As at 30 June 2018, the segment assets of foundation and substructure construction services amounted to approximately HK$262 million (31 December 2017: HK$231 million). During the Reporting Period, the segment revenue of approximately HK$320 million (the Corresponding Period: HK$185 million) and the segment profit of approximately HK$4 million (the Corresponding Period: segment loss of HK$5 million) were recorded. Despite the increase in total amount of projects and revenue, the keen peer competition and increase in related costs have led to loss in such segment during the Reporting Period. The Group will continue to pay attention to the development of relevant foundation and substructure construction services, adjust its strategies and control costs to win long-term benefit for the Group.

## OUTLOOK

In 2018, the complicated and changing global situation resulted in more and higher risks. The Group will insist on the approach of "strengthen the foundation and maintain stable development", keep enhancing the quality of project investment and strengthening the core competence and sustainability while increasing control and management of risks.

Through insisting on the development principle of "making progress while maintaining stability", the Group will thoroughly analyse circumstances, sharpen its advantages, explore diversified competitive modes, while strengthening its foundation and maintain stable business development to intensify reform, optimise the structures of business, customer, and staff, as well as enhance its ability to serve the real economy.

Fully leveraging the advantages of the brand, financial resources, synergy and financial services of China Huarong Asset Management Co., Ltd., the controlling shareholder of the Company, the Group is able to lay solid foundation in Hong Kong, Macau and Taiwan, and at the same time, to serve the Greater China. The Group coincide with the development strategy of the state, "One-Belt-One-Road Initiative", and coincide with the development of Guangdong, Hong Kong, and Macau Greater Bay Area to boost the continuous stable development of international business.

In the meantime, the Group will adhere to the development concept of "finance + industry" to provide enterprises with financial services. Based on the industries of environmental protection, clean energy, education and health care supported and encouraged by the state, the Group will seek and explore value-based enterprises with great strength and excellent quality in such industries to establish a long-term and stable strategic cooperative partnership and to gradually form the business models of close combination of finance and industry and of mutual development.

Strong management and risk prevention are always the most important aspects in the development of the Group. While "strengthening the foundation and maintaining stable development", the Group will continue to strengthen its corporate governance and risk control mechanisms to improve the overall system management, boost the construction of cooperate culture of pragmatic and humble and achieve the steady growth and development of the Group.

## DEBTS AND CHARGE ON ASSETS

The total interest-bearing borrowings of the Group as at 30 June 2018 were approximately HK$10,209 million (31 December 2017: HK$11,047 million). As at 30 June 2018, the secured interest borrowings were approximately HK$2,198 million. The secured borrowings consist of (a) bank loans of HK$807 million, secured by a deposit of which the carrying amount is US$122 million (equivalent to HK$957 million); (b) bank loan of HK$374 million, secured by a finance lease receivable; and (c) bank borrowings and bank overdrafts of HK$1,017 million, secured by debt investments of which the carrying amounts are equivalent to HK$1,765 million.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018, the Group's bank balances and cash (including deposits in other financial institutions) are approximately HK$2,446 million (31 December 2017: HK$1,653 million). The Group manages its capital structure to finance its overall operation and growth by using different sources of funds. During the Reporting Period, the Group's sources of fund include proceeds from perpetual capital instruments, loans from direct and indirect shareholders, loans from banks and internal resources. The gearing ratio of the Group as at 30 June 2018 (defined as total interest-bearing liabilities divided by the Group's total equity) was approximately 4.6 (31 December 2017: 4.7).

## TREASURY POLICY

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Reporting Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position and implements in-house treasury measures to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

The Group's operations are mainly denominated in US dollars, Hong Kong dollars and RMB. As the Hong Kong Dollars are pegged to the US dollars, the Group expects that there is no significant change in the exchange rate of US Dollars against Hong Kong dollars. During the Reporting Period, the Group used the financial instruments in the market to hedge its exposure to foreign exchange risk arising from investment through the proprietary trading and treasury function of the Group in respect of the foreign exchange risk of some investments. The Group will keep monitoring its exposure to foreign exchange fluctuations carefully and may introduce appropriate hedging measures if necessary.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2018 (30 June 2017: Nil).

## EVENTS AFTER THE REPORTING PERIOD

There were no significant events since the end of the Reporting Period.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 244 staff (30 June 2017: 252). The total staff costs incurred by the Group for the Reporting Period were approximately HK$76 million (the Corresponding Period: HK$67 million).

The salary and benefit levels of the employees of the Group are competitive, which could attract professional talents to commit to the Group's businesses. Individual performance of our employees is rewarded through the Group's bonus system and is the key index for the salary review from time to time. In addition, the Group provides adequate job training to employees in order to equip them with practical knowledge and skills to tackle various situations and challenges encountered in a diverse range of working sites.

## INTERIM DIVIDEND

The Board did not recommend payment of interim dividend to shareholders of the Company for the Reporting Period (the Corresponding Period: Nil).

## REVIEW OF THE INTERIM FINANCIAL STATEMENTS

The audit committee of the Company (the "**Audit Committee**"), comprising Mr. Chan Kee Huen Michael as chairman of Audit Committee as well as Mr. Tse Chi Wai and Dr. Fang Fuqian as members, has reviewed with management the accounting policies and practice adopted by the Group and has discussed auditing, internal controls, and financial reporting matters including review of the interim results announcement and the interim report of the Group for the Reporting Period.

The Company's external auditor has carried out a review of the condensed consolidated financial statements for the Reporting Period in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants.

## EXTRACT OF REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following is an extract of the report on review of condensed consolidated financial statements of the Group for the six months ended 30 June 2018.

### Basis for Qualified Conclusion

As disclosed in note 2 to the condensed consolidated financial statements, the former chairman of China Huarong Asset management Co., Ltd., a company established in the People's Republic of China and the indirect controlling shareholder of the Company, is currently the subject of a disciplinary investigation by the relevant authorities in Mainland China. If any information relevant to the Group comes out of the disciplinary investigation, the Company has indicated that it will give careful consideration as to whether there are any implications for the Group. In addition, the Company has decided to initiate an internal investigation, including, into loan arrangements and related recoverability. It is not practicable for the Company to estimate the impact, if any, of the above mentioned matters on the condensed consolidated financial statements.

### Qualified Conclusion

Except for the adjustments to the condensed consolidated financial statements that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopts the Model Code for Securities Transactions by Directors of the Listed Issuer (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as a code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, it is confirmed that all Directors have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the Reporting Period.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and management of the Company are committed to the maintenance of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and transparency and accountability to all Shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code (the "**CG Code**") as set out in the Appendix 14 of the Listing Rules throughout the Reporting Period, except for the following deviation:

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors, as equal Board members, should attend the general meetings and develop a balanced understanding of the views of shareholders. Due to other business engagement, Mr. Chan Kee Huen Michael, an independent non-executive Director, did not attend the 2018 annual general meeting of the Company.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## PUBLICATION OF UNAUDITED INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.hriv.com.hk. The interim report of the Company for the Reporting Period containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

By order of the Board
**Huarong Investment Stock Corporation Limited**
**Qin Ling**
*Chairman*

Hong Kong, 30 August 2018

*As at the date of this announcement, the executive Directors are Mr. Qin Ling, Mr. Zhang Fan, Mr. Liu Xiguang and Mr. Kwan Wai Ming; the non-executive Director is Ms. Lin Xueqin; and the independent non-executive Directors are Mr. Chan Kee Huen Michael, Mr. Tse Chi Wai, Dr. Lam Lee G. and Dr. Fang Fuqian.*