華融國際金融控股有限公司
HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 993)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "**Board**") of directors (the "**Directors**") of Huarong International Financial Holdings Limited (the "**Company**") hereby announces the condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018 together with the comparative figures for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended	
		30 June 2018	30 June 2017
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue			
Commission and fee income	*5*	**88,277**	276,918
Interest income	*5*	**841,685**	539,221
Investment income	*5*	**177,708**	49,142
		1,107,670	865,281
Net (losses) gains on financial assets at fair value through profit or loss		**(819,919)**	264,555
Net loss arising from disposal of financial assets at fair value through other comprehensive income		**(30,129)**	–
Gain on disposal of available-for-sale investments		**–**	32,822
Other income and gains or losses, net		**(107,829)**	(45,823)
Brokerage and commission expenses		**(9,244)**	(4,779)
Administrative and other operating expenses		**(126,245)**	(119,789)
Net gain on deemed disposal of a joint venture entity		**–**	200,705
Gain (loss) on disposal of a subsidiary		**5,435**	(332)
Net (provision for) reversal of impairment of advances to customers in margin financing and accounts receivable		**(161,753)**	149

	NOTES	Six months ended 30 June 2018 *HK$'000* (Unaudited)	 30 June 2017 *HK$'000* (Unaudited)
Provision for impairment of other loans and receivables		**(135,404)**	–
Reversal of provision for impairment of amount due from an associate		**21,853**	–
Reversal of provision for impairment of financial assets at fair value through other comprehensive income		**2,265**	–
Finance costs	*6*	**(843,444)**	(481,038)
Share of results of associates		**8,373**	7,086
(Loss) profit before tax	*7*	**(1,088,371)**	718,837
Income tax expense	*8*	**(34,879)**	(118,784)
(Loss) profit for the period		**(1,123,250)**	600,053
(Loss) profit for the period attributable to:			
Owners of the Company		**(1,156,342)**	584,149
Holder of perpetual capital securities		**33,092**	15,904
		(1,123,250)	600,053
Basic (loss) earnings per share	*9*	**HK(32.22) cents**	HK16.51 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended	
	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) profit for the period	**(1,123,250)**	600,053
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain on available-for-sale investments	**–**	7,111
Reclassification adjustments relating to disposal of available-for-sale investments during the period	**–**	(32,822)
Fair value loss on financial assets at fair value through other comprehensive income	**(321,962)**	–
Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the period	**30,129**	–
Exchange differences on translating foreign operations		
Exchange differences arising from subsidiaries during the period	**(1,321)**	609
Exchange differences on translation of financial statements of associates	**(64)**	(103)
Other comprehensive expense for the period	**(293,218)**	(25,205)
Total comprehensive (expense) income for the period	**(1,416,468)**	574,848
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(1,449,560)**	558,944
Holder of perpetual capital securities	**33,092**	15,904
	(1,416,468)	574,848

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			
Property and equipment		**17,772**	22,027
Other long term assets		**7,565**	5,250
Prepayments, deposits and other receivables		**11,417**	20,478
Intangible assets		**3,316**	3,316
Financial assets at fair value through profit or loss	*10*	**7,888,367**	4,896,282
Available-for-sale investments	*11*	**–**	7,611,244
Financial assets at fair value through other comprehensive income	*12*	**1,526,463**	–
Other loans and receivables	*14*	**1,901,567**	5,153,625
Deferred tax assets		**8,354**	8,522
Investments accounted for using the equity method	*13*	**26,497**	18,665
Amount due from an associate	*13*	**456,721**	1,532,328
Total non-current assets		**11,848,039**	19,271,737
CURRENT ASSETS			
Advances to customers in margin financing	*15*	**4,871,956**	4,948,219
Accounts receivable	*16*	**36,993**	79,154
Interest receivable		**204,118**	184,435
Prepayments, deposits and other receivables		**263,504**	152,779
Financial assets at fair value through profit or loss	*10*	**8,880,555**	4,221,431
Available-for-sale investments	*11*	**–**	7,034,309
Financial assets at fair value through other comprehensive income	*12*	**4,943,963**	–
Other loans and receivables	*14*	**6,153,983**	4,149,535
Amount due from an associate		**2,402**	11,735
Restricted bank balances	*17*	**1,174,494**	848,591
Pledged bank deposits	*18*	**1,941,778**	1,898,063
Cash and cash equivalents	*18*	**2,959,807**	3,524,781
Total current assets		**31,433,553**	27,053,032

	NOTES	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
CURRENT LIABILITIES			
Accounts payable	*19*	**3,484,979**	3,758,807
Other liabilities, payables and accruals	*20*	**466,519**	454,578
Contract liabilities		**35,439**	–
Interest-bearing borrowings	*21*	**20,091,269**	15,997,241
Tax payable		**216,760**	181,516
Financial liabilities at fair value through profit or loss	*10*	**548,076**	194,981
Financial assets sold under repurchase agreements	*22*	**4,395,881**	4,032,804
Total current liabilities		**29,238,923**	24,619,927
NET CURRENT ASSETS		**2,194,630**	2,433,105
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,042,669**	21,704,842
NON-CURRENT LIABILITIES			
Other liabilities, payables and accruals	*20*	**162,211**	211,420
Contract liabilities		**26,508**	–
Deferred tax liabilities		**92,569**	166,102
Interest-bearing borrowings	*21*	**11,213,955**	17,040,736
Financial liabilities at fair value through profit or loss	*10*	**–**	223,762
Total non-current liabilities		**11,495,243**	17,642,020
NET ASSETS		**2,547,426**	4,062,822
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital		**3,588**	3,588
Perpetual capital securities classified as equity instruments	*23*	**1,208,803**	1,209,218
Share premium and reserves		**1,335,035**	2,850,016
TOTAL EQUITY		**2,547,426**	4,062,822

Notes:

1. CORPORATE INFORMATION

Huarong International Financial Holdings Limited (the "**Company**") is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of operations of the Company is situated at Level 29, One Pacific Place, 88 Queensway, Hong Kong.

The principal activities of the Company and its subsidiaries (the "**Group**") are securities, futures and options contracts brokerage, provision of margin financing, corporate finance and asset management services, direct investment in equities, bonds, funds, derivative instruments and other financial products and provision of money lending services.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("**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**").

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 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 this context, the Company has decided to initiate its own internal investigation, including into the structure of certain fund investments and loans, and their valuation and recoverability. It is not practicable for the Company to estimate the impact of the above mentioned matters on the condensed consolidated financial statements.

As at 30 June 2018, the Group did not fulfil certain financial covenants, primarily those relating to interest coverage, imposed by banks on some bank borrowings, which triggered further technical defaults because of cross default clauses in other bank borrowing arrangements as set out in note 21. The aggregate amount of borrowings in respect of which there was a breach of financial covenants or cross default was HK$9,836,000,000 (31 December 2017: HK$3,000,000,000) as at 30 June 2018. Accordingly, outstanding balances for these borrowings have been presented as current liabilities at end of the current period. The banks had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the respective loan agreements with the banks.

In the opinion of the directors of the Company, there are different sources of finance available to the Group to fund its operations, including internal resources, available unutilised banking facility or additional financing obtainable from financial institutions by means of pledging the Group's assets which have not been pledged. China Huarong has also agreed to provide adequate funds to enable the Company to meet in full its financial obligations as and when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments, financial assets and liabilities at fair value through profit or loss ("**FVTPL**") (including derivative financial instruments) and financial assets at fair value through other comprehensive income ("**FVTOCI**"), which are measured at fair values.

Other than changes in accounting policies resulting from application of new 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 audited consolidated financial statements for the year ended 31 December 2017.

Details of any changes in accounting policies are set out below.

Application of new and amendments to Hong Kong Financial Reporting Standards ("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 that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instrument
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 HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

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

Except these, the application of the amendments to HKFRSs in current period has had no material effect on the Group's financial performance and positions for the current period and prior years and/or disclosures set out in these condensed consolidated financial statements.

3.1 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 carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

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

3.1.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Accounts receivables arising from contracts with customers are initially measured in accordance with HKFRS 15 "Revenue from Contracts with Customers" ("**HKFRS 15**").

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39. Such measurement basis depends on the Group's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

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

- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest on the principal 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 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.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application, 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 profits.

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 "revenue" 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 line item of the condensed consolidated statement of profit or loss.

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 3.1.2.

*Impairment of financial assets under expected credit loss ("**ECL**") model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including advances to customers in margin financing, other loans and receivables, financial assets at FVTOCI, accounts receivable, deposits and other receivables, amount due from an associate, restricted bank balances, pledged bank deposits, cash and cash equivalents, contract assets (if any) and loan commitments. 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. Assessment 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 accounts receivable and contract assets (if any) that result from transactions within the scope of HKFRS 15 and the ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with debtors having similar credit ratings.

For all other instruments, the Group applies the general approach to measure ECL for all financial assets and loan commitments which are subject to impairment under HKFRS 9. On this basis, 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 (except for advances to customers in margin financing where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information that demonstrates otherwise.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

The Group considers that default has occurred when the instrument is more than 90 days past due (except for advances to customers in margin financing where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

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 undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

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.

Except for debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of advances to customers in margin financing, other loans and receivables, amount due from an associate and accounts receivable where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and loan commitments for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.1.2.

Classification and measurement of financial liabilities

Financial liabilities continue to be measured at either amortised cost or FVTPL. The criteria for designating a financial liability at FVTPL by applying the fair value option remains unchanged.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to the to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

3.1.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Financial assets at FVTOCI	Advances to customers in margin financing, at amortised cost	Other loans and receivables at amortised cost	Financial assets at FVTPL required by HKAS 39/ HKFRS 9	Available-for-sale investment	Available-for-sale investment revaluation reserve	FVTOCI investment revaluation reserve	Retained profits
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017 — HKAS 39		–	4,948,219	4,657,898	9,117,713	14,645,553	(85,744)	–	1,144,472
Effect arising from initial application of HKFRS 9:									
Reclassification									
From available-for-sale	*(a)*	6,863,409	–	–	7,782,144	(14,645,553)	85,744	(65,005)	(20,739)
Remeasurement									
Impairment under ECL model	*(b)*	–	(517)	(3,900)	–	–	–	25,860	(30,277)
At 1 January 2018		6,863,409	4,947,702	4,653,998	16,899,857	–	–	(39,145)	1,093,456

Notes:

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

From AFS equity investments to FVTPL

At the date of initial application of HKFRS 9, the Group's listed equity investments of HK$1,537 million, unlisted equity investments of HK$903 million and unlisted fund investments of HK$2,816 million were reclassified from available-for-sale investments to financial assets at FVTPL. The net fair value gains of approximately HK$10 million relating to those investments previously carried at fair value were transferred from AFS investment revaluation reserve to retained profits.

From AFS equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of an equity investment of HK$214 million previously classified as available-for-sale investments under HKAS 39. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$214 million were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of approximately HK$2 million relating to this investment previously carried at fair value classified from AFS investment revaluation reserve to FVTOCI investment reserve.

From AFS debt investments to FVTOCI

Listed bonds with a fair value of HK$6,649 million were reclassified from available-for-sale investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of approximately HK$67 million classified from AFS investment revaluation reserve to FVTOCI investment reserve as at 1 January 2018.

From AFS debt investments to FVTPL

Listed bonds with a fair value of HK$2,526 million were reclassified from available-for-sale investments to financial assets at FVTPL. This is because these financial assets are held within a business model whose objective is achieved by selling the listed debt instruments in the open market. Accordingly, these listed debt instruments were measured at fair value through profit or loss upon the application of HKFRS 9. The net fair value losses of approximately HK$31 million relating to these AFS investments were transferred from AFS investments revaluation reserve to retained profits at 1 January 2018.

(b) Impairment under ECL model

Such amount represents the impairment under 12m ECL upon application of HKFRS 9 as detailed in 3.1.1.

As at 1 January 2018, the additional credit allowance of HK$30,277,000 has been recognised against the retained profits. The additional loss allowance is charged against the respective asset. Based on the assessment performed on the date of initial application of HKFRS 9, the directors of the Company considered that the additional credit allowances in relation to deposits and other receivables, accounts receivable, amount due from an associate, restricted bank balances, pledged bank deposits and cash and cash equivalents are insignificant to the financial performance and position of the Group.

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) as at 31 December 2017 to the new impairment allowance measured with HKFRS 9 (under ECL model) at 1 January 2018:

	Impairment allowance under HKAS 39	**Impairment allowance re-measurement**	**Impairment allowance under HKFRS 9**
	HK$'000	*HK$'000*	*HK$'000*
Advances to customers in margin financing	929	517	1,446
Other loans and receivables	190,206	3,900	194,106
Financial asset at FVTOCI	–	25,860	25,860
Total	191,135	30,277	221,412

3.2 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:

- Commission income on securities dealing and broking and;
- Commission income on underwriting and placing;
- Consultancy, financial advisory fee and financing arrangement fee income;
- Fund subscription and management fee income;
- Interest income from financial assets (under HKFRS 9 as detailed previously); and
- Dividend income (under HKFRS 9 as detailed previously).

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. The application of HKFRS 15 on 1 January 2018 has no material impact on the Group's financial performance and positions for the current period and prior years, and accordingly, there is no adjustment on the opening condensed consolidated statement of financial position and condensed consolidated statement of changes in equity.

3.2.1 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 is recognised at a point in time when the customer obtains control of the distinct good or service.

The revenue from consultancy fees, financial advisory fee, financing arrangement fee and asset management fee are recognised over time and other types of revenue are recognised at point in time.

Variable consideration

For contracts that contain variable consideration, such as performance fee income, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3.2.2 Effects arising from initial application of HKFRS 15

At the date of initial application, included in the total receipt in advance, HK$62 million related to advance billings to customers for consultancy, financial advisory fee and financing arrangement fee income services. These balances were reclassified to contract liabilities upon application of HKFRS 15. Other than that, the application of HKFRS 15 in current period has had no material effect on the Group's financial performance and positions for the current period and prior years and/or disclosures set out in these unaudited condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Company has determined the members of the Executive Committee as its chief operating decision maker.

The segments are managed separately as each segment engages in different activities. The Group's operating and reportable segments are as follows:

(a) the securities segment comprises broking and dealing of securities, futures and options contracts and the provision of margin financing services;

(b) the corporate finance segment provides securities underwriting and sponsoring, financial advisory and financing arrangement services to institutional clients; and

(c) the asset management and direct investment segment comprises provision of asset management services, direct investments in equities, bonds, funds, derivative instruments and other financial products and provision of money lending services.

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

Six months ended 30 June 2018 (unaudited)

	Securities *HK$'000*	Corporate finance *HK$'000*	Asset management and direct investment *HK$'000*	Total *HK$'000*
Segment revenue				
Revenue from external customers	**244,795**	**5,001**	**857,874**	**1,107,670**
Net losses on financial assets at fair value through profit or loss	**–**	**–**	**(819,919)**	**(819,919)**
Loss on disposal of financial assets at fair value through other comprehensive income	**–**	**–**	**(30,129)**	**(30,129)**
Share of results of associates	**–**	**–**	**8,373**	**8,373**
Gain on disposal of a subsidiary	**–**	**–**	**5,435**	**5,435**
Other income and gains or losses, net	**921**	**–**	**(78,432)**	**(77,511)**
Total income (loss)	**245,716**	**5,001**	**(56,798)**	**193,919**
Segment results	**62,511**	**(1,274)**	**(205,681)**	**(144,444)**
Finance costs				**(843,444)**
Other unallocated income and gains or losses, net				**(30,318)**
Other unallocated expenses, net				**(70,165)**
Loss before tax				**(1,088,371)**
Income tax expense				**(34,879)**
Loss for the period				**(1,123,250)**

Six months ended 30 June 2017 (unaudited)

	Securities *HK$'000*	Corporate finance *HK$'000*	Asset management and direct investment *HK$'000*	Total *HK$'000*
Segment revenue				
Revenue from external customers	188,278	192,865	484,138	865,281
Net gains on financial assets at fair value through profit or loss	–	–	264,555	264,555
Gain on disposal of available-for-sale investments	–	–	32,822	32,822
Share of results of associates	–	–	7,086	7,086
Gain on deemed disposal of a joint venture entity	–	–	200,705	200,705
Other income and gains or losses, net	2,128	204	33,933	36,265
Total income	190,406	193,069	1,023,239	1,406,714
Segment results	171,884	186,232	996,977	1,355,093
Finance costs				(481,038)
Other unallocated income and gains or losses, net				(82,088)
Other unallocated expenses, net				(73,130)
Profit before tax				718,837
Income tax expense				(118,784)
Profit for the period				600,053

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

	As at 30 June 2018 *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Assets		
Securities	**6,157,738**	5,993,311
Corporate finance	**557,490**	120,534
Asset management and direct investment	**32,513,577**	35,319,758
Total segment assets	**39,228,805**	41,433,603
Deferred tax assets	**8,354**	8,522
Other unallocated assets	**4,044,433**	4,882,644
Total assets	**43,281,592**	46,324,769
Liabilities		
Securities	**1,411,943**	1,483,703
Corporate finance	**327,255**	333,812
Asset management and direct investment	**6,850,131**	9,663,487
Total segment liabilities	**8,589,329**	11,481,002
Tax payable	**216,760**	181,516
Deferred tax liabilities	**92,569**	166,102
Other unallocated liabilities	**31,835,508**	30,433,327
Total liabilities	**40,734,166**	42,261,947

Geographical information:

The segments' operations are primarily located in Hong Kong and all of the Group's revenue is derived from Hong Kong and the People's Republic of China (the "**PRC**").

The following table sets out information about the geographical location of (i) the Group's revenue from external customers (including its associates) and (ii) the Group's property and equipment, intangible assets, other long term assets and interests in associates and a joint venture ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment; and the location of the core operations in the case of other specified non-current assets.

	Revenue from external customers Six months ended		**Specific non-current assets As at**	
	30 June 2018	30 June 2017	**30 June 2018**	31 December 2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Hong Kong	**1,026,038**	817,170	**28,911**	56,040
PRC	**81,632**	48,111	**26,237**	13,696
	1,107,670	865,281	**55,148**	69,736

5. REVENUE

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

	Six months ended 30 June 2018 HK$'000 (Unaudited)	Six months ended 30 June 2017 HK$'000 (Unaudited)
Revenue *(note (i))*		
Commission and fee income *(note (ii))*:		
Fee and commission income on securities	**17,548**	13,335
Placing and underwriting fee income	**4,002**	24,672
Consultancy, financial advisory fee and financing arrangement fee income	**56,892**	199,957
Fund subscription and management fee income	**8,975**	38,102
Other service income	**860**	852
	88,277	276,918
Interest income:		
Interest income from other loans and receivables	**299,941**	209,602
Interest income from an associate	**45,920**	11,507
Interest income from financial assets at fair value through profit or loss	**100,389**	37,799
Interest income from financial assets at fair value through other comprehensive income	**176,969**	–
Interest income from margin financing activities	**218,466**	174,943
Interest income from available-for-sale investments	**–**	105,370
	841,685	539,221
Investment income		
Dividend income	**177,708**	49,142
	1,107,670	865,281

Notes:

(i) To better reflect the major revenue sources of the Group and its proportion to the total revenue, the Group has decided to classify revenue items into three major categories: "Commission and fee income", "Interest income" and "Investment income" for the purpose of preparing the condensed consolidation financial statements for the period ended 30 June 2018. Accordingly, comparative information has been reclassified to conform to the current period's presentation.

(ii) The commission and fee income is the only revenue arising under the scope of HKFRS 15, while interest income and investment income are under the scope of HKFRS 9.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended	
	30 June	30 June
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on loans from the ultimate holding company	**23,881**	26,333
Interest on loans from an intermediate holding company	**446,326**	364,316
Interest on bank borrowings	**299,091**	90,389
Interest on financial assets sold under repurchase agreements and other activities	**74,146**	–
	843,444	481,038

7. (LOSS) PROFIT BEFORE TAX

The Group's (loss) profit before tax is arrived at after charging:

	Six months ended	
	30 June	30 June
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation	**4,534**	3,271
Minimum lease payments under operating leases:		
— office premises	**22,645**	21,156
— office equipment	**244**	108
Auditor's remuneration:		
— Statutory audit service fee	**1,200**	480
Employee benefit expenses (including directors' remuneration)	**52,176**	44,811

8. INCOME TAX EXPENSE

	Six months ended 30 June 2018 HK$'000 (Unaudited)	30 June 2017 HK$'000 (Unaudited)
Current tax:		
Hong Kong	**103,201**	91,891
PRC	**5,043**	5,107
	108,244	96,998
Deferred tax	**(73,365)**	21,786
	34,879	118,784

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the current and prior period. Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

9. (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted (loss) earnings per share attributable to the owners of the Company are based on the following data:

	Six months ended 30 June 2018 HK$'000 (Unaudited)	30 June 2017 HK$'000 (Unaudited)
(Loss) earnings		
(Loss) profit for the period attributable to owners of the Company, used as (loss) earnings for the purpose of basic (loss) earnings per share	**(1,156,342)**	584,149

	Number of shares 1 January 2018 to 30 June 2018 '000	1 January 2017 to 30 June 2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**3,588,466**	3,537,788

No diluted (loss) earnings per share was presented for both periods because there were no potential dilutive ordinary shares during both the current and prior period.

10. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Assets		
Non-current:		
Mandatory at FVTPL		
—Unlisted convertible bonds and convertible notes *(note (i))*	**814,991**	2,136,536
—Unlisted fund investments *(note (iii))*	**7,073,376**	2,759,746
	7,888,367	4,896,282
Current:		
Mandatory at FVTPL		
—Listed preference shares	**417,388**	469,080
—Unlisted preference shares *(note (iv))*	**495,000**	–
—Unlisted convertible bonds and convertible notes *(note (i))*	**1,213,638**	79,394
—Unlisted convertible bonds with put option *(note (ii))*	**330,366**	398,302
Financial assets held for trading		
—Listed equity investments	**2,496,295**	2,883,081
—Listed debt investments	**3,615,127**	101,209
—Unlisted put options on listed equity investments, at fair value *(note (iv))*	**312,741**	272,852
—Unlisted put options on unlisted equity investments, at fair value *(note (iv))*	**–**	17,513
	8,880,555	4,221,431
Liabilities		
Current:		
Unlisted investments		
Payables to interest holders of unlisted consolidated investment funds, measured at FVTPL *(note (v))*	**548,076**	194,981
Non-current:		
Unlisted investments		
Payables to interest holders of unlisted consolidated investment fund, measured at FVTPL *(note (v))*	**–**	223,762

(i) On 3 February 2016, the Group set up a fund, Huarong International Asset Management Growth Fund LP (the "**Growth Fund**"), which acquired unlisted convertible notes with principal amount of US$30,000,000, approximately HK$233,625,000 equivalent and US$40,000,000, approximately HK$310,660,000 equivalent on 15 February 2016 and 10 March 2016, respectively, which were issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 4.5% per annum payable semi-annually, maturity on 15 February 2019 and 10 March 2019, and with conversion price of HK$3.00 per share of the aforesaid listed company in Hong Kong. The convertible notes are freely transferrable. On 14 December 2016, convertible notes with principal amount of US$30,000,000 were disposed. The fair value of the remaining convertible notes amounted to approximately HK$487,275,000 as at 30 June 2018 (31 December 2017: HK$557,775,000), which was estimated by an independent firm of professional valuers.

On 20 May 2016, the Group acquired unlisted convertible bonds, with principal amount of HK$500,000,000 issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 7% per annum payable semi-annually, maturity on 20 May 2019 with conversion price of HK$3.476 per share of the aforesaid listed company in Hong Kong. The fair value of the convertible bonds amounted to approximately HK$666,363,000 as at 30 June 2018 (31 December 2017: HK$757,472,000), which was estimated by an independent firm of professional valuers.

On 26 October 2016, the Group acquired unlisted convertible bonds, with principal amount of HK$100,000,000 issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 5% per annum payable annually, maturity on 25 October 2017, extendable on a mutually agreed basis, to 25 October 2018 with conversion price of HK$0.675 per share of the aforesaid listed company in Hong Kong. On 15 March 2017, the convertible bonds with principal amount of HK$25,000,000 were converted into shares and the extension of maturity was mutually agreed on 8 August 2017. The fair value of the remaining convertible bonds amounted to approximately HK$60,000,000 as at 30 June 2018 (2017: HK$79,394,000), which was estimated by an independent firm of professional valuers.

On 4 December 2017, the Group acquired unlisted convertible bonds, with principal amount of HK$800,000,000 issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate payable semi-annually of 7% per annum for the period from and including the issue date up to and excluding the first anniversary of the issue date and 8% per annum for the period from the first anniversary of the issue date up to and including the maturity date, maturity on 3 December 2019 with conversion price of HK$3.27 per share of the aforesaid listed company in Hong Kong. The fair value of the convertible bonds amounted to approximately HK$814,991,000 as at 30 June 2018 (31 December 2017: HK$821,289,000), which was estimated by an independent firm of professional valuers. The Group does not expect that the convertible bonds will be transferred to third parties by the Group within the next twelve months and has accordingly classified the convertible bonds as non-current assets.

(ii) On 12 November 2015, the Group subscribed for unlisted convertible bonds with principal amount of HK$275,000,000 which were issued by an independent party, a listed company in Hong Kong, and bears fixed interest rate of 4% per annum payable quarterly, and matures on 12 November 2017, extendable at the bondholder's sole and absolute discretion, to 12 November 2018 with initial conversion price of HK$0.77 per share of the aforesaid listed company in Hong Kong. On 13 November 2015, a put option was granted by an independent third party to the Group, pursuant to which the Group has the right to require the issuer of the put option to purchase all outstanding convertible bonds held by the Group anytime within the 30 days period prior to the maturity date of the convertible bonds at an agreed price. On 30 June 2016, the put option agreement was revised by both parties mutually. Under the revised put option agreement, the Group has the right to require the issuer of the put option to pay the agreed sum in cash, an amount which is equal to the difference between the option price and redemption price. The fair value of the convertible bonds amounted to approximately HK$220,000,000 (31 December 2017: HK$315,032,000) and the fair value of the put option amounted to approximately HK$110,366,000 (31 December 2017: HK$83,270,000) as at 30 June 2018, which was estimated by an independent firm of professional valuers.

(iii) As at 30 June 2018, included in financial assets mandatory at fair value through profit or loss are unlisted fund investments of approximately HK$7,073,376,000 (31 December 2017: HK$2,759,749,000) which are mainly investments in a portfolio of fixed income products to achieve capital appreciation and investment returns in the medium to long term basis. The Group does not expect that these unlisted fund investments will be transferred to third parties by the Group within the next twelve months and has accordingly classified as non-current assets.

(iv) On 30 March 2016, the Group purchased listed securities together with a put option at an aggregate consideration of approximately HK$339,659,000. The put option gives the Group the right to require the issuer, an independent third party, to purchase a maximum of 190,798,000 shares of a listed company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date, the Group can sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK$ nil as at 30 June 2018 (31 December 2017: HK$49,213,000), which was estimated by an independent firm of professional valuers.

On 8 June 2017, the Group purchased preference shares together with a put option at an aggregate consideration of approximately HK$900,000,000. The put option gives the Group the right to require the issuer, an independent third party, to purchase a maximum of 900,000 preference shares of an unlisted company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date of the put option, the issuer of put option shall purchase and the Group shall sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK$17,513,000 as at 31 December 2017, which was estimated by an independent firm of professional valuer. As at 31 December 2017, the preference shares have been presented in available-for-sale investments in note 11. As at initial application date of HKFRS 9, it has been classified as financial assets at fair value through profit or loss as set out in note 3.

During the current interim period, the issuer has failed to pay the first annual preferential divides in accordance with the relevant agreements in a sum of HK$54,000,000 which was due and payable to the Group on 9 June 2018 and has failed to replace certain expiring receivable contracts with eligible receivable contracts pursuant to agreement. On 21 June 2018, the Group has exercised the events of default put option pursuant to the relevant agreement by delivering a put notice to the issuer to require it to repurchase the preferred shares at a put price of HK$1,085 per preferred share for a total put price of HK$976,500,000. According to the relevant agreement, the transaction will be settled within 7 business days after the date of the put notice is delivered and the preferred shares will be transferred only when it is settled. As at 30 June 2018, the transaction has not been settled and preferred shares not transferred. Accordingly, the transaction is considered not yet completed. The fair value of the instrument amounted to approximately HK$495 million, which was determined based on discounted cash by taking into account of the credit risk of the issuer.

On 6 December 2017, the Group purchased listed securities together with a put option at an aggregate consideration of approximately HK$181,073,000. The put option is presented in the current portion of listed equity investment as at period end. The put option gives the Group the right to require the issuer of put option, an independent period party, to purchase shares of a listed company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date of the put option, the issuer of put option shall purchase and the Group shall sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK$95,171,000 as at 30 June 2018 (31 December 2017: HK$84,461,000), which was estimated by an independent firm of professional valuers.

On 18 December 2017, the Group purchased listed securities together with a put option at an aggregate consideration of approximately HK$728,671,000. The put option is presented in the current portion of listed equity investment as at period end. The put option gives the Group the right to require the issuer of put option, an independent third party, to purchase shares of a listed company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date of the put option, the issuer of put option shall purchase and the Group shall sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK$212,396,000 as at 30 June 2018 (31 December 2017: HK$135,622,000), which was estimated by an independent firm of professional valuers.

(v) As at 30 June 2018 and 31 December 2017, included in financial liabilities at fair value through profit or loss are the non-controlling interests of unlisted consolidated investment funds.

As at 30 June 2018 and 31 December 2017, a wholly-owned subsidiary of the Group held 65% interests in Paragon Kesort Fund L.P. (the "**PRF Fund**") as a limited partner (the "**First-Tier Limited Partner of the PRF Fund**"). According to the limited partnership agreement, at the end of the term of the PRF Fund, the First-Tier Limited Partner of the PRF Fund will be entitled to a priority return of its own capital contribution and a 8% preferred return; thereafter the second-tier limited partner is entitled to return of its own capital contribution. Thereafter, 60% and 40% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the PRF Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund are classified as financial liabilities measured at fair value through profit or loss of approximately HK$31,057,000 as at 30 June 2018 (31 December 2017: HK$51,121,000).

As at 30 June 2018 and 31 December 2017, a wholly-owned subsidiary of the Group held 50% interests in Visual Dome Fund L.P. (the "**VD Fund**") as a limited partner (the "**First-Tier Limited Partner of the VD Fund**"). According to the limited partnership agreement, at the end of the term of the VD Fund, the First-Tier Limited Partner of the VD Fund will be entitled to a priority return of its own capital contribution and a 10.5% preferred return; thereafter the second-tier limited partner is entitled to return of its own capital contribution. Thereafter, 20% and 80% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the VD Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund are classified as financial liabilities measured at fair value through profit or loss of approximately HK$211,587,000 as at 30 June 2018 (31 December 2017: HK$143,860,000).

As at 30 June 2018 and 31 December 2017, a wholly-owned subsidiary of the Group held 90% interests in Growth Fund as a limited partner (the "**First-Tier Limited Partner of the Growth Fund**"). Pursuant to the limited partnership agreement of the Growth Fund, the interests in the Growth Fund as a limited partner provide the Group with the return of capital equal to 100% of its total invested capital and a fixed proceed of 12% per annum return of its invested capital to First-Tier Limited Partner of the Growth Fund. If the Growth Fund eventually holds its investment, i.e. a convertible note mentioned in note (i), till maturity (three years period), the total minimum return of First-Tier Limited Partner of the Growth Fund is guaranteed at 12% per annum of its invested capital. Thereafter, the second-tier limited partner is entitled to return of its own capital contribution. Thereafter 20% and 80% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the Growth Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner are classified as financial liabilities measured at fair value through profit or loss of approximately HK$305,432,000 as at 30 June 2018 (31 December 2017: HK$223,762,000).

The Group did not provide any financial support to the above unlisted consolidated investment funds during the period ended 30 June 2018 and the year ended 31 December 2017.

11. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current:		
Listed debt investments, at fair value	–	3,891,956
Unlisted fund investments, at fair value *(note)*	–	2,815,649
Unlisted equity investments, at fair value	–	903,639
	–	7,611,244
Current:		
Listed equity investments, at fair value	–	1,537,308
Listed debt investments, at fair value	–	5,282,534
Unlisted equity investment, at fair value	–	214,467
	–	7,034,309
	–	14,645,553

Upon application of HKFRS 9 on 1 January 2018, the Group's listed equity investments, listed debt investments, unlisted equity investments and unlisted fund investments of HK$7,782 million were reclassified from available-for-sale investments to financial assets at FVTPL.

In addition, listed debt investments and unlisted equity investments amounting to HK$6,863 million were reclassified from available-for-sale investments to financial assets at FVTOCI.

Note:

The Group invested in investment funds. These investment funds mainly invested in listed equities, debt securities and derivatives, with a primary objective to provide the investors with capital appreciation and investment income.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current:		
Listed debt investments, at fair value	**1,526,463**	–
Current:		
Listed debt investments, at fair value	**4,943,963**	–
	6,470,426	–

During the period, the loss in respect of changes in fair value of the Group's financial assets at FVTOCI recognised in other comprehensive income amounted to approximately HK$321,962,000. During the period, the Group disposed of financial assets at FVTOCI with proceeds of approximately HK$1,154,875,000 to independent third parties, and a loss of approximately HK$30,129,000 was reclassified from other comprehensive income to profit or loss upon disposal.

Interest income derived from financial assets at FVTOCI was recognised as "interest income from financial assets at fair value through other comprehensive income bonds" within "revenue".

Loss allowance — Debt investment securities at FVTOCI

	Stage 1 *HK$'000* (unaudited)	**Stage 2** *HK$'000* (unaudited)	**Stage 3** *HK$'000* (unaudited)	**Total** *HK$'000* (unaudited)
Loss allowance as at 31 December 2017	–	–	–	–
Remeasurement under ECL model	25,860	–	–	25,860
Loss allowance as at 1 January 2018	25,860	–	–	25,860
Changes in the loss allowance				
— Transfer to stage 2	(975)	975	–	–
— Decreases due to change in credit risk	(2,265)	–	–	(2,265)
Loss allowance as at 30 June 2018	22,620	975	–	23,595

Loss allowance is recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of debt instruments measured at FVTOCI (see accounting policy in Note 3).

Definition of Stage 1, Stage 2 and Stage 3 are as below:

Stage 1: Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND AMOUNT DUE FROM AN ASSOCIATE

	30 June 2018 *HK$'000* (Unaudited)	31 December 2017 *HK$'000* (Audited)
Associates:		
Cost of unlisted investments in associates	**17,062**	17,062
Share of results of associates	**9,499**	1,126
Exchange differences	**(64)**	477
	26,497	18,665

Details of principal investments accounted for using the equity method are disclosed as follows:

Name of entity	Country of incorporation	Interest held by the Group As at 30 June 2018	As at 31 December 2017	Principal activities
Hua Rong Bo Run International Investment Holdings Limited	HK	40%	40%	Investment holding
華融柏潤(珠海)資產管理有限公司	PRC	40%	40%	Asset management and advisory services for mergers and acquisitions

The share of (loss) profit arisen from Hua Rong Bo Run International Investment Holdings Limited, and from 華融柏潤(珠海)資產管理有限公司 for the period ended 30 June 2018 was loss of HK$5,250,000 (2017: profit of HK$164,000) and profit of HK$13,623,000 (2017: profit of HK$962,000) respectively.

During the prior interim period, the Group lost joint control over the joint venture as the Group had no participation right in the decision making in the future. The loss of joint control was a deemed disposal. The Group recognised the interest in Gold Brilliant Investment Limited as available-for-sale investment based on the fair value at the date of loss of joint control. The difference between the fair value and carrying amount before disposal was recognised as net gain on deemed disposal of approximately HK$200,705,000 in profit or loss in 2017. The loan provided by Concept Pioneer, a subsidiary of the company, to Gold Brilliant Investment Limited has been reclassified to "Other loans and receivables" with the balance of HK$497,542,000 as at the prior year end. During the current period, the Group has disposal of Concept Pioneer to an external third party.

The carrying amount of amount due from an associate Hua Rong Bo Run International Investment Holdings Limited was approximately HK$456,721,000 (31 December 2017: HK$1,532,328,000) as at 30 June 2018 with an interest rate of 7% per annum, repayable on 21 May 2022 and extendable to 2 years and a balance of interest receivable amounting to HK$2,402,000 (31 December 2017: HK$11,735,000). The carrying amount is shown net of credit allowance of HK$9,323,000 (31 December 2017: HK$30,916,000).

14. OTHER LOANS AND RECEIVABLES

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Other loans and receivables	**8,385,060**	9,493,366
Less: Provision for impairment	**(329,510)**	(190,206)
	8,055,550	9,303,160
Secured	**7,772,853**	8,463,519
Unsecured	**282,697**	839,641
	8,055,550	9,303,160
Analysed as:		
Current	**6,153,983**	4,149,535
Non-current	**1,901,567**	5,153,625
	8,055,550	9,303,160

As at 30 June 2018, other loans and receivables included loans to independent third parties which are secured and/or backed by guarantees and collaterals, with contractual interest rates ranging from 5% to 12% per annum (31 December 2017: 2% to 11% per annum) with contractual maturity ranging from approximately one month to two and a half years from 30 June 2018 (31 December 2017: approximately one month to three years).

As at 30 June 2018, other loans and receivables with carrying amount of approximately HK$7,612,853,000 (31 December 2017: HK$8,267,232,000) is secured by properties in Australia and the PRC, unlisted convertible bonds issued by a company listed in Hong Kong, listed equity issued by a company listed in Hong Kong and unlisted equity. The remaining carrying amount of approximately HK$160,000,000 (31 December 2017: HK$196,287,000) represents a 5% guaranteed note with contractual maturity of approximately one month from 30 June 2018 (contractual maturity of approximately eight months from 31 December 2017) and is secured by the borrower with a listed equity in Hong Kong and unlisted equity during the year/period.

As at 30 June 2018, unsecured other loans and receivables included a 8.5% redeemable fixed coupon notes with carrying amount of approximately HK$282,697,000 (31 December 2017: HK$334,013,000) with contractual maturity of approximately one year from 30 June 2018 (contractual maturity of approximately six months from 31 December 2017). The remaining carrying amount of approximately HK$ nil (31 December 2017: HK$505,628,000) represent unsecured other loans and receivables with personal or corporate guarantees.

The management of the Group believes that the collateral is sufficient to cover the entire balance for secured loans and no recent history of default of borrowers for unsecured loans.

As at 30 June 2018, the Group has concentration of credit risk as 43% (31 December 2017: 47%) of the total other loans and receivables was due from the Group's five largest borrowing customers. Interest income derived from other loans and receivables was recognised as "interest income from other loans and receivables" within "revenue".

Regular reviews on these loans are conducted by the risk management department based on the latest status of these loans, and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain effective control over its loans in order to minimise credit risk by regularly reviewing the borrowers' and/or guarantors' financial positions.

Analysis of the gross carrying amount of other loans and receivables is as follows:

	Stage 1 *HK$'000* (unaudited)	**Stage 2** *HK$'000* (unaudited)	**Stage 3** *HK$'000* (unaudited)	**Total** *HK$'000* (unaudited)
Gross carrying amount as at 1 January 2018	9,303,160	–	190,206	9,493,366
Transfer from/to 12-month ECL to lifetime ECL	(743,079)	311,640	431,439	–
Net lending made during the period	(1,546,626)	428,691	9,629	(1,108,306)
Gross carrying amount as at 30 June 2018	7,013,455	740,331	631,274	8,385,060

Movements in the provision for impairment of other loans and receivables are as follows:

30 June 2018

	Stage 1 12-month ECL *HK$'000* (unaudited)	**Stage 2 Lifetime ECL** *HK$'000* (unaudited)	**Stage 3 Lifetime ECL** *HK$'000* (unaudited)	**Impairment allowance under HKAS 39** *HK$'000* (unaudited)	**Total** *HK$'000* (unaudited)
As at 31 December 2017	–	–	–	190,206	190,206
Restated on adoption of HKFRS 9	3,900	–	190,206	(190,206)	3,900
Transfer from/to 12-month ECL to lifetime ECL	–	6,160	(6,160)	–	–
(Credited) charged to profit or loss	–	7,464	127,940	–	135,404
As at 30 June 2018	3,900	13,624	311,986	–	329,510

31 December 2017

	Total *HK$'000* (Audited)
As at 1 January 2017	50,077
Provision for impairment losses	140,129
As at 31 December 2017	190,206

There are no other loans and receivables that are past due but not impaired.

Interest income derived from other loans and receivables was recognised as "interest income from other loans and receivables" as set out in note 5. The carrying value of the other loans and receivables is approximate to their fair value.

15. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Loans to customers in margin financing	**5,034,194**	4,949,148
Less: provision for impairment	**(162,238)**	(929)
	4,871,956	4,948,219

The loans to customers in margin financing are interest-bearing and secured by the underlying pledged securities. The Group maintains a list of approved securities for margin lending at a specific loan to collateral ratio. Any excess in the lending ratio will trigger a margin call in the case of which the customers have to make additional funds for the shortfall.

Analysis of the gross carrying amount of advances to customers in margin financing is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gross carrying amount as at 1 January 2018	4,948,219	–	929	4,949,148
Transfer from/to 12-month ECL to lifetime ECL	(201,159)	–	201,159	–
Net (decrease) increase in lending to customers during the period	77,732	–	7,314	85,046
Gross carrying amount as at 30 June 2018	4,824,792	–	209,402	5,034,194

Definition of Stage 1, Stage 2 and Stage 3 is the same as the definition as detailed in note 12.

Movements in provision for impairment of advances to customers in margin financing are as follows:

30 June 2018

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Impairment allowance under HKAS 39**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
As at 31 December 2017	–	–	–	929	929
Restated on adoption of HKFRS 9	517	–	929	(929)	517
Transfer from/to 12-month ECL to lifetime ECL	(32)	–	32	–	–
Charged to profit or loss	762	–	160,030	–	160,792
As at 30 June 2018	1,247	–	160,991	–	162,238

31 December 2017

	Total
	HK$'000
	(Audited)
As at 1 January 2017	1,323
Reversal of provision for impairment losses, net	(394)
As at 31 December 2017	929

As advances to customers in margin financing are repayable on demand in nature, no ageing analysis is disclosed as in the opinion of the Directors of the Company, the ageing analysis does not give additional value in the view of the revolving nature of the business of securities margin financing.

16. ACCOUNTS RECEIVABLE

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Accounts receivable from		
— securities, futures and options dealing services		
— clients	**8,702**	7,653
— brokers, dealers and clearing houses	**8,375**	7,845
— corporate finance	**12,890**	56,368
— asset management	**8,230**	7,531
	38,197	79,397
Provision for impairment	**(1,204)**	(243)
	36,993	79,154

An aged analysis of the Group's accounts receivable, based on the trade date and net of provision for impairment, is as follows:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current to 1 month	**15,360**	75,199
1 to 3 months	**3,124**	1,734
3 months to 1 year	**9,605**	2,158
Over 1 year	**8,904**	63
	36,993	79,154

The movements in provision for impairment of accounts receivable are as follows:

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
At beginning of period/year	**243**	223
Provision of impairment, net	**961**	20
At end of period/year	**1,204**	243

17. RESTRICTED BANK BALANCES

The Group maintains segregated trust accounts with licenced banks to hold clients' monies arising from its normal course of business licenced by the Securities and Futures Commission. The Group has classified these clients' monies as restricted bank balances under the current assets section of the condensed consolidated statement of financial position and recognised the corresponding amounts payable to the respective clients on the ground that it is liable for any loss or misappropriation of these clients' monies. The Group is not permitted to use the clients' monies to settle its own obligations.

18. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

19. ACCOUNTS PAYABLE

As at 30 June 2018, included in the accounts payable is the account payable to financial institutions of approximately HK$2,732,122,000 (31 December 2017: HK$2,950,110,000) which is the margin financing accommodation to the Group for its investment trading. The balance is interest bearing at the rates ranging from 2.8% to 3.5% per annum (2017: 2.1% to 2.8%).

The accounts payable are unsecured and repayable on the settlement date of the relevant trades or upon demand from customers.

As at 30 June 2018, accounts payable with carrying amount of approximately HK$738,070,000 (31 December 2017: HK$686,662,000) are interest-bearing at bank savings deposit rates.

20. OTHER LIABILITIES, PAYABLES AND ACCRUALS

	30 June 2018	31 December 2017
	HK\$'000	*HK\$'000*
	(Unaudited)	(Audited)
Current portion:		
Other payables	**2,815**	4,437
Interest payables *(note (i))*	**246,519**	242,964
Accruals *(note (ii))*	**33,999**	54,444
Receipt in advance	**107,717**	88,402
Deferred income *(note (iii))*	**75,469**	64,331
	466,519	454,578
Non-current portion:		
Other payables	**1,416**	1,322
Deferred income *(note (iii))*	**160,795**	210,098
	162,211	211,420

Notes:

(i) Included in interest payables are the interest payables in relation to the loan from the intermediate holding company of an aggregate amount of US\$2,379,680,000 (31 December 2017: US\$2,379,680,000) at annual interest rates of ranging from 3.85% to 6.02% (31 December 2017: 3.85% to 6.02%) and loan from the ultimate holding company of an aggregate amount of RMB200,000,000 (31 December 2017: RMB500,000,000) at annual interest rates of 6.1% (31 December 2017: 5.7% to 6.1%) and HK\$43,486,000 (31 December 2017: HK\$38,242,000) interest payable in relation to bank borrowing.

(ii) Accruals mainly represent HK\$12,653,000 (31 December 2017: HK\$30,140,000) salaries and bonus payable.

(iii) As at 30 June 2018, deferred income mainly represents the day 1 gain or loss arising from put option investments with the underlying assets of listed securities that in respect of fair value is based on a valuation technique which included the significant unobservable input. Accordingly, the directors of the Company determine that the difference between the fair value at initial recognition and the transaction price shall be recognised and amortised to the profit or loss in accordance with the terms of the instruments and to the extent that market participants would take into account when pricing them.

21. INTEREST-BEARING BORROWINGS

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Bank loans	**12,389,898**	13,835,491
	12,389,898	13,835,491
Loan from the ultimate holding company	**237,220**	598,150
Loan from an intermediate holding company	**18,678,106**	18,604,336
	31,305,224	33,037,977
Secured	**1,933,078**	1,997,039
Unsecured	**29,372,146**	31,040,938
	31,305,224	33,037,977
The carrying amounts of the above borrowings are repayable*:		
Within one year	**18,468,191**	14,360,202
Within a period of more than one year but not exceeding two years	**3,273,591**	5,871,071
Within a period of more than two years but not exceeding five years	**6,440,785**	10,011,216
Within a period of more than five years	**3,122,657**	2,795,488
	31,305,224	33,037,977
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**10,766,820**	12,198,452
Within a period of more than one year but not exceeding two years	**1,030,028**	–
Within a period of more than two years but not exceeding five years	**593,050**	1,637,039
	12,389,898	13,835,491
Amount due within one year shown under current liabilities	**7,701,371**	2,161,750
Amount shown under current liabilities	**20,091,269**	15,997,241
Amount shown under non-current liabilities	**11,213,955**	17,040,736
	31,305,224	33,037,977

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

As at 30 June 2018, the Group had loans (the "**Company Loans**") amounting to approximately US$2,379,680,000 (equivalent to approximately HK$18,678,106,000) (31 December 2017: US$2,379,680,000 (equivalent to approximately HK$18,604,336,000)) from its intermediate holding company, China Huarong International Holdings Limited ("**CHIH**") and RMB200,000,000 (equivalent to approximately HK$237,220,000) (31 December 2017: RMB500,000,000 (equivalent to approximately HK$598,150,000)) from the ultimate holding company, China Huarong Asset Management Co., Ltd. ("**China Huarong**") for the expansion of the Group's business. The Company Loans bear interest at fixed interest rates ranging from 3.85% to 6.1% per annum (31 December 2017: 3.85% to 6.1% per annum) and are repayable in six months to nine years (31 December 2017: one month to ten years) from the end of the reporting period.

As at 30 June 2018, the Group has utilised bank loan facilities amounting to RMB1,368,417,000 (equivalent to approximately HK$1,623,078,000) (31 December 2017: RMB1,368,417,000 (equivalent to approximately HK$1,637,039,000)) which are secured by pledge of the Group's time deposits with carrying amount of approximately HK$1,941,778,000 (31 December 2017: HK$1,898,063,000) and repayable on demand.

In addition, bank borrowings of HK$310,000,000 (31 December 2017: HK$360,000,000) are secured by the listed shares (held by the Group as security for advances to customers in margin financing with the customers' consent) as at 30 June 2018. The Company had provided corporate guarantees in respect of the Group's utilised banking facilities to the extent of HK$610,000,000 (31 December 2017: HK$660,000,000). Certain indirect wholly-owned subsidiaries, namely Huarong International Securities Limited and Huarong International Capital Limited also provided corporate guarantees in respect of the Group's banking facilities to the extent of US$40,000,000 (equivalent to approximately HK$313,960,000) (31 December 2017: USD40,000,000 (equivalent to approximately HK$312,720,000)).

As at 30 June 2018, the Group has undrawn bank facilities of approximately HK$1,392,346,000 (31 December 2017: HK$1,963,232,000), and the Group utilised approximately HK$12,389,898,000 (31 December 2017: HK$13,835,491,000) of these banking facilities.

As at 30 June 2018, the Group did not fulfil certain financial covenants, primarily those relating to interest coverage, imposed by banks on some bank borrowings, which triggered further technical defaults because of cross default clauses in other bank borrowing arrangements. The aggregate amount of borrowings in respect of which there was a breach of financial covenants or cross default was HK$9,836 million (31 December 2017: HK$3,000,000,000) as at 30 June 2018. Accordingly, outstanding balances for these borrowings have been presented as current liabilities at end of the current period. The banks had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the respective loan agreements with the banks.

The bank had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors of the Company. Management is in the process of renegotiating the terms of the respective loan agreement with the bank.

22. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Analysed by collateral type:		
Bond	**3,218,741**	3,209,716
Preference shares	**1,177,140**	823,088
	4,395,881	4,032,804
Analysed by market:		
Inter-bank market	**4,395,881**	4,032,804

Sales and repurchase agreements are transactions in which the Group sells bonds and preference shares and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are pre-determined and the Group is still exposed to substantially all the credit risks, market risks and rewards of those bonds and preference shares sold.

As at 30 June 2018, the Group entered into repurchase agreements with different financial institutions to sell bonds and preference shares recognised as financial assets at FVTPL and FVTOCI with carrying amount of approximately HK$3,657,303,000 and HK$2,799,399,000 (31 December 2017: HK$6,366,176,000), which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price. These bonds and preference shares are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these bonds and preference shares.

23. PERPETUAL CAPITAL SECURITIES CLASSIFIED AS EQUITY INSTRUMENTS

	Principal	**Distribution**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Balance at 1 January 2017	–	–	–
Issuance of perpetual capital securities *(Note)*	1,186,854	–	1,186,854
Profit attributable to holder of perpetual capital securities	–	41,550	41,550
Distribution relating to perpetual capital securities	–	(19,186)	(19,186)
Balance at 31 December 2017 (audited)	1,186,854	22,364	1,209,218
Profit attributable to holder of perpetual capital securities	–	33,092	33,092
Distribution relating to perpetual capital securities	–	(33,507)	(33,507)
Balance at 30 June 2018 (unaudited)	1,186,854	21,949	1,208,803

Note: During the year ended 31 December 2017, the Company issued perpetual capital securities with the principal amount of US$152,964,000 (equivalent to approximately HK$1,190,323,000) to CHIH, an intermediate holding company of the Company, with an issuing cost approximately HK$3,469,000. The perpetual capital securities are classified as equity instruments, as there is no maturity of the instruments and the payments of distribution can be deferred into perpetuity at the discretion of the Company. When the Company elects to distribute, the distribution to the holder of perpetual capital securities shall be made at the distribution rate as set out in the subscription agreement.

24. DIVIDENDS

At a meeting of the Board held on 16 March 2018, the Board has resolved to pay a final dividend of HK1.70 cents per ordinary share in cash to shareholders for the year ended 31 December 2017. The final dividend was paid on 20 June 2018, with a total of approximately HK$61 million.

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2018 (30 June 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the six months ended 30 June 2018 (the "**Period**"), the Group recorded a revenue of approximately HK$1,107,670,000 (six months ended 30 June 2017 (the "**Last Period**"): approximately HK$865,281,000), net loss on financial assets at fair value through profit or loss of approximately HK$819,919,000 (Last Period: net gains of approximately HK$264,555,000), net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK$30,129,000 (Last Period: HK$ nil) and gain on disposal of available-for-sale investments was HK$ nil (Last Period: approximately HK$32,822,000). Therefore, total revenue and gains described above decreased to approximately HK$257,622,000 as compared to approximately HK$1,162,658,000 for the Last Period. Loss attributable to shareholders for the Period was approximately HK$1,156,342,000 as compared to the profit of approximately HK$584,149,000 in the Last Period. The result is due to the decrease in operating profit for the Period from the three operating segments, namely (i) asset management and direct investment segment; (ii) corporate finance segment; and (iii) securities segment. The performance of these segments will be discussed further below.

Basic loss per share was HK$32.22 cents for the Period as compared to earnings per share of HK$16.51 cents for the Last Period, and no diluted loss/earnings per share has been presented for the Period and Last Period as there was no diluted financial instrument for the six months ended 30 June 2018.

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2018 (30 June 2017: nil).

Market Review

In the first half of 2018, increasing volatility in the global economic recovery along with additional uncertainties arising from slower economic growth in major economies, higher inflation, tightening monetary policy cycle, escalating Sino-US trade frictions and strong appreciation of the US dollar has complicated the global economic situation. Tightening China's financial regulatory policies revealed financial risks. With the reform and transformation of the brokerage and asset management industry, overall industry experienced development challenges. However, the gross domestic product (GDP) of China increased 6.8% year on year and sustained the stable growth with its national economy maintaining a steady and upward development trend in general. Major macro-control indicators are within a reasonable range by continuously optimising economic structure and achieving initial results in the financial risk prevention and resolution, which made contribution to the steady improvement in quality and efficiency. Increasing favourable conditions towards high-quality economic development have laid the solid foundation for realising the main development goals in terms of economy and society throughout the year.

Leveraging on the closer economic relationship between China and the world, China experiences the rapid economic development and plays an increasingly important role in the development of global economy which would encourage the marketization and internationalization. Hong Kong plays a unique role in the China's 13th Five-Year Plan, the "One Belt, One Road" initiative and the development of The Guangdong — Hong Kong — Macau Greater Bay Area which would be the important opportunities of endlessly providing propelling force for Hong Kong economy.

Business Review

In the first half of 2018, the Group actively responded to changes in the external market and took more prudent measures with proactive adjustment of the compressed business scale and optimization of the structure. Due to the public concerns caused by personal incident of Mr. Lai Xiaomin, former chairman of the board of China Huarong on April 17, 2018, the Group has enhanced the control of public opinion and taken proactive measures to prevent and mitigate risks. We would be positive in dealing with the issues in relation to the significant provisions arising from project risk, the losses arising from changes in fair value and impairment loss arising from the margin financing business, as well as work together to overcome difficulties and strive to defuse the risks.

Asset Management and Direct Investment

The asset management and direct investment segment provides asset management services, direct investments in stocks, bonds, funds, derivative instruments and other financial products, as well as money lending services. In the first half of 2018, the Group has adopted a more cautious approach to business development in light of the current economic environment and the gradual implementation of the national "deleverage" policy. With more comprehensive review of credit risk and market risk of the investment, strict implementation of risk control measures, as well as the combination of various measures of post-investment management, the Group strengthened the control of the collaterals with early detection and response to the various changes in relation to market environment and customer operations, and strived to customise professional and comprehensive financial service solutions for the customers by seeking stable progress following our well-developed strategies as well as subdividing and optimising professional investment team which laid the foundation for the its high quality development. During the Period, the segment loss was approximately HK$56,798,000 as compared to the segment revenue of approximately HK$1,023,239,000 for the Last Period; the segment result was loss of approximately HK$205,681,000 as compared to gain of approximately HK$996,977,000 for the Last Period.

Corporate Finance

The corporate finance segment is devoted to providing institutional clients with comprehensive securities issuance and underwriting, financial advisory and financing arrangement services. Leveraging on the diversified client portfolio of China Huarong, the corporate finance segment continued to put greater efforts in market expansion and to explore effective cooperation among different licensed businesses. The Group promoted several USD bonds issuance in the first half of 2018. During the Period, revenue from the corporate finance segment significantly decreased to approximately HK$5,001,000 as compared to approximately HK$193,069,000 for the Last Period; the segment result was loss of approximately HK$1,274,000 as compared to gain of approximately HK$186,232,000 for the Last Period.

Securities

The securities segment comprises broking and dealing of securities, futures and options contracts and the provision of margin financing services. The revenue from the securities segment during the Period increased to approximately HK$245,716,000 as compared to approximately HK$190,406,000 for the Last Period; the segment result amounted to gain of approximately HK$62,511,000 as compared to gain of approximately HK$171,884,000 for the Last Period.

Prospect

Facing the new situation of internal and external environment in the second half of 2018, the Group will persistently strengthen our principal business and stick to our origin with proactive expansion of our licensed business. For assets management and direct investment, we will actively examine various risks and raise the benchmark for our customers as well as prudently carry out related business and strengthen various risk management measures such as market risk, credit risk and operational risk to improve customer access and risk control standards. For the margin financing business, we made an appropriate adjustment on the scale of the margin business to improve the quality of risk control according to the existing customer and project bases. The continued liquidity support of the controlling shareholder to the Group also provided a strong condition for the Group's development. Previous achievements and future developments are inseparable from the trust of shareholders and the contribution of employees. The Group insists on seeking stable progress following our well-developed strategies and achieves high quality development with positive international development and unique advantages of Hong Kong, which brought its financial licensed business into full play. The Group would create the professional team based on its functional positioning and market segmentation with an aim of building up features and brands, as well as striving to create greater value for shareholders and another bright year.

Capital Structure

As at 30 June 2018, the total number of issued shares of the Company (with the par value of HK$0.001 each) was 3,588,466,011 and the total equity attributable to shareholders was approximately HK$2,547,426,000 as compared to approximately HK$4,062,822,000 as at 31 December 2017, representing a decrease of approximately 37.3%.

Liquidity and Financial Resources

The Group reviewed the liquidity position regularly and managed liquidity position and financial resources actively according to the changes on economic environment and business development needs. As at 30 June 2018, the Group had total cash and cash equivalents amounting to approximately HK$2,959,807,000 as compared to HK$3,524,781,000 as at 31 December 2017, which has already excluded approximately HK$1,174,494,000 (as compared to HK$848,591,000 as at 31 December 2017) client funds that were kept in separate designated bank accounts. The Group's gearing ratio as at 30 June 2018 was 1,228.9% as compared to 813.2% as at 31 December 2017, being calculated as borrowings over the

Group's shareholders' equity. The increased gearing ratio is attributable to significant loss for the Period recorded by the Company. As at 30 June 2018, the Group obtained shareholder loans in an aggregate principal amount of approximately US$2,379,680,000 (equivalent to approximately HK$18,678,106,000) (the same as 31 December 2017) from CHIH and RMB200,000,000 (equivalent to approximately HK$237,220,000) (31 December 2017: RMB500,000,000) from China Huarong respectively, to support the business of the Group. As at 30 June 2018, the Group had outstanding bank borrowings of approximately HK$12,389,898,000 (as compared to HK$13,835,491,000 as at 31 December 2017).

As at 30 June 2018, the Group has undrawn bank facilities of approximately HK$1,392,346,000 (31 December 2017: HK$1,963,232,000), and the Group utilised approximately HK$12,389,898,000 (31 December 2017: HK$13,835,491,000) of these banking facilities.

As at 30 June 2018, the Group did not fulfill certain financial conditions, primarily interest coverage, imposed by banks on some bank borrowings, which triggered further technical defaults because of cross default clauses in other bank borrowing arrangements. The aggregate amount of borrowings that bank covenants were breached because of violation of financial condition or cross default clauses was HK$9,836,000,000 as at 30 June 2018 (31 December 2017: HK$3,000,000,000). These outstanding balance has been presented as current liabilities in current period ended due to the violation of financial condition or cross default clauses in respective bank loan agreements. In response to the above breach of financial terms, the Group actively explained to various banks after issuing an interim profit warning. The banks had not requested early repayment of the loan as of the date when these financial statements were approved by the Board. The management of the Company is in the process of renegotiating the terms of the respective loan agreement with banks.

For the subsidiaries licensed by the Securities and Futures Commission of Hong Kong, the Group ensures each of the subsidiaries maintains a liquidity level adequate to support the level of activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the level of business activities. During the Period, all the licensed subsidiaries have complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

Sufficient Liquidity Support Provided by China Huarong

In order to support the Group's financial stability, China Huarong as the Company's ultimate holding company has provided a Letter of Support in which China Huarong confirmed that it will provide adequate funds to enable the Group to meet in full its financial obligation as they fall due at least twelve months from the report date of the condensed consolidated financial statements for the six months ended 30 June 2018 and to continue operations as going concern entity.

By obtaining the letter of liquidity support from China Huarong, it is expected that the Group will be sufficient to meet the cash flow level required for continuing operations for the next twelve months based on the further estimation on the cash flow status for the next twelve months commencing from 1 July 2018.

Employee and Remuneration Policy

As at 30 June 2018, the Group employed a total of 154 employees as compared to 169 employees as at 31 December 2017. The Group's staff recruitment and promotion are primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which are formulated by reference to the market, are competitive and performance based.

Foreign Exchange Exposures

The Group's principal operations in Hong Kong and overseas are transacted and recorded in Hong Kong dollars and United States dollars, while principal operations in the PRC are transacted and recorded in Renminbi. The Group is not exposed to material foreign exchange risk because Hong Kong dollars are pegged with United States dollars, and the revenue from PRC operations only represents a small fraction of that of the Group. Other foreign currency exposure is relatively minimal to our total assets and liabilities. As a result, we consider that our foreign exchange risk exposure is manageable and the Group will closely monitor the risk exposure from time to time.

Contingent Liabilities

Regarding the alleged claims against Huarong International Securities Limited (formerly known as United Simsen Securities Limited) ("**HISL**"), an indirectly wholly owned subsidiary of the Company, which was previously disclosed in the audited financial statements of the Group for the period from 1 May 2015 to 31 December 2015, the plaintiff did not take any further action since August 2013 and there was no substantial progress as at 30 June 2018. The Group has sought legal advice on the alleged claims and the Directors consider that HISL has a good defence and has a strong case to pursue its counterclaim against the plaintiff. The Directors consider that it is not probable that there will be any significant financial impact to the Group arising from these alleged claims.

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

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2018, the Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, subject to any findings that may arise from the significant events in the current interim period referred to in the second paragraph under note 2 "BASIS OF PREPARATION" to the condensed consolidated financial statements for the six months ended 30 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. In response to specific enquiry by the Company, all Directors confirmed that they have fully complied with the required standards as set out in the aforesaid Model Code throughout the six months ended 30 June 2018.

REVIEW OF THE INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed the condensed consolidated financial statements of the Group for the six months ended 30 June 2018, including the accounting principles and practices adopted by the Group.

The Group's external auditor has carried out a review of the interim condensed consolidated financial statements 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., 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 the structure of certain fund investments and loans, and their valuation and recoverability. It is not practicable for the Company to estimate the impact 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."

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2018 will be despatched to shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.hrif.com.hk) in due course.

By order of the Board
Huarong International Financial Holdings Limited
Wang Qiang
Chairman

Hong Kong, 30 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Wang Qiang, Mr. Xu Yong and Dr. Niu Shaofeng, and the independent non-executive directors are Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and Mr. Guan Huanfei.