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 2019

The board (the "**Board**") of directors (the "**Directors**") of Huarong International Financial Holdings Limited (the "**Company**") is pleased to present to its shareholders (the "**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 2019 (the "**Year**"), together with the comparative figures for the year ended 31 December 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2019*

| | Notes | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---|---|---|
| Revenue | | | |
| Commission and fee income | 5 | **121,020** | 201,413 |
| Interest income | 5 | **1,428,337** | 1,714,942 |
| Investment income | 5 | **117,832** | 355,200 |
| | | **1,667,189** | 2,271,555 |
| Net losses on financial assets at fair value through profit or loss | | **(9,802)** | (1,347,321) |
| Net loss arising from disposal of financial assets at fair value through other comprehensive income | | **(18,715)** | (55,629) |
| Other income and gains or losses, net | 6 | **(28,295)** | (4,345) |
| Brokerage and commission expenses | | **(8,839)** | (15,953) |
| Administrative and other operating expenses | | **(152,353)** | (225,845) |
| Net gain on disposal of subsidiaries | | **–** | 5,435 |
| Impairment losses, net of reversal | 7 | **(1,641,959)** | (522,042) |
| Finance costs | 8 | **(1,286,755)** | (1,683,892) |
| Share of result of associates | | **14,327** | 19,444 |

| | Notes | **2019** | 2018 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Loss before tax | 9 | **(1,465,202)** | (1,558,593) |
| Income tax (expense) credit | 10 | **(14,658)** | 76,454 |
| Loss for the year | | **(1,479,860)** | (1,482,139) |
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | **(1,545,885)** | (1,548,222) |
| Holder of perpetual capital securities | | **66,025** | 66,083 |
| | | **(1,479,860)** | (1,482,139) |
| Basic loss per share | 11 | **HK(43.08) cents** | HK(43.14) cents |

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

*For the year ended 31 December 2019*

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year | **(1,479,860)** | (1,482,139) |
| **Other comprehensive income (expense)** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Fair value gain (loss) on financial assets at fair value through other comprehensive income | **52,410** | (421,658) |
| Net provision for (reversal of) impairment of financial assets at fair value through other comprehensive income included in profit or loss | **99,635** | (4,495) |
| Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the year | **18,715** | 55,629 |
| Exchange differences on translation of foreign operations: | | |
| Exchange differences arising from subsidiaries during the year | **(1,415)** | (6,421) |
| Exchange differences on translation of financial statements of associates | **–** | (938) |
| Other comprehensive income (expense) for the year, net of tax | **169,345** | (377,883) |
| Total comprehensive expense for the year | **(1,310,515)** | (1,860,022) |
| Total comprehensive (expense) income for the year attributable to: | | |
| Owners of the Company | **(1,376,540)** | (1,926,105) |
| Holder of perpetual capital securities | **66,025** | 66,083 |
| | **(1,310,515)** | (1,860,022) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2019*

| | | At 31 December | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | | |
| Property and equipment | | **2,300** | 13,301 |
| Other long term assets | | **4,242** | 4,327 |
| Intangible assets | | **2,350** | 3,316 |
| Right-of-use assets | | **102,189** | – |
| Financial assets at fair value through profit or loss | 12 | **1,375,241** | 1,719,076 |
| Financial assets at fair value through other comprehensive income | 13 | **2,055,607** | 2,716,175 |
| Other loans and receivables | 14 | **–** | 291,434 |
| Investments accounted for using the equity method | | **–** | 36,694 |
| Amount due from an associate | | **314,262** | 318,838 |
| Deferred tax assets | | **52,232** | 110,990 |
| Prepayments, deposits and other receivables | | **–** | 11,417 |
| Total non-current assets | | **3,908,423** | 5,225,568 |
| **Current assets** | | | |
| Advances to customers in margin financing | 15 | **2,883,671** | 4,072,424 |
| Accounts receivable | 16 | **103,356** | 160,347 |
| Interest receivable | | **–** | 16,872 |
| Prepayments, deposits and other receivables | | **94,907** | 88,240 |
| Contract assets | | **–** | 9,808 |
| Financial assets at fair value through profit or loss | 12 | **3,473,220** | 13,697,120 |
| Financial assets at fair value through other comprehensive income | 13 | **1,911,824** | 2,908,508 |
| Other loans and receivables | 14 | **772,017** | 5,979,776 |
| Amount due from an associate | | **1,927** | 1,720 |
| Tax recoverable | | **58,010** | 65,164 |
| Restricted bank balances | | **389,202** | 396,500 |
| Cash and cash equivalents | | **3,069,944** | 2,401,797 |
| Total current assets | | **12,758,078** | 29,798,276 |
| **Current liabilities** | | | |
| Accounts payable | 17 | **1,355,529** | 2,269,848 |
| Other liabilities, payables and accruals | | **248,122** | 401,108 |
| Contract liabilities | | **–** | 38,511 |
| Interest-bearing borrowings | | **6,241,067** | 12,456,782 |
| Repurchase agreements | | **1,745,170** | 4,125,976 |
| Tax payable | | **141,097** | 135,973 |
| Lease liabilities | | **49,954** | – |
| Financial liabilities at fair value through profit or loss | 12 | **39,023** | 401,429 |
| Total current liabilities | | **9,819,962** | 19,829,627 |

| | At 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| **Net current assets** | **2,938,116** | 9,968,649 |
| **Total assets less current liabilities** | **6,846,539** | 15,194,217 |
| **Non-current liabilities** | | |
| Other liabilities, payables and accruals | **1,845** | 39,022 |
| Deferred tax liabilities | **10,427** | 63,602 |
| Interest-bearing borrowings | **5,449,796** | 13,021,146 |
| Lease liabilities | **55,374** | – |
| Total non-current liabilities | **5,517,442** | 13,123,770 |
| Net assets | **1,329,097** | 2,070,447 |
| **Capital and reserves** | | |
| Equity attributable to owners of the Company | | |
| Share capital | **3,588** | 3,588 |
| Perpetual capital securities classified as equity investments | **1,207,430** | 1,208,369 |
| Share premium and reserves | **118,079** | 858,490 |
| Total equity | **1,329,097** | 2,070,447 |

## *NOTES:*

### 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. 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 Unit A, 16/F & Unit A, 17/F, Two Pacific Place, 88 Queensway, Hong Kong. The immediate controlling shareholder of the Company is Camellia Pacific Investment Holding Limited which is incorporated in British Virgin Islands and is a wholly-owned subsidiary of China Huarong International Holdings Limited ("**CHIH**") that is incorporated in Hong Kong. China Huarong Asset Management Co., Ltd. ("**China Huarong**") a company established in the PRC and whose shares are listed on the Stock Exchange of Hong Kong Limited, became the indirect controlling shareholder of the Company since 2014. China Huarong is indirectly controlled by the PRC Government through the Ministry of Finance (the "**MOF**").

The principal activities of the Company and its subsidiaries 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.

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 Hong Kong Financial Reporting Standards ("**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).

### 3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for 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, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

**Application of new and amendments to HKFRSs**

***New and Amendments to HKFRSs that are mandatorily effective for the current year***

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

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle |

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

*3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 Determining whether an arrangement contains a lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by relevant group entities is 4.18%.

| | **At 1 January 2019** |
|---|---|
| | *HK$'000* |
| Operating lease commitments as at 31 December 2018 | 64,154 |
| Less: Recognition exemption – short-term leases | (2,048) |
| | 62,106 |
| Lease liabilities discounted at relevant incremental borrowing rates relating to operating lease recognised upon application of HKFRS 16 as at 1 January 2019 | 58,834 |
| Analysed as | |
| Current | 39,066 |
| Non-current | 19,768 |
| | 58,834 |

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | **Right-of-use assets** |
|---|---|
| | *HK$'000* |
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 58,834 |
| By class: | |
| Leased buildings | 56,459 |
| Office equipment | 2,375 |

*Note:*

Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and should be adjusted to reflect the discounting effect at transition. The application of the discounting effect on 1 January 2019 is considered not material at the initial application. Accordingly, there is no adjustment refundable rental deposits and right-of-use assets.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts reported at 31 December 2018 | Adjustments | Carrying amounts previously under HKFRS 16 at 1 January 2019 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current asset** | | | |
| Right-of-use assets | – | 58,834 | 58,834 |
| **Current liability** | | | |
| Lease liabilities | – | 39,066 | 39,066 |
| **Non-current liability** | | | |
| Lease liabilities | – | 19,768 | 19,768 |

## 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 financing 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.

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 depreciation, 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 2019 and 2018 and certain assets, liabilities and expenditure information for the Group's operating segments as at 31 December 2019 and 2018 and for the years then ended.

For the measurement of segment liabilities and results, interest-bearing borrowings are not allocated to segment while their corresponding finance costs are allocated to segment results.

*For the year ended 31 December 2019*

| | Securities *HK$'000* | Corporate finance *HK$'000* | Asset management and direct investment *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Commission and fee income | **30,280** | **8,907** | **81,833** | **121,020** |
| Interest income | **385,432** | **–** | **1,042,905** | **1,428,337** |
| Investment income | **–** | **–** | **117,832** | **117,832** |
| | **415,712** | **8,907** | **1,242,570** | **1,667,189** |
| Net losses on financial assets at FVTPL | **–** | **–** | **(9,802)** | **(9,802)** |
| Net loss arising from disposal of financial assets at FVTOCI | **–** | **–** | **(18,715)** | **(18,715)** |
| Share of result of associates | **–** | **–** | **14,327** | **14,327** |
| Other income and gains or losses, net | **3,872** | **–** | **18,774** | **22,646** |
| | **3,872** | **–** | **4,584** | **8,456** |
| **Segment results** | **(575,230)** | **(5,064)** | **(739,256)** | **(1,319,550)** |
| Other unallocated income and gains or losses, net | | | | **(50,941)** |
| Other unallocated expenses, net | | | | **(94,711)** |
| Loss before tax | | | | **(1,465,202)** |
| Amounts included in measurement of segment profit or loss: | | | | |
| Finance costs | **(17,400)** | **–** | **(1,269,355)** | **(1,286,755)** |
| Net provision for impairment of advances to customers in margin financing and accounts receivable | **(935,226)** | **(20,115)** | **(6,170)** | **(961,511)** |
| Net provision for impairment of other loans and receivables | **–** | **–** | **(547,186)** | **(547,186)** |
| Net provision for impairment of other receivable | **–** | **–** | **(30,944)** | **(30,944)** |
| Net provision for impairment of amount due from an associate | **–** | **–** | **(2,683)** | **(2,683)** |
| Net provision for impairment of financial assets at FVTOCI | **–** | **–** | **(99,635)** | **(99,635)** |

*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 |

*As at 31 December 2019*

| | Securities *HK$'000* | Corporate finance *HK$'000* | Asset management and direct investment *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Total segment assets | **5,263,963** | **69,758** | **9,943,324** | **15,277,045** |
| Other unallocated assets *(note i)* | | | | **1,389,456** |
| Total assets | | | | **16,666,501** |
| Total segment liabilities | **1,160,784** | **4,457** | **2,760,319** | **3,925,560** |
| Other unallocated liabilities *(note ii)* | | | | **11,411,844** |
| Total liabilities | | | | **15,337,404** |

*For the year ended 31 December 2019*

| | 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 | **21** | **31** | **38,236** | **(52,946)** | **(14,658)** |
| Net loss on financial liabilities at FVTPL | **–** | **–** | **(92,046)** | **–** | **(92,046)** |
| Depreciation | **(11,829)** | **–** | **(154)** | **(35,169)** | **(47,152)** |
| Additions of property and equipment | **–** | **–** | **–** | **234** | **234** |
| Additions of right-of-use assets | **–** | **–** | **–** | **83,592** | **83,592** |
| Investments accounted for using the equity method | **–** | **–** | **–** | **–** | **–** |

*As at 31 December 2018*

| | Securities<br>*HK$'000* | Corporate finance<br>*HK$'000* | Asset management and direct investment<br>*HK$'000* | Total<br>*HK$'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<br>*HK$'000* | Corporate finance<br>*HK$'000* | Asset management and direct investment<br>*HK$'000* | Unallocated<br>*HK$'000* | Total<br>*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 |

*Note i:* The balance comprises cash and cash equivalents of HK$1,127,893,000 (2018: HK$421,621,000), prepayments, deposits and other receivables of HK$64,463,000 (2018: HK$30,519,000), tax recoverable of HK$53,745,000 (2018: HK$57,440,000) deferred tax assets of HK$52,232,000 (2018: HK$16,418,000), property and equipment of HK$1,695,000 (2018: HK$9,519,000) and right-of-use assets of HK$89,428,000 (2018: nil).

*Note ii:* The balance comprises other payables and accruals of HK$73,210,000 (2018: HK$242,353,000), interest-bearing borrowings of HK$11,246,363,000 (2018: HK$23,228,241,000) and lease liability of HK$92,271,000 (2018: nil). 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 | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **1,575,889** | 2,165,838 | **107,805** | 26,106 |
| PRC | **91,300** | 105,717 | **–** | 38,622 |
| | **1,667,189** | 2,271,555 | **107,805** | 64,728 |

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

**(c) Information about major customers**

Nil customer contributed over 10% of total revenue of the Group for the year ended 31 December 2019 (2018: nil).

## 5. REVENUE

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Commission and fee income *(note (i))*: | | |
| Fee and commission income on securities dealing and broking | **15,688** | 27,637 |
| Placing and underwriting fee income | **555** | 4,497 |
| Consultancy and financing advisory fee income | **92,403** | 152,994 |
| Fund subscription and management fee income | **12,188** | 16,050 |
| Other service income | **186** | 235 |
| | **121,020** | 201,413 |
| Interest income: | | |
| Interest income from other loans and receivables | **372,004** | 430,831 |
| Interest income from loan to an associate | **23,570** | 62,748 |
| Interest income from financial assets at FVTPL | **381,199** | 460,773 |
| Interest income from financial assets at FVTOCI | **266,132** | 334,128 |
| Interest income from margin financing activities | **385,432** | 426,462 |
| | **1,428,337** | 1,714,942 |
| Investment income: | | |
| Dividend income | **117,832** | 355,200 |
| | **1,667,189** | 2,271,555 |

*Note:*

(i) 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. Included in revenue, revenue arising from contract with customers recognised at a point in time and over time were HK$16,429,000 (2018: HK$32,369,000) and HK$104,591,000 (2018: HK$169,044,000), respectively.

All services provided to customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Revenue arising from contract with customers are provided in Hong Kong.

## 6. OTHERS INCOME AND GAINS OR LOSSES, NET

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Other income and gains or losses, net** | | |
| Bank interest income | **13,602** | 39,241 |
| Foreign exchange differences, net | **49,330** | (29,560) |
| Net loss on financial liabilities at FVTPL | **(92,046)** | (25,881) |
| Others | **819** | 11,855 |
| | **(28,295)** | (4,345) |

## 7. IMPAIRMENT LOSSES, NET OF REVERSAL

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net provision for impairment of other loans and receivables | **547,186** | 150,514 |
| Net provision for (reversal of) impairment of amount due from an associate | **2,683** | (21,127) |
| Net provision for impairment of advances to customers in margin financing and accounts receivable | **961,511** | 397,150 |
| Net provision for (reversal) of impairment of financial assets at FVTOCI | **99,635** | (4,495) |
| Net provision for impairment of other receivables | **30,944** | – |
| | **1,641,959** | 522,042 |

## 8. FINANCE COSTS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings | **143,701** | 571,496 |
| Interest on repurchase agreements and other activities | **161,551** | 128,487 |
| Interest on borrowings from an intermediate holding company | **842,538** | 934,856 |
| Interest on borrowings from the ultimate holding company | **137,069** | 49,053 |
| Interest on lease liabilities | **1,896** | – |
| | **1,286,755** | 1,683,892 |

## 9. LOSS BEFORE TAX

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| The Group's loss before tax is arrived at after charging (crediting): | | |
| Depreciation of property and equipment | **7,685** | 8,935 |
| Depreciation of right-of-use assets | **39,467** | – |
| Total deprecation | **47,152** | 8,935 |
| Loss on disposal of property and equipment | **172** | 244 |
| Minimum lease payments under operating leases: | | |
| Office premises | **–** | 44,140 |
| Office equipment | **–** | 207 |
| | **–** | 44,347 |
| Provision for reinstatement | **–** | 1,095 |
| Auditor's remuneration | **2,395** | 4,290 |
| Legal and professional fees | **8,604** | 12,206 |
| Directors' and chief executive's remuneration | **2,477** | 3,623 |
| Employee benefit expenses (excluding directors' and chief executive's remuneration): | | |
| Salaries and other benefits *(note (i))* | **46,965** | 90,347 |
| Retirement benefits (defined contribution scheme) | **1,991** | 2,228 |
| Provision for long service payments, net | **1,122** | 94 |
| (Reversal of) provision for unused annual leaves | **(1,109)** | 298 |

*Note:*

(i) Approximately HK$151,000 (2018: HK$197,000) was included in "Brokerage and commission expenses" in the consolidated statement of profit or loss.

## 10. INCOME TAX EXPENSE (CREDIT)

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Current tax: | | |
| Hong Kong | **8,594** | 128,458 |
| PRC | **–** | 221 |
| | **8,594** | 128,679 |
| Under (over)provlsion in prior year: | | |
| – Hong Kong | **4,936** | (165) |
| – PRC | **3,381** | – |
| Deferred tax | **(2,253)** | (204,968) |
| | **14,658** | (76,454) |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2018 (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% (2018: 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.

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

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the year attributable to owners of the Company used as loss for the purpose of basic loss per share | **(1,545,885)** | (1,548,222) |

| | **Number of shares** | |
|---|---|---|
| | **2019** | 2018 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **3,588,466** | 3,588,466 |

No diluted loss 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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Assets** | | |
| Non-current: | | |
| – Unlisted fund investments *(note (iii))* | **1,375,241** | 1,719,076 |
| | **1,375,241** | 1,719,076 |
| Current: | | |
| – Listed preference shares | **1,620,175** | 3,173,540 |
| – Unlisted preference shares *(note (iv))* | **–** | 360,000 |
| – Unlisted convertible bonds and convertible notes *(notes (i))* | **–** | 1,675,555 |
| – Unlisted convertible bonds with put option *(notes (ii))* | **–** | 192,500 |
| – Unlisted fund investments *(note (iii))* | **–** | 5,341,891 |
| – Listed equity investments | **914,567** | 2,247,212 |
| – Listed debt investments | **304,941** | 474,693 |
| – Unlisted put options on listed equity investments, at fair value *(note (v))* | **633,537** | 231,729 |
| | **3,473,220** | 13,697,120 |
| **Liabilities** | | |
| Current: | | |
| Payables to interest holders of unlisted consolidated investment funds, measured at FVTPL *(note (vi))* | **39,023** | 401,429 |

*Notes:*

(i) The unlisted convertible notes with the principal amount of US$30,000,000 or equivalent to HK$233,625,000 with fixed interest rate of 4.5% per annum payable semi-annually and conversion price of 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 period, the Company entered into a 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. As at 31 December 2019, the transaction has completed and fully settled. As at 31 December 2018, the fair value of the Convertible Note 1 is HK$310,178,000 which was estimated by an independent firm of professional valuers.

As at 31 December 2018, the unlisted convertible notes with the principal amount of HK$500,000,000 with a fixed interest rate of 7% per annum payable semi-annually and the initial contractual conversion price of 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**"). The Convertible Note 2 has been subsequently adjusted to HK$0.6952 per share due to the corporation action of share subdivision conducted by the listed issuer. As at 31 December 2018, the fair value of the Convertible Note 2 is HK$523,149,000, which was estimated by an independent firm of professional valuers. As at 9 December 2019, the Group disposed the Convertible Note 2 through the transaction of disposal of subsidiaries.

As at 31 December 2018, the unlisted convertible notes with the principal amount of HK$75,000,000 with the fixed interest rate of 5% per annum payable semi-annually and conversion price of 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, 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. As at 9 December 2019, the Group disposed the Convertible Note 3 through the disposal of subsidiaries.

As at 31 December 2018, the unlisted convertible bonds with the principal amount of 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 per share, was issued by a listed company in Hong Kong with the due date on 31 December 2018 (the "**Convertible Note 4**"). As at 31 December 2018, the fair value of the Convertible Note 4 is HK$789,728,000, which was estimated by an independent firm of professional valuers. As at 9 December 2019, the Group disposed the Convertible Note 4 through the disposal of subsidiaries.

(ii) As at 31 December 2018, the unlisted convertible bonds with principal amount of HK$275,000,000 with the fixed interest rate of 4% per annum payable quarterly and the initial conversion price of HK$0.77 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. The conversion price of Convertible Note 5 has been subsequently changed to HK$3.85 per share due to the revised investment agreement. 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. As at 31 December 2018, the fair value of the Convertible Note 5 amounted to approximately HK$192,500,000, 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. As at 9 December 2019, the Group disposed the Convertible Note 5 through the disposal of subsidiaries.

(iii) As at 31 December 2019, included in financial assets at FVTPL are unlisted fund investments of approximately HK$1,375,241,000 (2018: HK$7,060,967,000) 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$1,375,241,000 (2018: HK$1,719,076,000) to third parties within the next twelve months and has accordingly classified them as non-current assets.

(iv) As at 31 December 2018, included in financial assets at FVTPL are the unlisted preferences shares with aggregate amount of HK$900,000,000 with fixed interest rate of 6% put option in relation to the preference shares granted to the Group which 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. Due to the failure to settle first annual preferential dividends of HK$54,000,000 in prior year, 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. As at 9 December 2019, the Group disposed the preferences shares through the disposal of subsidiaries.

(v) In prior year, the Group purchased listed securities together with a put option ("**Put Option 1**") 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 Option 1 amounted to approximately HK$55,043,000 as at 31 December 2019 (2018: HK$75,380,000), which was estimated by an independent firm of professional valuers.

In prior year, the Group purchased listed securities together with a put option ("**Put Option 2**") 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 2 amounted to approximately HK$545,562,000 as at 31 December 2019 (2018: HK$119,410,000), which was estimated by an independent firm of professional valuers.

As at 31 December 2019, the Group held one (2018: two) put option contract(s) in relation to listed securities with the fair value of HK$32,932,000 (2018: HK$36,939,000), which was estimated by an independent firm of professional valuers.

All the put options are secured by equity interest of Hong Kong listed companies.

The day 1 gain arising from the relevant put option investments with the underlying assets of listed securities have been amortised in accordance with the terms of instruments.

(vi) As at 31 December 2019 and 31 December 2018, included in financial liabilities at FVTPL are the payables to interest holders of unlisted consolidated investment funds.

As at 31 December 2019 and 31 December 2018, a wholly-owned subsidiary of the Group held 65% interests in 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$39,023,000 as at 31 December 2019 (2018: HK$95,727,000).

As at 31 December 2018, 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. During the year, the interest in VD Fund held by the Group was fully redeemed.

As at 31 December 2018, 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, 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. During the year, the interest in Growth Fund held by the Group was fully redeemed.

The Group did not provide any financial support to the above unlisted consolidated investment funds during the years ended 31 December 2019 and 2018.

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current: | | |
| Listed debt investments, at fair value | **2,055,607** | 2,716,175 |
| Current: | | |
| Listed debt investments, at fair value | **1,911,824** | 2,908,508 |
| | **3,967,431** | 5,624,683 |

During the year, the gain in respect of changes in fair value of the Group's financial assets at FVTOCI recognised in other comprehensive income amounted to approximately HK$52,410,000 (2018: a loss of approximately HK$421,658,000). During the year, the Group disposed of financial assets at FVTOCI with proceeds of approximately HK$115,193,000 (2018: HK$1,935,773,000) to independent third parties, and a loss of approximately HK$18,715,000 (2018: 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 FVTOCI" within "revenue".

## 14. OTHER LOANS AND RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other loans and receivables | **809,807** | 6,614,053 |
| Less: Provision for impairment | **(37,790)** | (342,843) |
| | **772,017** | 6,271,210 |
| Secured | **772,017** | 6,032,149 |
| Unsecured | **–** | 239,061 |
| | **772,017** | 6,271,210 |
| Analysed as: | | |
| Current | **772,017** | 5,979,776 |
| Non-current | **–** | 291,434 |
| | **772,017** | 6,271,210 |

As at 31 December 2019, 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 6% to 12% per annum (2018: 5% to 14% per annum) with contractual maturity date up to 6 months from 31 December 2019 (2018: up to two years).

As at 31 December 2019, other loans and receivables with carrying amount of approximately HK$772,017,000 are secured by equity interest of companies listed on Hong Kong and PRC (2018: HK$6,032,149,000 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. The contractual maturity date is up to six months from 31 December 2018. The contractual interest rate is 6% per annum (2018: 8.5% per annum).

As at 31 December 2019, the Group has concentration of credit risk as 100% (2018: 58%) of the total other loans and receivables was due from the Group's three largest borrowing customers (2018: 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 2019, included in the Group's loan receivables balance are borrowers with aggregate carrying amount of HK$757,216,000 (2018: HK$1,016,379,000) which are past due as at the reporting date, of which HK$757,216,000 (2018: HK$1,004,637,000) has been past due 90 days or more. The directors of the Company considers those past due more than 90 days are considered as credit impaired.).

During the year, the Group disposed other loans and receivables with the carrying amount of approximately HK$3,935,020,000 through the disposal of subsidiaries.

The management of the Group estimate the amount of loss allowance for expected credit loss on these credit impaired loan receivables by assessing the present value of estimated future cash flows with the consideration of expected future credit loss of the respective loans which are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors or borrowers, which include any (i) significant financial difficulty of the debtors or borrowers, (ii) breach of contract or probability that the debtors or borrowers will enter bankruptcy and (iii) the status and progress of financial restructuring, general economic conditions and both the current conditions at the reporting date as well as the forecast of future conditions with significant judgments involved. Moreover, the Group also reviews and assesses the fair value of the collateral received from the customers in determining the impairment with the involvement of third party qualified valuers, if necessary. The assessment of the credit risk and therefore expected cash flows of the respective loan involves a high degree of estimation and uncertainty. In the opinion of the directors of the Company, the impairment provision for the current period is sufficient.

## 15. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loans to customers in margin financing | **4,214,066** | 4,470,932 |
| Less: provision for impairment | **(1,330,395)** | (398,508) |
| | **2,883,671** | 4,072,424 |

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. The carrying amount of the loans and the market value of the collateral securities are reviewed regularly by the management.

All the pledged securities are listed equity securities in respective stock exchanges as at 31 December 2019 and 2018. The loans are repayable on demand subsequent to settlement date and normally carry interest at nil to Hong Kong Prime Rate + 15% per annum (2018: Hong Kong Prime Rate + 1% to Hong Kong Prime Rate + 15% 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.

The Group has concentration of credit risk as 65% (2018: 61%) of the total loans to securities margin clients due from the Group's five largest securities margin clients.

## 16. ACCOUNTS RECEIVABLE

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts receivable from: | | |
| – securities, futures and options dealing services | | |
| – clients | **1,259** | 4,832 |
| – brokers, dealers and clearing houses | **71,125** | 135,262 |
| – corporate finance | **56,055** | 20,264 |
| – asset management | **–** | 320 |
| | **128,439** | 160,678 |
| Provision for impairment | **(25,083)** | (331) |
| | **103,356** | 160,347 |

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **97,476** | 154,975 |
| 31 – 90 days | **456** | 444 |
| 91 – 365 days | **–** | 4,066 |
| Over 365 days | **5,424** | 862 |
| | **103,356** | 160,347 |

## 17. ACCOUNTS PAYABLE

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current to 1 month | **1,355,529** | 2,269,848 |

As at 31 December 2019, included in the accounts payable is the accounts payable to financial institutions of approximately HK$948,433,000 (2018: HK$1,869,089,000) which is maintained for investment trading. The balance is interest bearing at the rates ranging from 2.7% to 3.9% per annum (2018: 2.8% to 3.9%).

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 2019, accounts payable with carrying amount of approximately HK$406,679,000 (2018: HK$398,402,000) are interest-bearing at bank savings deposit rates.

## 18. DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***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 |

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Highlights

For the Year, the Group recorded a revenue of approximately HK$1,667,189,000 (year ended 31 December 2018 (the "**Last Year**"): approximately HK$2,271,555,000), net loss on financial assets at fair value through profit or loss of approximately HK$9,802,000 (Last Year: approximately HK$1,347,321,000), and net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK$18,715,000 (Last Year: approximately HK$55,629,000). Therefore, total revenue and gains or losses described above increased to approximately HK$1,638,672,000 as compared to approximately HK$868,605,000 for the Last Year. Loss attributable to Shareholders for the Year was approximately HK$1,545,885,000 as compared to the loss attributable to Shareholders of approximately HK$1,548,222,000 for the Last Year. Basic loss per share was HK$43.08 cents for the Year as compared to basic loss per share of HK$43.14 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.

### Market Review

In 2019, the pace of global economic trade growth weakened while growth rate of major developed economies continued to decrease and emerging economies sustained increasing downward pressure. With tightening of financial environment, intensification of protectionism, and escalation of geopolitical tensions, global capital markets experienced significant fluctuation. Global economic growth rate dropped to 2.3% in 2019. Trade disputes caused disruption to global value chain, which in turn resulted in considerable uncertainties that posed tremendous challenges to global economic development. In order to address economic downward pressure, major economies adjusted their monetary policies from interest rate hikes and contraction of balance sheets to interest rate cuts and expansion of balance sheets. A new round of easing cycle has commenced as various emerging and developed countries started interest rate cuts.

Faced with complicated global economic environment, China's economy maintained stable growth with a year-on-year GDP growth rate of 6.1% for the Year, achieving stable progress in national economy. China effected three cuts of reserve requirement ratio (RRR) during the Year and implemented tax and fee reduction policies to relieve the hardships of enterprises and optimise the business environment in China. Under the combined impact of social events in Hong Kong and slackened global economic growth, Hong Kong's economy experienced remarkable contraction. Nevertheless, opportunities in the market came along with challenges. With further progress in the building of the Guangdong-Hong Kong-Macau Greater Bay Area, Hong Kong consolidated its position as an international financial centre and an international asset management centre, attracting more domestic and overseas investors.

**Business Review**

The market faced pressure in 2019 as a result of the complicated and rapidly changing domestic and overseas macro-economic environment and the adverse impacts brought by social movements in Hong Kong. The Group made adjustment to the direction of business transformation proactively and further optimised its business structure by disposing of projects with greater risk exposure during the Year. The Group also made greater efforts in risk management and control, prevented and resolved risks effectively, and carried out various operational management tasks in a stable and orderly manner.

**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. In 2019, taking into account the current economic environment and the guiding principles for preventing and resolving financial risks of the PRC, the Group adopted a cautious approach to review its investment portfolio, strengthened various risk management and control measures such as that for market risks and credit risks, reviewed the operation of counterparties and the value of collaterals on a continuous basis, formulated corresponding risk prevention measures and enhanced post-investment management. In addition, the Group proactively divested and disposed of risk assets, so as to further improve the company's investment portfolio and business structure. The segment revenue was approximately HK$1,242,570,000 for the Year as compared to approximately HK$1,754,596,000 for the Last Year; the net losses on financial assets at fair value through profit or loss decreased from approximately HK$1,347,321,000 for the Last Year to approximately HK$9,802,000 for the Year; the segment result was loss of approximately HK$739,256,000 for the Year as compared to loss of approximately HK$1,247,067,000 for the Last Year.

**Securities**

Securities business segment includes provision of brokerage services, margin financing and stocks, futures and options trading services. Due to the Sino-US trade war and economic downturn, investors were concerned about economic prospects while the securities business of the Group was under the profound impact of stagnant market in 2019. During the Year, the Group continued to adjust and optimise its business strategy in margin financing business in order to further reduce business operation risks. Meanwhile, leveraging on the diversified client portfolio of China Huarong, we further enhanced our sales and expanded product offerings. For the Year, the revenue from the securities segment was approximately HK$415,712,000 as compared to approximately HK$486,065,000 for the Last Year; the segment result amounted to loss of approximately HK$575,230,000 as compared to loss of approximately HK$166,468,000 for the Last Year, due to the increase in provisions.

### Corporate Finance

The corporate finance segment is devoted to providing institutional clients with comprehensive securities issuance and underwriting and financing advisory services. In 2019, the Group made several USD bond issuances and promoted steady business development. For the Year, revenue from the corporate finance segment amounted to approximately HK$8,907,000 as compared to approximately HK$30,894,000 for the Last Year; the segment result was loss of approximately HK$5,064,000 as compared to gain of approximately HK$22,560,000 for the Last Year.

## PROSPECTS

Looking into 2020, economic recovery will face enormous challenges resulted from negative factors such as the intensified trade and investment war, Brexit, presidential election of the United States, geopolitical issues such as the turmoil in the Middle East, complicated and ever-changing trade issues between the United States and China, as well as political risks and trade disputes. The global outbreak of the novel coronavirus pandemic (hereafter referred to as the "**COVID-19**") has accelerated global economic downturn and the resultant panic chain effect has led to a slump in global stock markets, causing tremendous shock to financial markets. Nonetheless, central banks are taking proactive initiatives to minimise the possibility of a global recession in 2020. In respect of China, despite the impact on its economy by the pandemic, the sizable consumer market in China lays a sound foundation for the economy, which shows an upward development trend and is expected to recover gradually.

The Group will realise its transformational development by observing legal compliance, eagerly seizing hold of opportunities and conquering difficulties and hardships. The Group will also continue to adhere to the general principle of making steady progress with an emphasis on quality improvement and efficiency enhancement. Sticking to its origin, the Group will follow the "investment + investment bank" business model and make greater marketing and expansion efforts in the market and among customers to enhance market opportunities and broaden its customer base. Under the principle of "professional, international and market-oriented", the Group will persist on compliance with laws and regulations, risk prevention and control, as well as healthy business operation in a bid to gradually increase its scale of asset management. Furthermore, with a focus on the principal businesses of China Huarong, the Group will seek the business opportunities arising from the operation of overseas distressed assets and the reorganisation of non-performing enterprises, while giving full play to the advantages of its financial licensed business and synergic business as well as conducting asset management, direct investment, securities and corporate finance businesses in a sound and cautious approach. With the continuous support of our controlling shareholder, China Huarong, the Group will take forward various operations and management works in a steady and orderly manner with the aim to build a sustainable operation model, striving to create greater value for shareholders.

## FINANCIAL REVIEW

### Capital Structure

As at 31 December 2019, the total number of issued shares of the Company (with par value of HK$0.001 each) was 3,588,466,011 and the total equity attributable to shareholders was approximately HK$1,329,097,000 as compared to approximately HK$2,070,447,000 as at 31 December 2018, representing a decrease of approximately 35.8%.

### Liquidity and Financial Resources

The Group reviews its liquidity position regularly and manages liquidity and financial resources actively according to the changes in economic environment and business development needs. As at 31 December 2019, the Group had total cash and cash equivalents amounting to approximately HK$3,069,944,000 as compared to HK$2,401,797,000 as at 31 December 2018, excluding client funds that were kept in separate designated bank accounts of approximately HK$389,202,000 (as compared to HK$396,500,000 as at 31 December 2018). The Group's gearing ratio as at 31 December 2019 was 879.6% as compared to 1,230.6% as at 31 December 2018, being calculated as borrowings over the Group's shareholders' equity. The decrease in gearing ratio was attributable to the decrease in shareholder loans in the Year. As at 31 December 2019, the Group obtained shareholder loans in an aggregate principal amount of approximately US$1,161,685,000 (equivalent to approximately HK$9,048,335,000) (31 December 2018: US$2,763,331,000 (equivalent to approximately HK$21,644,937,000)) from CHIH to support the business of the Group and none was taken from China Huarong (31 December 2018: RMB1,569,000,000 (equivalent to approximately HK$1,790,687,000)).

As at 31 December 2019, the Group had undrawn bank facilities of approximately HK$1,625,500,000 (31 December 2018: approximately HK$1,971,206,000) and the Group utilised approximately HK$2,642,528,000 (31 December 2018: approximately HK$2,042,304,000) of the relevant banking facilities.

As at 31 December 2019, the Group had no bank borrowings that violated 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 complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

**Charges on Group Assets**

As at 31 December 2019, no assets of the Group (31 December 2018: none) were pledged to secure bank loan facilities of the Group.

**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 risks because Hong Kong dollars are pegged to United States dollars and the revenue from the PRC operations only represents a small fraction of the Group's revenue. Other foreign currency exposure is relatively minimal when compared 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 ("**HISL**"), an indirectly wholly owned subsidiary of the Company, that was previously disclosed in the audited financial statements of the Group in between 1 May 2015 and 31 December 2015, the plaintiff has not taken any further action since August 2013 but HISL has instead pursued its counterclaim against the plaintiff as the Directors consider that HISL has good defence and a strong case. In early March 2020, the plaintiff and HISL reached a settlement in respect with such proceeding and the consent order made by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region became effective on 9 March 2020 subsequently.

**Significant Securities Investment**

The Group is primarily engaged in the provision of financial services, including but not limited to asset management and direct investment, securities and corporate finance services. During the Year, the Group held securities investments such as listed preference shares, listed equity investments, listed bonds, unlisted convertible bonds and convertible notes and unlisted fund investments. As at 31 December 2019, the Group did not hold any significant investments which constitute 5% or more of its total assets.

**Disposal of Subsidiaries**

In October 2019, the Group entered into deeds of transfer to dispose of all its equity interests in the two subsidiaries Huarong Tianhai (Shanghai) Investment Management Company Limited and Wide Trend Global Limited, which were mainly engaged in investment management and which investment projects involve the provision of loan facilities and the subscription of financial instruments, to Huarong Overseas Investment Holdings Co., Limited, a fellow subsidiary of China Huarong. Through the disposals, the Group was able to optimise its investment portfolio, mitigate its financial pressure, reduce the balance of its interest-bearing borrowings, and therefore lower its gearing ratio. Furthermore, the Group was able to reallocate its resources to other existing businesses, optimise its business structure and realise its development strategy of adopting a more cautious approach in business operation. The disposals were completed in December 2019.

## EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, the Group employed a total of 71 employees (31 December 2018: 96 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 situation, are competitive and performance based.

## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the Year (2018: nil).

## ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on 2 June 2020 (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 28 May 2020 to 2 June 2020, 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 2 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 27 May 2020.

## 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.

## CORPORATE GOVERNANCE PRACTICES

Throughout the Year, 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.

Further details of the Company's corporate governance practices can be found in the Company's 2019 annual report to be despatched to the Shareholders in April 2020.

## 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 have confirmed that they have fully complied with the required standards as set out in the Model Code throughout the Year.

## AUDIT COMMITTEE

The audit committee of the Company currently comprises three independent non-executive Directors, namely Mr. Hung Ka Hai Clement, 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 about the auditing, internal control and financial reporting matters. The annual results and audited consolidated financial statements of the Group for the year ended 31 December 2019 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 2019 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu. 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 YEAR

After the end of the Year, the Group has the following subsequent events:

(1) HISL entered into a facility letter with a bank to renew facilities in an aggregate principal amount not exceeding HK$600,000,000. For further details, please refer to the announcement of the Company dated 17 March 2020.

(2) HISL reached a settlement with the plaintiff in relation to a legal proceeding claimed against it as disclosed in the announcement of the Company dated 4 October 2012, which was subsequently effected by a consent order granted by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region on 9 March 2020. For further details, please refer to the announcement of the Company dated 20 March 2020.

(3) The Company entered into a discloseable transaction in relation to the disposal of shares in a listed company. For further details, please refer to the announcement of the Company dated 23 March 2020.

(4) Since early January 2020, COVID-19 has spread globally, causing disruption to businesses and economic activities and shock to financial markets. This may result in significant fluctuation in the fair value of the financial assets and impairment losses of loans and advances to customers of the Group. The degree of the impact depends on the duration of the pandemic, the implementation of preventive measures and fiscal easing policies posted by the impacted countries and regions. As the situation is rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. Such impact is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019. The Group and the management will continue to monitor the situation closely and actively respond to the impacts on the Group's financial position and operating results.

Save as the above, the Group has no other significant events subsequent to the year ended 31 December 2019 up to the date of this announcement.

## PUBLICATION OF ANNUAL REPORT

The annual report 2019 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**
**Yu Meng**
*Chairman*

Hong Kong, 30 March 2020

*As at the date of this announcement, the Board comprises Mr. Yu Meng and Mr. Wang Junlai as executive Directors, and Mr. Hung Ka Hai Clement, Mr. Ma Lishan and Mr. Guan Huanfei as independent non-executive Directors.*