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**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)**

# FINAL RESULTS
# FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Huarong International Financial Holdings Limited (the "**Company**") is pleased to present to its shareholders the consolidated results of the Company and its subsidiaries (the "**Group**"), which is extracted from the audited consolidated financial statements for the year ended 31 December 2018 (the "**Year**"), together with the comparative figures for the year ended 31 December 2017 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS
*For the year ended 31 December 2018*

| | | **Year ended** | |
|---|---|---|---|
| | | **31 December 2018** | 31 December 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | | | |
| Commission and fee income | 5 | **201,413** | 472,900 |
| Interest income | 5 | **1,714,942** | 1,340,733 |
| Investment income | 5 | **355,200** | 209,397 |
| | | **2,271,555** | 2,023,030 |
| Net (losses) gains on financial assets at fair value through profit or loss | | **(1,347,321)** | 756,502 |
| Net loss arising from disposal of financial assets at fair value through other comprehensive income | | **(55,629)** | – |
| Gain on disposal of available-for-sale investments | | **–** | 55,358 |

| | Notes | Year ended 31 December 2018 HK$'000 | 31 December 2017 HK$'000 |
|---|---|---|---|
| Other income and gains or losses, net | *5* | **(4,345)** | (144,210) |
| Brokerage and commission expenses | | **(15,953)** | (10,375) |
| Administrative and other operating expenses | | **(225,845)** | (288,907) |
| Net gain on deemed disposal of a joint venture entity | | **–** | 200,705 |
| Net gain (loss) on disposal of subsidiaries | | **5,435** | (292) |
| Impairment losses, net of reversal | *6* | **(522,042)** | (170,671) |
| Finance costs | *8* | **(1,683,892)** | (1,158,237) |
| Share of result of associates | | **19,444** | 1,126 |
| (Loss) profit before tax | *7* | **(1,558,593)** | 1,264,029 |
| Income tax credit (expense) | *9* | **76,454** | (258,386) |
| (Loss) profit for the year | | **(1,482,139)** | 1,005,643 |
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | **(1,548,222)** | 964,093 |
| Holder of perpetual capital securities | | **66,083** | 41,550 |
| | | **(1,482,139)** | 1,005,643 |
| Basic (loss) earnings per share | *11* | **HK(43.14) cents** | HK27.06 cents |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | Notes | Year ended<br>**31 December 2018**<br>***HK$'000*** | <br>31 December 2017<br>*HK$'000* |
|---|---|---|---|
| (Loss) profit for the year | | **(1,482,139)** | 1,005,643 |
| **Other comprehensive income (expense)** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Fair value loss on available-for-sale investments | *13* | **–** | (5,039) |
| Reclassification adjustments relating to disposal of available-for-sale investments during the year | *13* | **–** | (55,358) |
| Fair value loss on financial assets at fair value through other comprehensive income | *14* | **(426,153)** | – |
| Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the year | *14* | **55,629** | – |
| Exchange differences on translation of foreign operations: | | | |
| Exchange differences arising from subsidiaries during the year | | **(6,421)** | 10,458 |
| Exchange differences on translation of financial statements of associates | | **(938)** | 477 |
| Other comprehensive expense for the year, net of tax | | **(377,883)** | (49,462) |
| Total comprehensive (expense) income for the year | | **(1,860,022)** | 956,181 |
| Total comprehensive (expense) income for the year attributable to: | | | |
| Owners of the Company | | **(1,926,105)** | 914,631 |
| Holder of perpetual capital securities | | **66,083** | 41,550 |
| | | **(1,860,022)** | 956,181 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2018*

| | | At 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | | |
| Property and equipment | | **13,301** | 22,027 |
| Other long term assets | | **4,327** | 5,250 |
| Intangible assets | | **3,316** | 3,316 |
| Financial assets at fair value through profit or loss | *12* | **1,719,076** | 4,896,282 |
| Available-for-sale investments | *13* | **–** | 7,611,244 |
| Financial assets at fair value through other comprehensive income | *14* | **2,716,175** | – |
| Other loans and receivables | *15* | **291,434** | 5,153,625 |
| Investments accounted for using the equity method | | **36,694** | 18,665 |
| Amount due from an associate | | **318,838** | 1,532,328 |
| Deferred tax assets | | **110,990** | 8,522 |
| Prepayments, deposits and other receivables | | **11,417** | 20,478 |
| Total non-current assets | | **5,225,568** | 19,271,737 |
| **Current assets** | | | |
| Advances to customers in margin financing | *16* | **4,072,424** | 4,948,219 |
| Accounts receivable | *17* | **160,347** | 79,154 |
| Interest receivable | | **16,872** | 184,435 |
| Prepayments, deposits and other receivables | | **88,240** | 152,779 |
| Contract assets | | **9,808** | – |
| Financial assets at fair value through profit or loss | *12* | **13,697,120** | 4,221,431 |
| Available-for-sale investments | *13* | **–** | 7,034,309 |
| Financial assets at fair value through other comprehensive income | *14* | **2,908,508** | – |
| Other loans and receivables | *15* | **5,979,776** | 4,149,535 |
| Amount due from an associate | | **1,720** | 11,735 |
| Tax recoverable | | **65,164** | – |
| Restricted bank balances | | **396,500** | 848,591 |
| Pledged bank deposits | | **–** | 1,898,063 |
| Cash and cash equivalents | | **2,401,797** | 3,524,781 |
| Total current assets | | **29,798,276** | 27,053,032 |
| **Current liabilities** | | | |
| Accounts payable | *18* | **2,269,848** | 3,758,807 |
| Other liabilities, payables and accruals | | **401,108** | 454,578 |
| Contract liabilities | | **38,511** | – |
| Interest-bearing borrowings | | **12,456,782** | 15,997,241 |
| Repurchase agreements | | **4,125,976** | 4,032,804 |
| Tax payable | | **135,973** | 181,516 |
| Financial liabilities at fair value through profit or loss | *12* | **401,429** | 194,981 |
| Total current liabilities | | **19,829,627** | 24,619,927 |

| | | At 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Net current assets** | | **9,968,649** | 2,433,105 |
| **Total assets less current liabilities** | | **15,194,217** | 21,704,842 |
| **Non-current liabilities** | | | |
| Other liabilities, payables and accruals | | **39,022** | 211,420 |
| Deferred tax liabilities | | **63,602** | 166,102 |
| Interest-bearing borrowings | | **13,021,146** | 17,040,736 |
| Financial liabilities at fair value through profit or loss | *12* | **–** | 223,762 |
| Total non-current liabilities | | **13,123,770** | 17,642,020 |
| Net assets | | **2,070,447** | 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 investments | | **1,208,369** | 1,209,218 |
| Share premium and reserves | | **858,490** | 2,850,016 |
| Total equity | | **2,070,447** | 4,062,822 |

*Notes:*

## 1. GENERAL

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

## 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

**Significant events in the current year**

As was disclosed in the notes to the interim financial report for the six months ended 30 June 2018, in light of the disciplinary investigation instigated by certain authorities in Mainland China against 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, the Company was taking proactive measures to protect the interests of the Group and, also, initiated an internal investigation, including into the structure of certain fund investments and loan arrangements, and their valuation and related recoverability. The internal investigation has been completed and the implications taken into account in preparing the consolidated financial statements.

## 3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale ("**AFS**") 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 consolidated financial statements for the year ended 31 December 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 HKFRSs**

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

| | |
|---|---|
| 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 HKFRS 4 | Applying HKFRS 9 Financial Instrument with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

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

**3.1 HKFRS 9 "Financial Instruments"**

In the current year, 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 other items (for example contract assets (if any)) 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 under ECL model) 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 comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

### 3.1.1 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement 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 | AFS investments | AFS 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 | 9,303,160 | 9,117,713 | 14,645,553 | (85,744) | – | 1,144,472 |
| Effect arising from initial application of HKFRS 9: | | | | | | | | | |
| **Reclassification** | | | | | | | | | |
| From AFS Investments | *(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 | 9,299,260 | 16,899,857 | – | – | (39,145) | 1,093,456 |

*Notes:*

*(a) AFS investments*

From AFS equity investments to FVTPL

At the date of initial application of HKFRS 9, the Group's listed preference share 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 AFS investments to financial assets at FVTPL. The Group did not elect to present in OCI for the fair value changes of the equity securities previously classified as AFS investments. 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 AFS 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 AFS investments to equity instruments at FVTOCI. The fair value gains of approximately HK$2 million relating to this investment previously carried at fair value was reclassified 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 AFS 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 HK$67 million was reclassified 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 AFS 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 FVTPL 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 investment revaluation reserve to retained profits at 1 January 2018.

(b) *Impairment under ECL model*

Such amount represents the impairment under 12-month ECL ("**12m ECL**") and lifetime 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 other long term assets, contract assets, 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 and hence have not been recorded due to being immaterial.

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** | **Additional impairment allowance under 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 assets at FVTOCI | – | 25,860 | 25,860 |
| Total | 191,135 | 30,277 | 221,412 |

Loss allowances for advances to customers in margin financing, other loans and receivables and financial assets at FVTOCI are measured on 12m ECL basis ("**Stage 1**") for those with no significant increase in credit risk since initial recognition, and measured on lifetime ECL basis for those with credit risk increased significantly ("**Stage 2**") or assessed to be credit-impaired ("**Stage 3**") since initial recognition.

### 3.2 HKFRS 15 "Revenue from Contracts with Customers"

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

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

The Group recognises revenue from the following major sources:

- Commission income on securities dealing and broking;
- Commission income on underwriting and placing;
- Consultancy and financial advisory 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).

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

At the date of initial application, included in other liabilities, payables and accurals are receipt in advance from customers of non-current portion and current portion of HK$211 million and HK$455 million respectively for consultancy and financial advisory fee income. These balances were reclassified to non-current portion and current portion contract liabilities upon application of HKFRS 15. Other than that, the application of HKFRS 15 in current year has had no material effect on the Group's financial performance and positions for the current year and prior years and/or disclosures set out in these consolidated financial statements.

The following adjustment were made to the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2017 | Adjustments | Carrying amounts under HKFRS 15 at 1 January 2018 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **NON-CURRENT LIABILITIES** | | | |
| Other liabilities, payables and accruals | 211,420 | (13,333) | 198,087 |
| Contract liabilities | – | 13,333 | 13,333 |
| **CURRENT LIABILITIES** | | | |
| Other liabilities, payables and accruals | 454,578 | (58,962) | 395,616 |
| Contract liabilities | – | 58,962 | 58,962 |

## 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 Group has determined the Executive Committee as its chief operating decision maker.

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

(a) the securities segment comprises the 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 and financial advisory services to institutional clients; and

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

Segment performance is evaluated based on reportable segment result, which is measured consistently with the Group's (loss) profit before tax except that certain other income and gains or losses, certain finance costs and other unallocated expenses (including certain staff costs, certain rental expenses, certain legal and professional fees and certain other expenses, incurred for strategic planning of the Group) are excluded from such measurement.

**(a) Operating segments**

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

*For the year ended 31 December 2018*

| | Securities *HK$'000* | Corporate finance *HK$'000* | Asset management and direct investment *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Commission and fee income | **59,602** | **30,894** | **110,917** | **201,413** |
| Interest income | **426,463** | **–** | **1,288,479** | **1,714,942** |
| Investment income | **–** | **–** | **355,200** | **355,200** |
| | **486,065** | **30,894** | **1,754,596** | **2,271,555** |
| Net losses on financial assets at FVTPL | **–** | **–** | **(1,347,321)** | **(1,347,321)** |
| Net loss arising from disposal of financial assets at FVTOCI | **–** | **–** | **(55,629)** | **(55,629)** |
| Share of result of associates | **–** | **–** | **19,444** | **19,444** |
| Gain on disposal of a subsidiary | **–** | **–** | **5,435** | **5,435** |
| Other income and gains or losses, net | **12,312** | **(11)** | **5,292** | **17,593** |
| | **498,377** | **30,883** | **381,817** | **911,077** |
| **Segment results** | **(166,468)** | **22,560** | **(1,247,067)** | **(1,390,975)** |
| Other unallocated income and gains or losses, net | | | | **(21,938)** |
| Other unallocated expenses, net | | | | **(145,680)** |
| Loss before tax | | | | **(1,558,593)** |
| **Amounts included in measurement of segment profit or loss:** | | | | |
| Finance costs | **(234,892)** | **–** | **(1,449,000)** | **(1,683,892)** |
| Net provision for impairment of advances to customers in margin financing and accounts receivable | **(397,150)** | **–** | **–** | **(397,150)** |
| Net provision for impairment of other loans and receivables | **–** | **–** | **(150,514)** | **(150,514)** |
| Net reversal of impairment of amount due from an associate | **–** | **–** | **21,127** | **21,127** |
| Net reversal of impairment of financial assets at FVTOCI | **–** | **–** | **4,495** | **4,495** |

*For the year ended 31 December 2017*

| | Securities<br>*HK$'000* | Corporate finance<br>*HK$'000* | Asset management and direct investment<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Commission and fee income | 42,598 | 314,361 | 115,941 | 472,900 |
| Interest income | 358,632 | – | 982,101 | 1,340,733 |
| Investment income | – | – | 209,397 | 209,397 |
| | 401,230 | 314,361 | 1,307,439 | 2,023,030 |
| Gain on disposal of AFS investments | – | – | 55,358 | 55,358 |
| Net gains on financial assets at FVTPL | – | – | 756,502 | 756,502 |
| Net loss arising from disposal of subsidiaries | – | – | (292) | (292) |
| Net gain on deemed disposal of a joint venture entity | – | – | 200,705 | 200,705 |
| Share of result of associates | – | – | 1,126 | 1,126 |
| Other income and gains or losses, net | 6,085 | 357 | (121,527) | (115,085) |
| | 407,315 | 314,718 | 2,199,311 | 2,921,344 |
| **Segment results** | 169,523 | 298,604 | 1,021,589 | 1,489,716 |
| Other unallocated income and gains or losses, net | | | | (29,125) |
| Other unallocated expenses | | | | (196,562) |
| Profit before tax | | | | 1,264,029 |
| **Amounts included in measurement of segment profit or loss:** | | | | |
| Finance costs | (196,291) | – | (947,787) | (1,144,078) |
| Net reversal of impairment of advances to customers in margin financing and accounts receivable | 374 | – | – | 374 |
| Net provision for impairment of other loans and receivables | – | – | (140,129) | (140,129) |
| Net provision for impairment of amount due from an associate | – | – | (30,916) | (30,916) |

*As at 31 December 2018*

| | **Securities** *HK$'000* | **Corporate finance** *HK$'000* | **Asset management and direct investment** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Total segment assets | **5,748,615** | **90,540** | **28,649,172** | **34,488,327** |
| Other unallocated assets *(note i)* | | | | **535,517** |
| Total assets | | | | **35,023,844** |
| Total segment liabilities | **901,501** | **7,133** | **8,574,169** | **9,482,803** |
| Other unallocated liabilities *(note ii)* | | | | **23,470,594** |
| Total liabilities | | | | **32,953,397** |

*For the year ended 31 December 2018*

| | **Securities** *HK$'000* | **Corporate finance** *HK$'000* | **Asset management and direct investment** *HK$'000* | **Unallocated** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|---|
| Other segment information: | | | | | |
| Income tax (expense) credit | **(2,840)** | **(5,460)** | **(16,795)** | **101,549** | **76,454** |
| Net loss on financial liabilities at FVTPL | **–** | **–** | **(25,881)** | **–** | **(25,881)** |
| Depreciation | **(1,333)** | **–** | **(634)** | **(6,968)** | **(8,935)** |
| Additions of property and equipment | **136** | **–** | **1,198** | **700** | **2,034** |
| Investments accounted for using the equity method | **–** | **–** | **36,694** | **–** | **36,694** |

*As at 31 December 2017*

| | Securities *HK$'000* | Corporate finance *HK$'000* | Asset management and direct investment *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Total segment assets | 5,993,311 | 120,534 | 35,328,280 | 41,442,125 |
| Other unallocated assets *(note i)* | | | | 4,882,644 |
| Total assets | | | | 46,324,769 |
| Total segment liabilities | 1,537,260 | 363,556 | 9,870,681 | 11,771,497 |
| Other unallocated liabilities *(note ii)* | | | | 30,490,450 |
| Total liabilities | | | | 42,261,947 |

*For the year ended 31 December 2017*

| | Securities *HK$'000* | Corporate finance *HK$'000* | Asset management and direct investment *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| Other segment information: | | | | | |
| Income tax expense | (91,000) | (9,419) | (103,845) | (54,122) | (258,386) |
| Net loss on financial liabilities at FVTPL | – | – | (168,462) | – | (168,462) |
| Depreciation | (663) | (19) | (826) | (6,035) | (7,543) |
| Additions of property and equipment | 3,452 | – | – | 7,606 | 11,058 |
| Investments accounted for using the equity method | – | – | 18,665 | – | 18,665 |

*Note i:* The balance comprises bank balances of HK$421,621,000 (2017: HK$4,749,514,000), prepayments, deposits and other receivables of HK$30,519,000 (2017: HK$116,572,000), tax recoverable of HK$57,440,000 (2017: HK$nil) deferred tax assets of HK$16,418,000 (2017: HK$nil) and property and equipment of HK$9,519,000 (2017: HK$16,558,000).

*Note ii:* The balance comprises other payables and accruals of HK$242,353,000 (2017: HK$290,539,000), tax payables of HK$nil (2017: HK$57,123,000) and interest-bearing borrowings of HK$23,228,241,000 (2017: HK$30,142,788,000). These liabilities are not allocated to each segment above and not regularly reviewed by the Executive Committee while certain finance costs from these liabilities are relevant to its review and allocated to respective segments accordingly.

**(b) Geographical information**

The Group's operations are located in Hong Kong and the PRC.

Information about the Group's revenue from external customers is presented based on the location of the operations.

Information about the Group's non-current assets is presented based on the geographical location of the assets.

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2018** ***HK$'000*** | 2017 *HK$'000* | **2018** ***HK$'000*** | 2017 *HK$'000* |
| Hong Kong | **2,165,838** | 1,860,163 | **26,106** | 56,040 |
| PRC | **105,717** | 162,867 | **38,622** | 13,696 |
| | **2,271,555** | 2,023,030 | **64,728** | 69,736 |

*Note:* Non-current assets excluded financial instruments and deferred tax assets.

**(c) Information about major customers**

No customer contributed over 10% of total revenue of the Group for the year ended 31 December 2018 (2017: nil).

## 5. REVENUE AND OTHERS INCOME AND GAINS OR LOSSES, NET

| | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| Revenue *(note (i))* | | |
| Commission and fee income *(note (ii)):* | | |
| Fee and commission income on securities dealing and broking | **27,637** | 23,228 |
| Placing and underwriting fee income | **4,497** | 33,678 |
| Consultancy and financial advisory fee income | **152,994** | 338,807 |
| Fund subscription and management fee income | **16,050** | 54,495 |
| Other service income | **235** | 22,692 |
| | **201,413** | 472,900 |
| Interest income: | | |
| Interest income from other loans and receivables | **430,831** | 537,439 |
| Interest income from loan to an associate | **62,748** | 67,677 |
| Interest income from financial assets at FVTPL | **460,773** | 72,764 |
| Interest income from financial assets at FVTOCI | **334,128** | – |
| Interest income from margin financing activities | **426,462** | 358,632 |
| Interest income from AFS investments | **–** | 304,221 |
| | **1,714,942** | 1,340,733 |
| Investment income: | | |
| Dividend income | **355,200** | 209,397 |
| | **2,271,555** | 2,023,030 |
| **Other income and gains or losses, net** | | |
| Bank interest income | **39,241** | 27,047 |
| Foreign exchange differences, net | **(29,560)** | (45,851) |
| Net loss on financial liabilities at FVTPL | **(25,881)** | (168,462) |
| Others | **11,855** | 43,056 |
| | **(4,345)** | (144,210) |

*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 consolidated financial statements for the year ended 31 December 2018. Accordingly, comparative information has been reclassified to conform to the current year'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. IMPAIRMENT LOSSES, NET OF REVERSAL

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Net provision for impairment of other loans and receivables | **150,514** | 140,129 |
| Net (reversal of) provision for impairment of amount due from an associate | **(21,127)** | 30,916 |
| Net provision for (reversal of) impairment of advances to customers in margin financing and accounts receivable | **397,150** | (374) |
| Net reversal of impairment of financial assets at FVTOCI | **(4,495)** | — |
| | **522,042** | 170,671 |

## 7. (LOSS) PROFIT BEFORE TAX

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| The Group's (loss) profit before tax is arrived at after charging (crediting): | | |
| Depreciation | **8,935** | 7,543 |
| Loss/(gain) on disposal of items of property and equipment | **244** | (45) |
| Minimum lease payments under operating leases: | | |
| Office premises | **44,140** | 42,803 |
| Office equipment | **207** | 216 |
| | **44,347** | 43,019 |
| Provision for reinstatement | **1,095** | 2,281 |
| Auditor's remuneration | **4,290** | 3,205 |
| Legal and professional fees | **12,206** | 10,169 |
| Directors' and chief executive's remuneration | **3,623** | 8,743 |
| Employee benefit expenses (excluding directors' and chief executive's remuneration): | | |
| Salaries and other benefits* | **90,347** | 117,249 |
| Pension scheme contributions (defined contribution scheme) | **2,228** | 2,469 |
| Provision for long service payments, net | **94** | 126 |
| Provision for unused annual leaves | **298** | 1,096 |

* Approximately HK$197,000 (2017: HK$114,000) was included in "Brokerage and commission expenses" in the consolidated statement of profit or loss.

## 8. FINANCE COSTS

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on bank borrowings | **571,496** | 277,318 |
| Interest on repurchase agreements and other activities | **128,487** | 19,284 |
| Interest on borrowings from an intermediate holding company | **934,856** | 814,555 |
| Interest on borrowings from the ultimate holding company | **49,053** | 47,080 |
| | **1,683,892** | 1,158,237 |

## 9. INCOME TAX (CREDIT) EXPENSE

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current tax: | | |
| Hong Kong | **128,458** | 186,384 |
| PRC | **221** | 13,412 |
| | **128,679** | 199,796 |
| Overprovision in prior year: | | |
| Hong Kong | **(165)** | (39) |
| Deferred tax | **(204,968)** | 58,629 |
| | **(76,454)** | 258,386 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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% for the year.

## 10. DIVIDENDS

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividends for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2017 Final — HK1.7 cents per share | **61,004** | – |
| | **61,004** | – |

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 directors do not recommend the payment of any dividend for the year.

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

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

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss) earnings** | | |
| (Loss) profit for the year attributable to owners of the Company used as (loss) earnings for the purpose of basic (loss) earnings per share | **(1,548,222)** | 964,093 |

| | **Number of shares** | |
|---|---|---|
| | **2018** | 2017 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **3,588,466** | 3,563,335 |

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

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Assets** | | |
| Non-current: | | |
| — Unlisted convertible bonds and convertible notes *(notes (i))* | **–** | 2,136,536 |
| — Unlisted fund investments *(note (iii))* | **1,719,076** | 2,759,746 |
| | **1,719,076** | 4,896,282 |
| Current: | | |
| — Listed preference shares | **3,173,540** | 469,080 |
| — Unlisted preference shares *(note (iv))* | **360,000** | – |
| — Unlisted convertible bonds and convertible notes *(notes (i))* | **1,675,555** | 79,394 |
| — Unlisted convertible bonds with put option *(notes (ii))* | **192,500** | 398,302 |
| — Unlisted fund investments *(note (iii))* | **5,341,891** | – |
| — Listed equity investments | **2,247,212** | 2,883,081 |
| — Listed debt investments | **474,693** | 101,209 |
| — Unlisted put options on listed equity investments, at fair value *(note (iv))* | **231,729** | 272,852 |
| — Unlisted put options on unlisted equity investments, at fair value *(note (iv))* | **–** | 17,513 |
| | **13,697,120** | 4,221,431 |
| **Liabilities** | | |
| Current: | | |
| Payables to interest holders of unlisted consolidated investment funds, measured at FVTPL *(note (v))* | **401,429** | 194,981 |
| Non-current: | | |
| Payables to interest holders of unlisted consolidated investment fund, measured at FVTPL *(note (v))* | **–** | 223,762 |

(i) The unlisted convertible notes with the principal amount of US$30,000,000 or equivalent to HK$233,625,000 (2017: US$40,000,000 or equivalent to HK$310,660,000) with fixed interest rate of 4.5% per annum payable semi-annually and conversion price of HK$3.00 (2017: HK$3.00) per share, was issued by a listed company in Hong Kong with the due date on 10 March 2019 (the "**Convertible Note 1**"). During the current year, the Convertible Note 1 with principal amount of US$10,000,000 (2017: nil) were converted into shares. As at 31 December 2018, the fair value of the Convertible Note 1 is HK$310,178,000 (2017: HK$557,775,000), which was estimated by an independent firm of professional valuers.

Subsequent to the current year end, the Group has entered the sales and purchases agreement with an independent individual on 3 March 2019 to dispose of the Convertible Note 1 with the consideration of US$52,000,000 or equivalent to HK$405,600,000, subject to the completion condition of (i) obtaining the consent of the issuer of Convertible Note 1 and (ii) the purchaser's fulfilment of the obligations under the payment arrangement letter entered into between the purchaser and the Group. Up to the date of this report, the transaction has been completed and fully settled.

The unlisted convertible notes with the principal amount of HK$500,000,000 (2017: HK$500,000,000) with the fixed interest rate of 7% per annum payable semi-annually and conversion price of HK$3.476 (2017: HK$3.476) per share, was issued by a listed company in Hong Kong with the due date on 20 May 2019 (the "**Convertible Note 2**"). As at 31 December 2018, the fair value of the Convertible Note 2 is HK$523,149,000 (2017: HK$757,472,000), which was estimated by an independent firm of professional valuers.

The unlisted convertible notes with the principal amount of HK$75,000,000 (2017: HK$75,000,000) with the fixed interest rate of 5% per annum payable semi-annually and conversion price of HK$0.675 (2017: HK$0.675) per share, was issued by a listed company in Hong Kong with the due date on 25 October 2018 (the "**Convertible Note 3**") and it has not yet been settled. The convertible option expired on the due date. As at 31 December 2018, the fair value of the instrument amounted to approximately HK$52,500,000 (2017: HK$79,394,000), which was determined based on discounted cash flow by taking into account of the credit risk of the issuer and the management judgement on the debt restructuring status and future development.

The unlisted convertible bonds with the principal amount of HK$800,000,000 (2017: HK$800,000,000) with a fixed interest rate of 7% per annum for the first year and 8% per annum for the second year up to maturity date and payable semi-annually with conversion price of HK$3.27 (2017: HK$3.27) per share, was issued by a listed company in Hong Kong with the due date on 31 December 2019 (the "**Convertible Note 4**"). As at 31 December 2018, the fair value of the Convertible Note 4 is HK$789,728,000 (2017: HK$821,289,000), which was estimated by an independent firm of professional valuers.

(ii) As at 31 December 2018, the unlisted convertible bonds with principal amount of HK$275,000,000 (2017: HK$275,000,000) with the fixed interest rate of 4% per annum payable quarterly and conversion price of HK$3.85 (2017: HK$ $3.85) per share, was issued by a listed company in Hong Kong with the due date on 12 November 2018 (the "**Convertible Note 5**") and it has yet been settled. Put option in relation to the convertible bonds was granted by an independent third party to the Group and was expired as at 31 December 2018. As at 31 December 2018, the fair value of the put option amounted to nil (2017: HK$83,270,000). As at 31 December 2018, the fair value of the Convertible Note 5 amounted to approximately HK$192,500,000 (2017: HK$315,032,000), which was determined based on discounted cash flow by taking into account of the credit risk of the issuer and the management judgement on the debt restructuring status and future development.

(iii) As at 31 December 2018, included in financial assets at FVTPL are unlisted fund investments of approximately HK$7,060,967,000 (2017: HK$2,759,746,000) 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 to transfer the unlisted fund investment of approximately HK$1,719,076,000 to third parties within the next twelve months and has accordingly classified them as non-current assets. Subsequent to the current year end but before the reporting date, there are distribution and redemption of capital investment totally of approximately HK$3,690,996,000 from four investment funds managed by independent fund managers.

(iv) In the prior year, the Group purchased listed securities together with a put option ("**Put Option 1**") 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 have not been sold till then, at a price determined in accordance with the put option agreement. As at 31 December 2018, Put Option 1 has been expired and the fair value of Put Option 1 amounted to nil as at 31 December 2018 (2017: HK$49,213,000).

As at 31 December 2018, the principal amount of the unlisted preferences shares with a put option ("**Put Option 2**") at an aggregate consideration was approximately HK$900,000,000 (2017: 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. The fair value of Put Option 2 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 13. As at initial application date of HKFRS 9, it has been classified as financial assets at FVTPL as set out in note 3.

During the current year, the issuer has failed to pay the first annual preferential dividends of HK$54,000,000 which was due and payable to the Group on 9 June 2018. On 21 June 2018, the Group delivered a put option notice to the issuer according to the event of default put option stated in the relevant agreements with a total put price of HK$976,500,000. According to the relevant agreement, the transaction is required to be settled within 7 business days after the date of the put notice is delivered and the preference shares will be transferred only when it is settled. As at 31 December 2018, the transaction was not settled and the preference shares are not transferred. Accordingly, the transaction is considered not yet completed. The fair value of the unlisted preferences shares amounted to approximately HK$360,000,000, which was determined based on discounted cash flow by taking into account of the credit risk of the issuer.

In the prior year, the Group purchased listed securities together with a put option ("**Put Option 3**") at an aggregate consideration of approximately HK$181,073,000. 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 have not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the Put Options 3 amounted to approximately HK$75,380,000 as at 31 December 2018 (2017: HK$84,461,000), which was estimated by an independent firm of professional valuers.

In the prior year, the Group purchased listed securities together with a put option ("**Put Option 4**") at an aggregated consideration of approximately HK$728,671,000. 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 have not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the Put Option 4 amounted to approximately HK$119,410,000 as at 31 December 2018 (2017: HK$135,622,000), which was estimated by an independent firm of professional valuers.

As at 31 December 2018, the Group held two put option contracts in relation to listed securities with the fair value of HK$36,939,000 (2017: HK$3,556,000), which was estimated by an independent firm of professional valuers.

(v) As at 31 December 2018 and 31 December 2017, included in financial liabilities at FVTPL are the payables to interest holders of unlisted consolidated investment funds.

As at 31 December 2018 and 31 December 2017, a wholly-owned subsidiary of the Group held 65% interests in Paragon Resort 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 FVTPL of approximately HK$95,727,000 as at 31 December 2018 (2017: HK$51,121,000).

As at 31 December 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 FVTPL of approximately HK$226,726,000 as at 31 December 2018 (2017: HK$143,860,000).

As at 31 December 2018 and 31 December 2017, a wholly-owned subsidiary of the Group held 90% interests in Growth Fund mentioned in note (i) 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 FVTPL of approximately HK$78,976,000 as at 31 December 2018 (2017: HK$223,762,000).

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

## 13. AVAILABLE-FOR-SALE INVESTMENTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current: | | |
| Listed debt investments, at fair value | **–** | 3,891,956 |
| Unlisted fund investments, at fair value | **–** | 2,815,649 |
| Unlisted equity investment, 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 |

During the year ended 31 December 2017, the loss in respect of changes in fair value of the Group's AFS investments recognised in other comprehensive income amounted to approximately HK$5,039,000. During the year ended 31 December 2017, the Group disposed of AFS investments with proceeds of approximately HK$5,764,696,000 to independent third parties, a gain of approximately HK$55,358,000 was reclassified from other comprehensive income to profit or loss upon disposal.

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

In addition, listed debt investments and unlisted equity investments amounting to HK$6,863 million were reclassified from AFS investments to financial assets at FVTOCI. Details of the reclassification are set out in note 3.

## 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current: | | |
| Listed debt investments, at fair value | **2,716,175** | – |
| Current: | | |
| Listed debt investments, at fair value | **2,908,508** | – |
| | **5,624,683** | – |

During the year, 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$426,153,000. During the year, the Group disposed of financial assets at FVTOCI with proceeds of approximately HK$1,935,773,000 to independent third parties, and a loss of approximately HK$55,629,000 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 FVTOCL" within "revenue".

## 15. OTHER LOANS AND RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other loans and receivables | **6,614,053** | 9,493,366 |
| Less: Provision for impairment | **(342,843)** | (190,206) |
| | **6,271,210** | 9,303,160 |
| Secured | **6,032,149** | 8,463,519 |
| Unsecured | **239,061** | 839,641 |
| | **6,271,210** | 9,303,160 |
| Analysed as: | | |
| Current | **5,979,776** | 4,149,535 |
| Non-current | **291,434** | 5,153,625 |
| | **6,271,210** | 9,303,160 |

As at 31 December 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 14% per annum (2017: 2% to 11% per annum) with contractual maturity date up to two years from 31 December 2018 (2017: up to three years).

As at 31 December 2018, other loans and receivables with carrying amount of approximately HK$6,032,149,000 (2017: HK$8,463,519,000) are 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.

As at 31 December 2018, unsecured other loans and receivables included a redeemable fixed coupon notes with carrying amount of HK$239,061,000 (2017: HK$334,013,000) and other loans and receivables with personal or corporate guarantees with carrying amount of nil (2017: HK$505,628,000). The contractual maturity date is up to six months from 31 December 2018 (2017: six months). The contractual interest rate is 8.5% per annum (2017: ranging from 3.6% to 8.5% per annum).

As at 31 December 2018, the Group has concentration of credit risk as 58% (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.

As at 31 December 2018, included in the Group's loan receivables balance are borrowers with aggregate carrying amount of HK$1,016,379,000 which are past due as at the reporting date, of which HK$1,004,637,000 has been past due 90 days or more. The directors of the Company considers credit risks have increased significantly and those past due more than 90 days are considered as credit impaired. As at 31 December 2017, there are no loans and receivables that are past due but not impaired.

## 16. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loans to customers in margin financing | **4,470,932** | 4,949,148 |
| Less: provision for impairment | **(398,508)** | (929) |
| | **4,072,424** | 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 available for the shortfall.

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.

The Group allows a credit period of up to the settlement dates of the respective securities, futures, options transactions or a credit period mutually agreed with the contracting parties. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables so as to minimise credit risk. Loans for margin financing are secured by the pledge of customers' securities as collateral. The credit facility limits to customers in margin financing are determined by the market value of the collateral securities accepted by the Group. Overdue balances are reviewed regularly by the management.

All the pledged securities are listed equity securities in respective stock exchanges as at 31 December 2018 and 2017. The loans are repayable on demand subsequent to settlement date and normally carry interest at Hong Kong Prime Rate + 1% to Hong Kong Prime Rate + 15% per annum (2017: Hong Kong Prime Rate + 2.5% to Hong Kong Prime Rate + 7.25% per annum). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the outstanding amount exceeds the eligible margin value of securities deposited. The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients.

## 17. ACCOUNTS RECEIVABLE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts receivable from: | | |
| — securities, futures and options dealing services | | |
| — clients | **4,832** | 7,653 |
| — brokers, dealers and clearing houses | **135,262** | 7,845 |
| — corporate finance | **20,264** | 56,368 |
| — asset management | **320** | 7,531 |
| | **160,678** | 79,397 |
| Provision for impairment | **(331)** | (243) |
| | **160,347** | 79,154 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–60 days | **154,975** | 75,199 |
| 61–90 days | **444** | 1,734 |
| 91–365 days | **4,066** | 2,158 |
| Over 365 days | **862** | 63 |
| | **160,347** | 79,154 |

The ageing analysis of the accounts receivable that are past due but not impaired is as follows:

| | 2017 |
|---|---|
| | *HK$'000* |
| Less than 30 days past due | 34,137 |
| 31–90 days past due | 1,734 |
| 91–365 days past due | 2,158 |
| Over 365 days past due | 63 |
| | 38,092 |

## 18. ACCOUNTS PAYABLE

An aged analysis of the Group's accounts payable, based on the settlement due date, is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current to 1 month | **2,269,848** | 3,758,807 |

As at 31 December 2018, included in the accounts payable is the accounts payable to financial institutions of approximately HK$1,869,089,000 (2017: HK$2,950,110,000) which is maintained for investment trading. The balance is interest bearing at the rates ranging from 2.8% to 3.9% per annum (2017: 2.1% to 2.8%).

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

As at 31 December 2018, accounts payable with carrying amount of approximately HK$398,402,000 (2017: HK$686,662,000) are interest-bearing at bank savings deposit rates.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018, the Group recorded a revenue of approximately HK$2,271,555,000 (year ended 31 December 2017 (the "**Last Year**"): approximately HK$2,023,030,000), net loss on financial assets at fair value through profit or loss of approximately HK$1,347,321,000 (Last Year: net gains of approximately HK$756,502,000), net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK$55,629,000 (Last Year: HK$ nil) and gain on disposal of available-for-sale investments was HK$ nil (Last Year: approximately HK$55,358,000). Therefore, total revenue and gains described above decreased to approximately HK$868,605,000 as compared to approximately HK$2,834,890,000 for the Last Year. Loss attributable to shareholders for the Year was approximately HK$1,548,222,000 as compared to the profit attributable to shareholders of approximately HK$964,093,000 for the Last Year. The result is due to the decrease in operating profit for the Year 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$43.14 cents for the Year as compared to basic earnings per share of HK$27.06 cents for the Last Year, and no diluted loss/earnings per share has been presented for the Year and the Last Year as there was no diluted financial instrument for the year ended 31 December 2018.

## MARKET REVIEW

In 2018, the global economy has experienced ups and downs. Financial markets and commodity prices fluctuated sharply, global investment plunged drastically, and international trade protectionism and unilateralism prevailed. The overall economic market underwent dramatic adjustments triggered by factors such as trade frictions, Fed hikes rate and geopolitical risks. Although China's economy was facing changes amid stability with worrying concerns and increased downward pressure, there were still favourable internal conditions to support stable development of China's economy. China's economy was still operating within a reasonable range. In the Year, the gross domestic product (GDP) of China, exceeding for the first time ever RMB90 trillion, grew by 6.6% as compared to the Last Year and its growth rate ranked first among the top five economies in the world.

The national economy of China has maintained steady progress. The stabilized macro-leverage ratio, remarkable success in poverty alleviation and the deepened reforms in structure of the supply-side provided guarantees for economic development. The capital market of Hong Kong had a standardized market system, advanced commercial infrastructure, a fair and transparent regulatory system and a low tax-rate environment. With the development of the Greater Bay Area of Guangdong, Hong Kong and Macao and the continuously deepening of the "One Belt, One Road" initiative, together with the opening up of Guangzhou-Shenzhen-Hong Kong High Speed Rail Hong Kong section and the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong market gained new development momentum.

## BUSINESS REVIEW

In 2018, global economic environment became complex and rapidly changing while securities market in Hong Kong kept slumping. The Group increased its provision for project risks, and unrealised (non-cash) losses arising from the unfavorable fair value movements in financial assets at fair value through profit and loss also increased significantly. In response to various internal and external challenges, the Group took measures with proactive adjustment of the compressed business scale and optimization of the structure, strengthened risk management and controls, prevented and resolved risks, and promoted various operations and management progressively.

### 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. During the year of 2018, the Group has adopted a more cautious approach to business operation in light of the current economic environment and the gradual implementation of the national "deleverage" policy. The Group continued to actively review various risks, prudently carried out relevant business, strengthened various risk management and control measures such as market risk and credit risk, enhanced post-investment management, continuously reviewed the operation of counterparties and the value of collaterals, and formulated corresponding risk prevention measures. For the Year, the segment revenue was approximately HK$1,754,596,000 as compared to approximately HK$1,307,439,000 for the Last Year; the net gains on financial assets at fair value through profit or loss decreased from gain of approximately HK$756,502,000 for the Last Year to loss of approximately HK$1,347,321,000 for the Year; the segment result was loss of approximately HK$1,247,067,000 as compared to gain of approximately HK$1,021,589,000 for the Last Year.

### Securities

In 2018, in the face of global market turmoil, the stock market, the bond market and the crude oil market were responding to the ambient uncertainty and the financial market volatility caused by the normalization of the US monetary policy. The Group adjusted and optimized its business strategy in margin financing business in order to further reduce business operation risk. Meanwhile, the Group put great efforts in expanding the brokerage and securities business, improving and optimizing the product platform, investing more resources to establish a quantitative trading pipeline, actively adjusting the existing operating mechanism, and focusing on customer service improvement and capital recovery. Leveraging on diversified client portfolio of China Huarong Asset Management Co., Ltd. ("**China Huarong**"), the trading volume of securities has been improved. The Group has entered the securities dealer in Categories B from securities dealer in Categories C, and the brand of Huarong has been effectively upgraded. For the Year, the revenue from the securities segment was approximately HK$486,065,000 as compared to approximately HK$401,230,000 for the Last Year, representing an increase of approximately 21.1%; the segment result amounted to loss of approximately HK$166,468,000 as compared to gain of approximately HK$169,523,000 for the Last Year.

### Corporate Finance

The corporate finance segment is devoted to providing institutional clients with comprehensive securities issuance and underwriting and financial advisory services. In 2018, the Group promoted several USD bonds issuance, and explored effective cooperation among different licensed businesses so as to promote steady business development. For the Year, revenue from the corporate finance segment amounted to approximately HK$30,894,000, representing a decrease as compared to approximately HK$314,361,000 for the Last Year; the segment result was approximately HK$22,560,000 as compared to approximately HK$298,604,000 for the Last Year.

## PROSPECT

The global economy in 2019 remains uncertain. There are still many uncertainties in the geopolitical situation, trade disputes and global economic activities. The financial market may still fluctuate, but it is expected that there are opportunities amid the crisis. Facing the new situation of internal and external environment, the Group will adhere to the concept of quality development in line with the core connotation of "highlighting principal business, sound finance, controllable risks, and effective collaboration". To order to seek stable progress, the Group will proactively expand our licensed business, persistently strengthen our principal business and stick to our origin. For assets management and direct investment, we will actively examine various risks and 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 securities business, the Group will capitalize on the advantages of platforms, focus on customer service improvement and capital recovery, and improve quality and implement risk control. Focusing on the "investment + investment bank" business model and in accordance with "Professional, International and Market-oriented" guidance, the Group will also cooperate with domestic and overseas customers and institutions so as to promote business transformation. With the continuous support of the controlling shareholder China Huarong, the Group will take forward various operations and management works in a steady and orderly manner with aim to build a "brand-new Huarong" to ensure the stable and sustainable development of the company, and strive to create greater value for shareholders.

## FINANCIAL REVIEW

### Capital Structure

As at 31 December 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$2,070,447,000 as compared to approximately HK$4,062,822,000 as at 31 December 2017, representing a decrease of approximately 49.0%.

**Liquidity and Financial Resources**

The Group reviewed the liquidity position regularly and managed liquidity and financial resources actively according to the changes on economic environment and business development needs. As at 31 December 2018, the Group had total cash and cash equivalents amounting to approximately HK$2,401,797,000 as compared to HK$3,524,781,000 as at 31 December 2017, which has already excluded approximately HK$396,500,000 (as compared to HK$848,591,000 as at 31 December 2017) of client funds that were kept in separate designated bank accounts. The Group's gearing ratio as at 31 December 2018 was 1,230.6% 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 Year recorded by the Group. As at 31 December 2018, the Group obtained shareholder loans in an aggregate principal amount of approximately US$2,763,331,000 (equivalent to approximately HK$21,644,937,000) (31 December 2017: US$2,379,680,000) from China Huarong International Holdings Limited ("**CHIH**") and RMB1,569,000,000 (equivalent to approximately HK$1,790,687,000) (31 December 2017: RMB500,000,000) from China Huarong respectively, to support the business of the Group.

As at 31 December 2018, the Group has undrawn bank facilities of approximately HK$1,971,206,000 (31 December 2017: HK$1,963,232,000), and the Group utilised approximately HK$2,042,304,000 (31 December 2017: HK$13,835,491,000) of these banking facilities.

As at 31 December 2018, the Group has no bank borrowings that violate financial conditions or cross-default clauses.

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 regulated activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the level of business activities. During the Year, all the licensed subsidiaries have complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

**Charges on Group Assets**

As at 31 December 2018, time deposits with carrying amount of HK$nil (31 December 2017: HK$1,898,063,000) were pledged to secure bank loan facilities of the Group.

**Employee and Remuneration Policy**

As at 31 December 2018, the Group employed a total of 96 employees (31 December 2017: 169 employees). 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 the PRC operations only represents a small fraction of that of the Group. Other foreign exchange risk 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 year 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 31 December 2018. The Group has sought legal advice on the alleged claims and the Directors consider that HISL has a good defense 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.

## FINAL DIVIDEND

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 Directors do not recommend the payment of any final dividend for the Year.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Tuesday, 28 May 2019 (the "**AGM**"). A notice convening the AGM will be published in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2019 to 28 May 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming AGM which will be held on Tuesday, 28 May 2019, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 May 2019.

## 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 year ended 31 December 2018.

## CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2018, the Company has complied with all the applicable code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report 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 made by the Company, all Directors confirmed that they have fully complied with the required standards as set out in the Model Code throughout the year of 2018.

## AUDIT COMMITTEE

The Audit Committee of the Company currently comprises three independent non-executive Directors, namely Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and Mr. Guan Huanfei. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. The Audit Committee has reviewed the accounting principles and practices adopted by the Group with the management and discussed auditing, internal control and financial reporting matters. The annual results and audited consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

## EVENTS AFTER THE END OF THE REPORTING PERIOD

After the year ended 31 December 2018, the Company entered into a discloseable transaction as defined under the Listing Rules and an uncommitted revolving loan facility of up to US$200,000,000 and renewed another uncommitted revolving loan facility of up to US$100,000,000 to 28 November 2019. For further details, please refer to the announcements of the Company dated 3 March 2019, 14 January 2019 and 21 February 2019, respectively. Save as the above, the Group has no significant events subsequent to the year ended 31 December 2018 to the date of this announcement.

## PUBLICATION OF ANNUAL REPORT

The annual report 2018 of the Company containing all the applicable information required by the Listing Rules will be despatched to the 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**
**Bai Junjie**
*Chairman*

Hong Kong, 27 March 2019

*As at the date of this announcement, the executive Directors of the Company are Mr. Bai Junjie and Mr. Xu Yong, and the independent non-executive Directors are Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and Mr. Guan Huanfei.*