



華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability) (於百慕達註冊成立之有限公司)
(Stock Code 股份代號: 993)

2016 INTERIM REPORT 中期報告





CONTENTS

CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	4
REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	8
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS	10
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	11
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	12
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	14
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	15
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	17
SUPPLEMENTARY INFORMATION	49



CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Liu Xiaodong (*Chairman*)
Mr. Huang Rui (*Chief Executive Officer, appointed on 13 June 2016*)
Mr. Lai Jinyu (*appointed on 27 April 2016*)
Mr. Jiang Rongjian (*resigned on 27 April 2016*)
Mr. Xiong Hao (*resigned on 13 June 2016*)

Non-executive Directors

Mr. Zeng Jianyong (*appointed on 19 August 2016*)
Mr. Ming Hang (*appointed on 13 June 2016 and resigned on 19 August 2016*)

Independent Non-executive Directors

Dr. Wong Tin Yau Kelvin
Mr. Yeung Siu Keung
Mr. Ma Lishan (*appointed on 19 August 2016*)
Mr. Tse Yung Hoi (*resigned on 13 June 2016*)

Audit Committee

Dr. Wong Tin Yau Kelvin (*Chairman*)
Mr. Ma Lishan (*appointed on 19 August 2016*)
Mr. Yeung Siu Keung
Mr. Tse Yung Hoi (*resigned on 13 June 2016*)

Remuneration Committee

Mr. Yeung Siu Keung
(*Chairman, appointed on 13 June 2016*)
Dr. Wong Tin Yau Kelvin
Mr. Ma Lishan (*appointed on 19 August 2016*)
Mr. Tse Yung Hoi (*resigned on 13 June 2016*)
Mr. Ming Hang (*appointed on 13 June 2016 and resigned on 19 August 2016*)

Nomination Committee

Dr. Wong Tin Yau Kelvin (*Chairman*)
Mr. Liu Xiaodong
Mr. Ma Lishan (*appointed on 19 August 2016*)
Mr. Yeung Siu Keung
Mr. Zeng Jianyong (*appointed on 19 August 2016*)
Mr. Tse Yung Hoi (*resigned on 13 June 2016*)
Mr. Ming Hang (*appointed on 13 June 2016 and resigned on 19 August 2016*)

Executive Committee

Mr. Liu Xiaodong (*Chairman*)
Mr. Huang Rui (*appointed on 13 June 2016*)
Mr. Lai Jinyu (*appointed on 27 April 2016*)
Mr. Jiang Rongjian (*resigned on 27 April 2016*)
Mr. Xiong Hao (*resigned on 13 June 2016*)

Risk Management Committee

Mr. Ma Lishan

(Chairman, appointed on 19 August 2016)

Mr. Huang Rui *(appointed on 19 August 2016)*

Mr. Lai Jinyu *(appointed on 19 August 2016)*

Mr. Zeng Jianyong *(appointed on 19 August 2016)*

Company Secretary

Ms. Ng Yee Ping *(appointed on 30 April 2016)*

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Rooms 1908-1910
19th Floor
The Center
99 Queen's Road Central
Hong Kong

Resident Representative

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Bankers

Wing Lung Bank Limited

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

Auditor

Deloitte Touche Tohmatsu

35/F One Pacific Place

88 Queensway

Hong Kong

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited

The Belvedere Building

69 Pitts Bay Road

Pembroke HM08

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

Stock Code

993

Website

www.hrif.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

As the Company has changed its financial year end date from 30 April to 31 December, commencing from the financial period ended on 31 December 2015, the financial statements of the Company herein presented are for the six months ended 30 June 2016 (the “Period”) with comparatives based on those for the six months ended 31 October 2015 (“Last Period”).

For the Period, the Group recorded a revenue of approximately HK\$227,692,000 as compared to the revenue of approximately HK\$53,052,000 for the Last Period. Net gains on financial assets/liabilities at fair value through profit or loss increased to approximately HK\$330,396,000 for the Period (2015: net loss of HK\$696,000). Therefore, total revenues increased to approximately HK\$558,088,000 (2015: HK\$52,356,000), representing an increase of approximately 965.9%. Profit attributable to the shareholders for the Period significantly increased to approximately HK\$217,721,000 as compared to the profit of approximately HK\$75,188,000 in the Last Period, representing an increase of approximately 189.6%. The achievement is attributable to the increase in operating profit for the Period from the three operating segments, namely (i) securities segment; (ii) corporate finance segment; and (iii) asset management and direct investment segment. The performance of these segments will be discussed further below.

The basic earnings per share from continuing and discontinued operations was HK6.53 cents (2015: HK3.50 cents), and the diluted earnings per share from continuing and discontinued operations was HK6.52 cents (2015: HK3.47 cents). Basic earnings per share from continuing operations was HK6.53 cents (2015: HK4.23 cents), and the diluted earnings per share from continuing operations was HK6.52 cents (2015: HK4.18 cents).

The board does not recommend a payment of interim dividend in the Period (31 October 2015: nil).

Business Review

Following the expansion momentum since China Huarong Asset Management Co., Ltd. became the ultimate controlling shareholder of the Company, the Group continues to boost its business and operation by fully utilising its licenses regulated under the Securities and Futures Ordinance (Cap 571) (the “SFO”) (type 1, 2, 4, 6 and 9 licences). Details of the performance of operating segments are as follows:

Securities

The securities segment comprises broking and dealing of securities, futures and options contracts and the provision of margin financing services. The revenue from the securities segment increased from approximately HK\$19,808,000 in the Last Period to approximately HK\$110,133,000 during the Period. There was no any net gain or loss on financial assets/liabilities at fair value through profit or loss for the Period (2015: net loss of HK\$696,000). Segment result increased from approximately HK\$7,315,000 in the Last Period to approximately HK\$87,897,000 during the Period, representing an increase of approximately 1,101.6%. The significant increase was due to expansion of our margin loans portfolio during the Period. Margin loan receivables net of provision increased from approximately HK\$866,523,000 as at 31 December 2015 to approximately HK\$2,242,101,000 as at 30 June 2016. Therefore, fee income and interest income from margin loan business increased accordingly.

Corporate Finance

The corporate finance segment comprises securities underwriting and sponsoring, financial advisory and financing arrangement services to institutional clients. The revenue from this segment increased from approximately HK\$33,244,000 in the Last Period to approximately HK\$62,406,000 during the Period while the segment result increased from approximately HK\$29,057,000 in the Last Period to approximately HK\$52,570,000 during the Period, representing an increase of 80.9%. For the Period, the Group acted as one of the underwriters and joint bookrunners in the initial public offering (“IPO”) of two Hong Kong listed companies.

Asset Management and Direct Investment

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. The revenue from this segment increased to approximately HK\$55,153,000 during the Period (2015: Nil), and the net gains on financial assets/liabilities at fair value through profit or loss increased to approximately HK\$330,396,000 (2015: Nil). Therefore, total segment revenues increased to approximately HK\$385,549,000 (2015: Nil) while the segment result increased to approximately HK\$360,887,000 during the Period (2015: loss of HK\$1,021,000).

Prospect

Currently, the global economy is still under a period of profound adjustments after the financial crisis, and the Brexit have caused more fluctuations in the global economic and financial markets. China’s economy is still confronted with challenges from structural adjustments and suffers from a relatively great downturn pressure. Facing the complicated and changing business environment and increasingly fierce competition, the Company will keep seeking steady growth and striving for success, fully promote the interconnection between its financing and investment business and licenced business, actively catch the opportunities of Shenzhen-Hong Kong Stock Connect, internationalization of RMB and “the Belt and Road” strategy to propel the development of platforms regarding the three major businesses “securities”, “investment banking” and “asset management”, and continuously enhance core competitiveness and comprehensive profitability of the Company, striving to create greater value for shareholders.

Capital Structure

On 7 January 2016, the outstanding convertible notes issued by the Company (the “Convertible Notes”) with principal amount of HK\$30,000,000 was converted into 60,000,000 ordinary shares of the Company. Immediately after the conversion, there will be no outstanding Convertible notes issued by the Company. As at 30 June 2016, the total number of the issued share capital with the par value of HK\$0.001 each was 3,338,107,918 and total equity attributable to shareholders was approximately HK\$979,323,000 (31 December 2015: HK\$735,155,000).

Liquidity and Financial Resources

As at 30 June 2016, the Group had total cash and cash equivalents amounting to approximately HK\$2,639,557,000 (31 December 2015: HK\$3,040,911,000), which already excluded approximately HK\$251,851,000 (31 December 2015: HK\$623,241,000) of client funds that were kept in separate designated bank accounts. The Group’s gearing ratio as at 30 June 2016 was 792.2% (31 December 2015: 530.7%), being calculated as borrowings over the Company’s shareholders’ equity. The increased borrowings are attributable to the loans from the controlling shareholder for the expansion of businesses. As at 30 June 2016, the Group’s banking facilities amounted to HK\$10,000,000 (31 December 2015: HK\$40,000,000) which was not utilised as at 30 June 2016 (31 December 2015: Nil). The Group’s banking facilities was secured by pledged bank deposits or corporate guarantee executed by the Company. The Group actively and regularly reviews and manages its capital structure and makes adjustments in light of changes in economic conditions.

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

Charges on Group Assets

As at 30 June 2016, a bank deposit of approximately HK\$10,414,000 (31 December 2015: HK\$10,353,000) was pledged to secure banking facilities of the Group.

Employee and Remuneration Policy

As at 30 June 2016, the Group employed a total of 100 employees (31 December 2015: 80 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 revenue and expenditure are mainly denominated in United States dollars and Hong Kong dollars. The Group's foreign exchange exposure is mainly from the translation of its assets and liabilities denominated in United States dollars. As Hong Kong dollars are pegged with United States dollars, the Directors believe that the Group's foreign exchange 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, that was previously disclosed in the audited financial statements of the Group for the period from 1 May 2015 to 31 December 2015, the plaintiff did not take any further action since August 2013 and there was no substantial progress as at 30 June 2016. The Group has sought legal advice on the alleged claims and the Directors consider that HISL has a very good defence and has a strong case to pursue its counterclaim against the plaintiff. The Directors consider that it is not probable that there will be any significant financial impact to the Group arising from these alleged claims.

Interim Dividend

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2016 (31 October 2015: Nil).

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

華融國際金融控股有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Huarong International Financial Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 10 to 48, which comprise the condensed consolidated statement of financial position as at 30 June 2016, and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

19 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
CONTINUING OPERATIONS			
Revenue	4	227,692	53,052
Net gains (losses) on financial assets / liabilities at fair value through profit or loss	4	330,396	(696)
Other income and gains or losses, net	5	558,088	52,356
Brokerage and commission expenses		(1,736)	5,336
Administrative and other operating expenses		(3,871)	(7,406)
Gain on disposal of available-for-sale investments		(57,777)	(52,972)
(Provision for) reversal of impairment of loans and accounts receivable, net		–	96,575
Finance costs	6	(9,610)	1,388
		(200,169)	(4,279)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	7	284,925	90,998
Income tax (expense) credit	8	(67,204)	8
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		217,721	91,006
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	9	–	(15,818)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		217,721	75,188
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
From continuing and discontinued operations			
– Basic		HK6.53 cents	HK3.50 cents
– Diluted		HK6.52 cents	HK3.47 cents
From continuing operations			
– Basic		HK6.53 cents	HK4.23 cents
– Diluted		HK6.52 cents	HK4.18 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	217,721	75,188
OTHER COMPREHENSIVE INCOME (EXPENSE)		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain on available-for-sale investments	–	75,534
Reclassification adjustments relating to disposal of available-for-sale investments during the period	–	(96,859)
Reclassification adjustments relating to distribution of Distributed Group during the period	–	1,511
	–	(19,814)
Exchange differences on translating foreign operations		
Exchange differences arising during the period	–	(1,621)
Reclassification adjustments relating to distribution of Distributed Group during the period	–	10,604
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD, NET OF TAX	–	(10,831)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	217,721	64,357

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Financial assets at fair value through profit or loss	12	1,673,281	313,418
Other loans and advances	13	920,159	–
Property and equipment		3,045	3,419
Other long term assets		4,864	6,653
Intangible assets		4,778	4,778
Deferred tax assets		1,900	–
Investment in an associate		190	190
Total non-current assets		2,608,217	328,458
CURRENT ASSETS			
Advances to customers in margin financing	14	2,242,101	866,523
Accounts receivable	15	50,313	45,509
Financial assets at fair value through profit or loss	12	929,782	438,346
Other loans and advances	13	613,065	–
Prepayments, deposits and other receivables		17,339	15,920
Tax recoverable		–	10
Restricted bank balances	16	251,851	623,241
Pledged bank deposits	17	10,414	10,353
Cash and cash equivalents	17	2,639,557	3,040,911
Total current assets		6,754,422	5,040,813
CURRENT LIABILITIES			
Accounts payable	18	194,273	602,269
Other payables and accruals		144,336	65,945
Amount due to an associate		190	190
Tax payable		39,459	16,244
Convertible notes issued		–	26,393
Financial liabilities at fair value through profit or loss	12	39,475	–
Total current liabilities		417,733	711,041
NET CURRENT ASSETS		6,336,689	4,329,772
TOTAL ASSETS LESS CURRENT LIABILITIES		8,944,906	4,658,230

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing borrowings	19	7,758,500	3,875,250
Financial liabilities at fair value through profit or loss	12	147,119	32,886
Other payables and accruals		560	1,424
Deferred tax liabilities		59,404	13,515
Total non-current liabilities		7,965,583	3,923,075
NET ASSETS			
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	20	3,338	3,278
Equity component of convertible notes		–	36,780
Share premium and reserves		975,985	695,097
TOTAL EQUITY		979,323	735,155

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company							Total equity HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Available-for-sale investment revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Convertible notes equity reserve HK\$'000	Retained profits (accumulated losses) HK\$'000	
At 1 May 2015 (audited)	1,576	1,844,708	37,809	19,814	(8,983)	36,780	(675,533)	1,256,171
Profit for the period	-	-	-	-	-	-	75,188	75,188
Other comprehensive income (expense) for the period								
Fair value gain on available-for-sale investments	-	-	-	75,534	-	-	-	75,534
Reclassification adjustments relating to disposal of available-for-sale investments during the period	-	-	-	(96,859)	-	-	-	(96,859)
Reclassification adjustments relating to distribution of Distributed Group during the period	-	-	-	1,511	-	-	-	1,511
Exchange differences on translating foreign operations								
Exchange differences arising during the period	-	-	-	-	(1,621)	-	-	(1,621)
Reclassification adjustments relating to distribution of Distributed Group during the period	-	-	-	-	10,604	-	-	10,604
Total comprehensive income (expense) for the period	-	-	-	(19,814)	8,983	-	75,188	64,357
Share premium reduction (Note)	-	(1,386,591)	1,311,647	-	-	-	74,944	-
Shares issued (note 20(a))	1,702	466,467	-	-	-	-	-	468,169
Distribution in specie of shares in a subsidiary (note 10)	-	-	(1,209,841)	-	-	-	92,090	(1,117,751)
At 31 October 2015 (unaudited)	3,278	924,584	139,615	-	-	36,780	(433,311)	670,946
At 1 January 2016 (audited)	3,278	924,584	139,615	-	-	36,780	(369,102)	735,155
Profit and total comprehensive income for the period	-	-	-	-	-	-	217,721	217,721
Issue of shares upon conversion of convertible notes (note 20(b))	60	63,167	-	-	-	(36,780)	-	26,447
At 30 June 2016 (unaudited)	3,338	987,751	139,615	-	-	-	(151,381)	979,323

Note: Following the passing of the special resolution of shareholders on 24 July 2015, the share premium account was reduced pursuant to the laws of Bermuda and the bye-laws of the Company. The share premium account was first applied to offset the entire amount of accumulated losses of the Company and the remaining balance was credited to the contributed surplus account of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	NOTES	Six months ended	
		30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
NET CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		(4,298,984)	81,463
INVESTING ACTIVITIES			
Decrease in other long term assets		1,789	2,058
Purchases of items of property and equipment		(378)	(2,635)
Proceeds from disposal of available-for-sale investments		–	68,929
(Increase) decrease in pledged time deposits		(191)	64
Proceeds from disposal of items of property and equipment		–	11
Purchases of available-for-sale investments		–	(10,903)
Acquisition of subsidiaries	24	–	(2,462)
NET CASH FLOWS FROM INVESTING ACTIVITIES		1,220	55,062
FINANCING ACTIVITIES			
Interest-bearing borrowings raised		6,229,500	849,396
Repayment of interest-bearing borrowings		(2,326,050)	(137,570)
Interest paid		(109,212)	(2,036)
Contribution from second-tier limited partners of consolidated investment funds (Note)		118,761	–
Net cash outflow on distribution in specie	9	–	(87,474)
Issuance of share capital		–	468,169
Advance from the Distributed Group (as defined in note 9)		–	20,000
NET CASH FLOWS FROM FINANCING ACTIVITIES		3,912,999	1,110,485

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	NOTES	Six months ended	
		30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(384,765)	1,247,010
Cash and cash equivalents at the beginning of the period		3,040,911	68,337
– as stated in the condensed consolidated statement of financial position			
– attributed to discontinued operations		–	115,195
		3,040,911	183,532
Effect of foreign exchange rate changes, net		(16,589)	(18)
		2,639,557	1,430,524

Note:

The amount represents the contribution from second-tier limited partners of consolidated investment funds. The total amount contributed from second-tier limited partners and the distributed interests to second-tier partners were classified as financial liabilities at fair value through profit or loss in the condensed consolidated statement of financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. Corporate Information

Huarong International Financial Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of operations of the Company is situated at Rooms 1908-1910, 19th Floor, The Center, 99 Queen’s Road Central, 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 unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

1A. Significant Events and Transactions in the Current Interim Period

During the period from 1 January 2016 to 30 June 2016, the Group has commenced money lending business through its wholly-owned subsidiaries. For more details, please refer to note 13.

2. Basis of Preparation

From the financial period ended 31 December 2015, the reporting period end date of the Group changed from 30 April to 31 December to align the Company’s financial year end with China Huarong Asset Management Co., Ltd. (“China Huarong”), the ultimate holding company of the Company. Accordingly, the unaudited condensed consolidated financial statements for the current period cover the six-month period ended 30 June 2016. The corresponding comparative amounts shown cover the six-month period from 1 May 2015 to 31 October 2015.

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

2. Basis of Preparation (continued)

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

Except as described below for the application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s consolidated financial statements for the period from 1 May 2015 to 31 December 2015.

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the period that are relevant for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation

The application of the above amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial performance, the financial position and disclosures of the unaudited condensed consolidated financial statements of the Group.

3. 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 broking and dealing of securities, futures and options contracts and provision of margin financing services;
- (b) the corporate finance segment provides securities underwriting and sponsoring, financial advisory and financing arrangement services to institutional clients; and
- (c) the asset management and direct investment segment comprises provision of asset management services, direct investments in equities, bonds, funds, derivative instruments and other financial products and provision of money lending services.

3. Operating Segment Information (continued)

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

Six months ended 30 June 2016 (unaudited)

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Total HK\$'000
Segment revenue				
Revenue from external customers	110,133	62,406	55,153	227,692
Net gains on financial assets / liabilities at fair value through profit or loss	–	–	330,396	330,396
Other income and gains or losses, net	864	11	(14,588)	(13,713)
	110,997	62,417	370,961	544,375
Segment results	87,897	52,570	360,887	501,354
Finance costs				(200,169)
Other unallocated income and gains or losses, net				11,977
Other unallocated expenses				(28,237)
Profit before tax from continuing operations				284,925
Income tax expense				(67,204)
Profit for the period from continuing operations				217,721

3. Operating Segment Information (continued)

Six months ended 31 October 2015 (unaudited)

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Total HK\$'000
Segment revenue				
Revenue from external customers	19,808	33,244	–	53,052
Net losses on financial assets at fair value through profit or loss	(696)	–	–	(696)
Other income and gains or losses, net	2,113	–	–	2,113
	<u>21,225</u>	<u>33,244</u>	<u>–</u>	<u>54,469</u>
Segment results	<u>7,315</u>	<u>29,057</u>	<u>(1,021)</u>	<u>35,351</u>
Gain on disposal of available-for-sale investments				96,575
Finance costs				(4,279)
Other unallocated income and gains or losses, net				3,223
Other unallocated expenses				<u>(39,872)</u>
Profit before tax from continuing operations				90,998
Income tax credit				<u>8</u>
Profit for the period from continuing operations				<u>91,006</u>

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

3. Operating Segment Information (continued)

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

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Securities	2,679,436	2,361,876
Corporate finance	30,589	26,423
Asset management and direct investment	4,812,146	789,385
Total segment assets	7,522,171	3,177,684
Tax recoverable	–	10
Deferred tax assets	1,900	–
Other unallocated assets	1,838,568	2,191,577
Total assets	9,362,639	5,369,271
Securities	195,414	605,911
Corporate finance	7,927	8,031
Asset management and direct investment	190,195	42,436
Total segment liabilities	393,536	656,378
Tax payable	39,459	16,244
Deferred tax liabilities	59,404	13,515
Other unallocated liabilities	7,890,917	3,947,979
Total liabilities	8,383,316	4,634,116

No segment analysis for geographical segment is presented as all of the Group's revenue, operating results, assets and liabilities were located in Hong Kong.

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

4. Revenue and Net Gains (Losses) on Financial Assets / Liabilities at Fair Value through Profit or Loss

An analysis of the Group's revenue and net gains (losses) on financial assets / liabilities at fair value through profit or loss from continuing operations is as follows:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Revenue		
Securities:		
Fees and commission	40,093	16,531
Interest income from margin financing activities	70,040	3,277
Corporate finance:		
Consultancy, financial advisory fee and financing arrangement fee income	40,721	–
Placing and underwriting fee income	21,197	33,164
Other service income	488	80
Asset management and direct investment:		
Interest income from other loans and advances	24,917	–
Interest income from convertible bonds and convertible notes	20,519	–
Fund subscription and management fee	9,291	–
Other service income	426	–
	227,692	53,052
Net gains (losses) on financial assets / liabilities at fair value through profit or loss	330,396	(696)
	558,088	52,356

5. Other Income and Gains or Losses, Net

An analysis of other income and gains or losses, net from continuing operations is as follows:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Bank interest income	11,300	243
Foreign exchange differences, net	2,598	1,056
Fair value losses on financial liabilities at fair value through profit or loss	(14,847)	–
Others	(787)	4,037
	(1,736)	5,336

6. Finance Costs

An analysis of finance costs from continuing operations is as follows:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Interest on loans from the intermediate holding company	200,115	1,485
Interest on bank loans	–	22
Interest on other loans	–	1,338
Imputed interest expense on convertible notes	54	1,434
	200,169	4,279

7. Profit before Tax

The Group's profit before tax from continuing operations is arrived at after charging:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Depreciation	752	310
Loss on disposal of property and equipment	–	23
Minimum lease payments under operating leases:		
– office premises	9,017	7,986
– office equipment	186	70
Employee benefit expenses (including directors' remuneration)	30,066	23,736

8. Income Tax Expense (Credit)

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Current – Hong Kong		
Charge for the period	23,215	–
Overprovision in prior period	–	(8)
	23,215	(8)
Deferred tax	43,989	–
	67,204	(8)

As at 30 June 2016, the Group did not recognise deferred tax assets of approximately HK\$21,094,000 (unaudited) (31 December 2015: HK\$15,287,000) in respect of tax losses amounting to approximately HK\$127,844,000 (unaudited) (31 December 2015: HK\$92,650,000) that can be used to offset future taxable income and which can be carried forward indefinitely as it was not considered probable that the tax losses can be utilised in the foreseeable future.

9. Discontinued Operations and Distributed Group

On 23 March 2015, the Company announced to undergo a group reorganisation (the “Group Reorganisation”) and to effect a distribution in specie of shares in Modern Series Limited (“MSL”), a then wholly-owned subsidiary of the Company (the “Distribution in Specie”). The Distribution in Specie was approved by the independent shareholders of the Company at a special general meeting held on 24 July 2015. MSL and its subsidiaries upon completion of the Group Reorganisation were collectively referred to as the “Distributed Group”. The principal activities of the companies which now comprised the Distributed Group were bullion and forex contracts broking and trading, provision of finance lease, pawn loan, medium and short term financing services and financial consultation services.

On 3 August 2015, the shares of MSL were distributed to the owners of the Company pursuant to the Distribution in Specie.

The results of the Distributed Group for the period are presented below:

	For the period from 1 May 2015 to 3 August 2015 HK\$'000
Revenue	30,945
Other income and gains or losses, net	9,599
Brokerage and commission expenses	(23)
Administrative and other operating expenses	(21,312)
Provision for impairment of finance leases receivable, and loans and accounts receivable, net	(9,818)
Finance costs	(1,685)
Profit before tax from the discontinued operations	7,706
Income tax expense	(2,348)
Profit for the period from the discontinued operations	5,358
Loss on reclassification of available-for-sale investment revaluation reserve in relation to the Distributed Group upon distribution of MSL	(1,511)
Loss on reclassification of foreign currency translation reserve from equity to profit or loss in relation to the Distributed Group	(10,604)
Income tax expenses arising on transfer of the Distributed Group	(9,061)
Loss for the period from discontinued operations	(15,818)

9. Discontinued Operations and Distributed Group (continued)

The major classes of assets and liabilities of the Distributed Group as at the date of distribution are as follows:

	3 August 2015 HK\$'000
<hr/>	
Assets	
Property and equipment	3,434
Goodwill	22,279
Available-for-sale investments	115,163
Finance leases receivable	115,106
Loan and accounts receivable	891,729
Prepayments, deposits and other receivables	16,850
Tax recoverable	16
Restricted bank balances	147
Cash and cash equivalents	87,474
	<hr/>
	1,252,198
Liabilities	
Accounts payable	(195)
Other payables and accruals	(54,276)
Interest-bearing borrowings	(70,975)
Tax payable	(9,001)
	<hr/>
	(134,447)
Net assets of the Distributed Group	<hr/> 1,117,751 <hr/>
Amount recognised in other comprehensive income and accumulated in equity directly related to the Distributed Group	
Negative currency translation reserve	(10,604)
	<hr/>
Negative available-for-sale investment revaluation reserve	(1,511)
	<hr/>
Net cash outflow arising on distribution in specie	
Cash and cash equivalents relinquished	87,474
	<hr/>

9. Discontinued Operations and Distributed Group (continued)

The net cash flows incurred by the Distributed Group are as follows:

	From 1 May 2015 to 3 August 2015 HK\$'000 (Unaudited)
Operating activities	586
Investing activities	(10,902)
Financing activities	(19,008)
Net cash outflow	(29,324)

10. Dividends

	Six months ended	
	30 June	31 October
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period:		
Special dividend, by way of the Distribution in Specie (note 9)	–	1,117,751

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2016 (31 October 2015: Nil).

11. Earnings per Share Attributable to Owners of the Company

From continuing and discontinued operations

The calculations of basic and diluted earnings per share from continuing and discontinued operations attributable to the owners of the Company are based on the following data:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company, used as earnings for the purpose of basic earnings per share	217,721	75,188
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	54	1,434
Earnings for the purpose of diluted earnings per share	217,775	76,622

	Number of shares	
	1 January 2016 to 30 June 2016 '000	1 May 2015 to 31 October 2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,336,130	2,149,319
Effect of dilutive potential ordinary shares on convertible notes issued	1,978	60,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,338,108	2,209,319

11. Earnings per Share Attributable to Owners of the Company (continued)

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	217,721	75,188
Adjusted for: loss for the period from discontinued operations	–	15,818
Profit for the purpose of basic earnings per share from continuing operations	217,721	91,006
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	54	1,434
Earnings for the purpose of dilutive earnings per share from continuing operations	217,775	92,440

On 7 January 2016, Mr. Cui Zhanhui, a then substantial shareholder of the Company and a holder of the zero coupon convertible notes issued by the Company converted the convertible notes in the total principal amount of HK\$30,000,000 into 60,000,000 ordinary shares of the Company. After the conversion, there is no outstanding convertible notes issued by the Company.

12. Financial Assets (Liabilities) at Fair Value through Profit or Loss

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Assets		
Non-current:		
Unlisted investments		
Convertible bonds and convertible notes, at fair value (note (i))	1,283,103	–
Convertible bonds with put option, at fair value (note (ii))	390,178	313,418
	1,673,281	313,418
Current:		
Listed investments		
Equity investments, at fair value (note (iii))	839,552	435,958
Unlisted investments		
Put options on listed equity investments, at fair value (note (iv))	90,230	2,388
	929,782	438,346
Liabilities		
Current:		
Non-controlling interests of unlisted consolidated investment fund, at fair value (note (vi))	(39,475)	–
Non-current:		
Unlisted investments		
Derivatives on listed equity investments, at fair value (note (v))	(20,100)	–
Non-controlling interests of unlisted consolidated investment fund, at fair value (note (vi))	(127,019)	(32,886)
	(147,119)	(32,886)

12. Financial Assets (Liabilities) at Fair Value through Profit or Loss (continued)

Notes:

- (i) On 3 February 2016, the Group set up a fund which acquired unlisted convertible notes with principal amount of US\$30,000,000, approximately HK\$233,625,000 equivalent and US\$40,000,000, approximately HK\$310,660,000 equivalent on 15 February 2016 and 10 March 2016, respectively, which were issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 4.5% per annum payable semi-annually, maturity on 15 February 2019 and 10 March 2019, and with conversion price of HK\$3.00 per share of the aforesaid listed company in Hong Kong. The convertible notes are freely transferrable. The fair value of the convertible notes amounted to approximately HK\$639,703,000 as at 30 June 2016, which was estimated by an independent firm of professional valuer. The Group does not expect that the convertible notes will be transferred to third parties by the Group within the next twelve months and has accordingly classified the convertible notes as non-current assets.

On 18 May 2016, the Group acquired unlisted convertible bonds, with principal amount of US\$20,000,000, approximately HK\$155,250,000 equivalent issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 6% per annum payable semi-annually, maturity on 18 November 2017, extendable on a mutually agreed basis, to 18 May 2019 with conversion price of HK\$0.86 per share of the aforesaid listed company in Hong Kong. The fair value of the convertible bonds amounted to approximately HK\$155,910,000 as at 30 June 2016, which was estimated by an independent firm of professional valuer. The Group does not expect that the convertible bonds will be transferred to third parties by the Group within the next twelve months and has accordingly classified the convertible bonds as non-current assets.

On 20 May 2016, the Group acquired unlisted convertible bonds, with principal amount of HK\$500,000,000 issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 7% per annum payable semi-annually, maturity on 20 May 2019 with conversion price of HK\$3.476 per share of the aforesaid listed company in Hong Kong. The fair value of the convertible bonds amounted to approximately HK\$487,490,000 as at 30 June 2016, which was estimated by an independent firm of professional valuer. The Group does not expect that the convertible bonds will be transferred to third parties by the Group within the next twelve months and has accordingly classified the convertible bonds as non-current assets.

- (ii) On 12 November 2015, the Group acquired unlisted convertible bonds with principal amount of HK\$275,000,000 which was issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 4% per annum payable quarterly, maturity on 12 November 2017, and extendable at the bondholder's sole and absolute discretion to 12 November 2018, with conversion price of HK\$0.77 per share of the aforesaid listed company in Hong Kong. On 13 November 2015, a put option was granted by an independent third party to the Group. The Group has the right to require the issuer of the put option to purchase all outstanding convertible bonds held by the Group anytime within the 30 days period prior to the maturity date of the convertible bonds at an agreed share price. The fair value of the convertible bonds amounted to approximately HK\$307,228,000 (31 December 2015: HK\$307,306,000) and the put option amounted to approximately HK\$82,950,000 (31 December 2015: HK\$6,112,000) as at 30 June 2016, which was estimated by an independent firm of professional valuer. The Group does not expect that the convertible bonds will be transferred to third parties by the Group within the next twelve months and has accordingly classified the convertible bonds as non-current assets.

12. Financial Assets (Liabilities) at Fair Value through Profit or Loss (continued)

Notes: (continued)

- (iii) The equity investments with fair value of approximately HK\$839,552,000 as at 30 June 2016 (31 December 2015: HK\$435,958,000) were securities listed in Hong Kong.
- (iv) On 30 December 2015, the Group purchased a put option at a consideration of approximately HK\$2,388,000 which gives the Group the right to require the issuer of the option, an independent third party, to purchase a maximum of 45,920,000 shares of a listed company in Hong Kong, at a pre-determined price. The option is exercisable any time within one year before the maturity date on 30 December 2016. The fair value of the put option amounted to approximately HK\$8,160,000 (31 December 2015: HK\$2,388,000) as at 30 June 2016, which was estimated by an independent firm of professional valuer.

On 30 March 2016, the Group purchased listed securities together with a put option at an aggregate consideration of approximately HK\$339,659,000. The put option gives the Group the right to require the issuer, an independent third party, to purchase a maximum of 190,798,000 shares of a listed company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date of the put option, the issuer shall purchase and the Group shall sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK\$82,070,000 as at 30 June 2016, which was estimated by an independent firm of professional valuer.

- (v) As at 30 June 2016, included in financial liabilities at fair value through profit or loss are the derivatives on listed equity investments entered into by the Group.

On 30 March 2016, the Group entered into a share purchase agreement with an independent third party ("Seller") in which the Group purchased the ordinary shares of a listed company in Hong Kong at an aggregate purchase price of approximately HK\$55,936,000. During the period from 30 March 2016 to 30 March 2018, the Group has the right to require the Seller to buy back in whole or in part all the outstanding shares at a pre-determined price under certain buy back conditions. On 30 March 2018, the Group shall sell to the Seller and the Seller shall purchase from the Group all the outstanding shares at a pre-determined price under certain buy back conditions. The fair value of the financial liability amounted to approximately HK\$20,100,000 as at 30 June 2016, which was estimated by an independent firm of professional valuer.

12. Financial Assets (Liabilities) at Fair Value through Profit or Loss (continued)

Notes: (continued)

- (vi) As at 30 June 2016 and 31 December 2015, included in financial liabilities at fair value through profit or loss are the non-controlling interests of unlisted consolidated investment funds.

As at 30 June 2016 and 31 December 2015, a wholly-owned subsidiary of the Group held 71% (31 December 2015: 71%) interests in Huarong International Asset Management Great China Investment Fund L.P. (the “GCI Fund”) as a limited partner (the “First-Tier Limited Partner”). According to the limited partnership agreement, at the end of the term of the GCI Fund, the First-Tier Limited Partner will be entitled to a priority return of its own capital contribution and a 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 and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund is classified as financial liabilities designated as at fair value through profit or loss of approximately HK\$39,475,000 (31 December 2015: HK\$32,886,000) as at 30 June 2016.

As at 30 June 2016, a wholly-owned subsidiary of the Group held 90% interests in Huarong International Asset Management Growth Fund L.P. (the “Growth Fund”) as a limited partner (the “First-Tier Limited Partner”). 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 8% per annum return of its invested capital. If the Growth Fund eventually holds the convertible notes till maturity (three year period), total minimum return of First-Tier Limited Partner 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 and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner is classified as financial liabilities designated as at fair value through profit or loss of approximately HK\$127,019,000 (31 December 2015: Nil) as at 30 June 2016.

13. Other Loans and Advances

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Other loans and advances	1,533,224	–
Less: Non-current portion	(920,159)	–
Current portion	613,065	–

Other loans and advances are neither impaired nor overdue as of 30 June 2016.

Other loans and advances included loans to independent third parties which are secured and/or backed by guarantees and collaterals, bearing interest at rates ranging from 7% to 9% per annum with contractual maturity ranging from one month to three years from 30 June 2016. 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.

Other loans and advances also included investments in a six-month unlisted guaranteed notes with 9% coupon rate per annum and a 8.5% redeemable fixed coupon notes with maturity of two years.

Interest income derived from other loans and advances was recognised as “interest income from other loans and advances”.

14. Advances to Customers in Margin Financing

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Loans to customers in margin financing	2,253,673	868,474
Less: provision for impairment	(11,572)	(1,951)
	2,242,101	866,523

The credit facility limits to customers in margin financing are determined by the market value of the collateral securities accepted by the Group.

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 which the customers have to make additional funds for the shortfall.

As at 30 June 2016, advances to customers were secured by pledged securities with market value of approximately HK\$12,076,957,000 (31 December 2015: HK\$5,287,325,000).

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
At beginning of period	1,951	3,285
Provision for/(reversal of) impairment losses, net	9,621	(1,334)
At end of period	11,572	1,951

No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in the view of the revolving nature of the business of securities margin financing.

15. Accounts Receivable

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Accounts receivable arising from		
– securities, futures and options dealing services		
– clients	15,147	9,614
– brokers, dealers and clearing houses	11,260	9,749
– corporate finance	10,487	26,366
– asset management		
– money lending	13,628	–
	50,522	45,729
Less: Provision for impairment	(209)	(220)
	50,313	45,509

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Current to 1 month	49,432	44,509
1 to 3 months	668	652
3 months to 1 year	132	237
Over 1 year	81	111
	50,313	45,509

15. Accounts Receivable (continued)

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
At beginning of period	220	278
Reversal of impairment losses, net	(11)	(58)
At end of period	209	220

16. Restricted Bank Balances

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

17. Cash and Cash Equivalents and Pledged Bank Deposits

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

18. Accounts Payable

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

As at 30 June 2016, accounts payable with carrying amount of approximately HK\$181,615,000 (31 December 2015: HK\$566,209,000) are interest-bearing at bank savings deposit rates.

19. Interest-Bearing Borrowings

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Non-current portion		
Loans from the intermediate holding company	7,758,500	3,875,250

As at 30 June 2016, the Group had loans (the “Company Loans”) amounting to US\$1,000 million (31 December 2015: US\$500 million) (approximately HK\$7,758,500,000 (31 December 2015: HK\$3,875,250,000)) from its intermediate holding company, China Huarong International Holdings Limited (“CHIH”) for the expansion of the Group’s business. The Company Loans bear interest at fixed interest rates ranging from 3.85% to 5.79% per annum (31 December 2015: 5.761% per annum) and are repayable in three to ten years (31 December 2015: three years) from the end of the reporting period.

As at 30 June 2016, the Group had revolving bank loan facilities which are secured by pledge of the Group’s time deposits with carrying amount of approximately HK\$10,414,000 (31 December 2015: HK\$10,353,000). The Group has not utilised these facilities at the end of the reporting period (31 December 2015: Nil).

In addition, as at 31 December 2015, the Company had provided corporate guarantees in respect of the Group’s banking facilities to the extent of HK\$30,000,000 and the Group did not utilise any of these banking facilities.

20. Share Capital

	Number of shares '000	Total value HK\$'000
Authorised Ordinary shares of HK\$0.001 each at 31 December 2015 and 30 June 2016	1,000,000,000	1,000,000
Issued and fully paid At 1 May 2015 (audited)	1,575,673	1,576
Issue of new shares (note (a))	1,702,435	1,702
At 31 December 2015 and 1 January 2016 (audited)	3,278,108	3,278
Issue of new shares upon conversion of convertible notes (note (b))	60,000	60
At 30 June 2016 (unaudited)	3,338,108	3,338

Notes:

- (a) Pursuant to the subscription agreement and its supplemental agreements, 1,702,435,038 subscription shares have been duly allotted and issued to Camellia Pacific Investment Holding Limited, a wholly-owned subsidiary of CHIH, on 31 August 2015. Immediately after the completion of the subscription, there are 3,278,107,918 shares of the Company in issue and the shareholding held indirectly by CHIH amounted to approximately 51.93% of the issued share capital of the Company as enlarged by the issue of the subscription shares.
- (b) On 7 January 2016, a total principal amount of HK\$30,000,000 convertible notes has been converted into 60,000,000 shares of the Company.

21. Operating Lease Commitments

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years (31 December 2015: one to three years), and those for office equipment are for terms of five years (31 December 2015: five years).

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within one year	18,563	12,409
In the second to fifth years, inclusive	1,977	826
	20,540	13,235

22. Related Party Transactions

In addition to the transactions and balances disclosed elsewhere to the condensed consolidated financial statements, the Group had the following related party transactions during the period:

- (a) Compensation of key management personnel of the Group, including directors' and the chief executive's remuneration, is as follows:

	Six months ended	
	30 June 2016 HK\$'000 (Unaudited)	31 October 2015 HK\$'000 (Unaudited)
Short term employee benefits	2,800	796

22. Related Party Transactions (continued)

- (b) During the period ended 30 June 2016, the Group had the following material transactions with related parties:

	Six months ended	
	30 June	31 October
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense to the intermediate holding company (Note (i))	200,115	1,485
Underwriting income from the ultimate holding company (Note (ii))	11,197	–

Notes:

- (i) During the period, CHIH provided the Company loans with an aggregate amount of US\$1,000,000,000 (31 December 2015: US\$500,000,000), approximately HK\$7,758,500,000 (31 December 2015: HK\$3,875,250,000). The Company Loans bear annual interest rate ranging from 3.85% to 5.79% (31 December 2015: 5.761% per annum) and repayable in three to ten years (31 December 2015: three years). Approximately HK\$121,082,000 (31 December 2015: HK\$30,387,000) interest payable was incurred on the loans as at 30 June 2016.
- (ii) During the period, the Group earned underwriting income from the ultimate holding company, China Huarong Asset Management Co., Ltd., in respect of the listing and initial public offering of its shares.

The Group is indirectly controlled by China Huarong, which is indirectly controlled by the PRC government through the Ministry of Finance (the “MOF”). MOF is the major shareholder of China Huarong as at 30 June 2016. For the current period, in addition to those disclosed above, the Group has undertaken transactions with certain entities directly or indirectly owned by the PRC government, including receiving loan facilities and rendering underwriting services. The Group is of opinion that these transactions are in normal business terms that do not require separate disclosure.



23. Fair Value and Fair Value Hierarchy of Financial Instruments

Fair value of the Group's financial assets (liabilities) are measured at fair value on a recurring basis.

Some of the Group's financial assets (liabilities) are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets (liabilities) are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

23. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

An analysis of the Group's financial assets (liabilities) measured at fair value as at 30 June 2016 and 31 December 2015 are as follows:

	Fair value as at 30 June 2016 HK\$'000	Fair value as at 31 December 2015 HK\$'000	Fair value hierarchy	Basis of Fair value measurement/ valuation techniques and key inputs	Significant unobservable inputs	Reasonable change in key inputs +/-	Increase (decrease) in fair value of financial instruments by reasonable changes in significant inputs
Recurring fair value measurements:							
Financial assets (liabilities) designated at fair value through profit or loss:							
– Unlisted investments							
Convertible bonds and convertible notes	1,673,281	313,418	Level 3	Note (a)	Volatility ranging from 46.38% to 67.44%	10% (volatility rate ranging from 41.74% to 74.18%)	Increase/decrease in volatility: HK\$18,923,000/ HK\$(28,355,000)
					Discount rate ranging from 11.80% to 25.35%	10% (discount rate ranging from 10.62% to 27.89%)	Decrease/increase in discount rate: HK\$42,448,000/ HK\$(39,461,000)
– Unlisted investments							
Put options on listed equity investments	90,230	2,388	Level 3	Note (b)	Volatility ranging from 39.00% to 46.28%	10% (volatility ranging from 35.10% to 50.91%)	Increase/decrease in volatility: HK\$10,223,000/ HK\$(10,216,000)
					Risk free rate ranging from 0.82% to 0.88%	10% (risk free rate ranging from 0.74% to 0.97%)	Decrease/increase in risk free rate: HK\$331,000/ HK\$(332,000)

23. Fair Value and Fair Value Hierarchy of Financial Instruments

(continued)

	Fair value as at 30 June 2016 HK\$'000	Fair value as at 31 December 2015 HK\$'000	Fair value hierarchy	Basis of Fair value measurement/ valuation techniques and key inputs	Significant unobservable inputs	Reasonable change in key inputs +/-	Increase (decrease) in fair value of financial instruments by reasonable changes in significant inputs
- Unlisted derivatives							
Derivatives on listed equity investments	(20,100)	-	Level 3	Note (b)	Volatility 66.94%	10% (volatility ranging from 60.25% to 73.63%)	Increase/decrease in volatility: HK\$(401,000)/ HK\$371,000
					Risk free rate 0.83%	10% (risk free rate ranging from 0.75% to 0.91%)	Decrease/increase in risk free rate: HK\$(82,000)/ HK\$82,000
- Listed investments							
Equity investments, at fair value	458,498	-	Level 1	Note (d)	N/A	N/A	N/A
- Non-controlling interests of unlisted consolidated investment fund	(39,475)	(32,886)	Level 2	Note (c)	N/A	N/A	N/A
- Non-controlling interests of unlisted consolidated investment fund	(127,019)	-	Level 3	Note (c)	Volatility ranging from 52.78% to 53.29%	10% (volatility ranging from 47.50% to 58.62%)	Increase/decrease in volatility: HK\$(16,574,000)/ HK\$699,000
					Discount rate ranging from 17.76% to 17.77%	10% (discount ranging from 15.98% to 19.55%)	Decrease/increase in discount rate: HK\$(22,657,000)/ HK\$1,020,000
Financial assets held for trading:							
- Listed investments							
Equity investments, at fair value	381,054	435,958	Level 1	Note (d)	N/A	N/A	N/A

23. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Notes:

- (a) Discounted cash flows model for debt component. The key inputs are credit rating of the issuer, cash flows, discount rate and remaining time to maturity. Binomial option pricing model for equity component. The key inputs are exercise price of the options, current share price of the underlying assets of the options, expected volatility, time to maturity, risk free rate, dividend yield and discount rate.
- (b) Binomial option pricing model. The key inputs are exercise price of the options, current share price of the underlying assets of the options, expected volatility, time to maturity, risk free rate, dividend yield and discount rate.
- (c) Share of net asset value based on (i) the fair value of underlying investments which are publicly traded equity investments or the fair value of unlisted convertible investments and (ii) the terms of the consolidated investment funds.
- (d) Quoted bid price in an active market.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

There was no transfers of fair value measurements between Levels 1 and 2 in the current interim period.

The reconciliation of the Group's Level 3 fair value measurements of financial assets and financial liabilities are as follows:

	HK\$'000
Financial assets at fair value through profit or loss:	
At 1 May 2015	–
Purchased during the period	277,388
Interest earned during the period	(1,497)
Fair value gain recognised on financial asset designated as at fair value through profit or loss	39,915
At 31 December 2015	315,806
At 1 January 2016	315,806
Increase during the period	1,447,705
At 30 June 2016	1,763,511

23. Fair Value and Fair Value Hierarchy of Financial Instruments

(continued)

	HK\$'000
Financial liabilities at fair value through profit or loss:	
Derivatives on listed equity investments	
At 1 January 2016	–
Increase during the period	20,100
At 30 June 2016	20,100
Financial liabilities at fair value through profit or loss:	
Non-controlling interests of unlisted consolidated investment fund	
At 1 January 2016	–
Net gains during the period	65,259
Contribution from second-tier limited partners of consolidated investment fund during the period	61,760
At 30 June 2016	127,019

24. Acquisition of Subsidiaries

On 21 July 2015, the Group acquired the entire issued share capital of Brilliant Focus Limited (“Brilliant”) from an independent third party, at a total consideration of RMB1,170,000 (approximately HK\$1,462,000), which is principally engaged in investment holding.

On 18 August 2015, the Group acquired the entire issued share capital of Skymart Global Limited (“Skymart”) from an independent third party at a cash consideration of HK\$1,000,000, which is principally engaged in the provision of money lending business.

24. Acquisition of Subsidiaries (continued)

The fair value of the identifiable assets and liabilities of Brilliant and Skymart at the date of acquisition were as follows:

	Brilliant HK\$'000	Skymart HK\$'000	Total HK\$'000
Non-current asset			
Intangible assets	1,462	966	2,428
Current asset			
Prepayments, deposits and other receivables	–	34	34
	1,462	1,000	2,462

Net cash outflow arising on the acquisition of subsidiaries is as follows:

	HK\$'000
Consideration paid in cash	(2,462)
Less: Cash and cash equivalent balances acquired	–
	(2,462)

25. Contingent Liabilities

Huarong International Securities Limited (“HISL”), an indirectly wholly owned subsidiary of the Group, was joined as the 10th defendant to the High Court action HCA 64/2012 commenced by Mayer Holdings Limited (“Mayer”) as plaintiff (the “Action”) and was served with the Re-amended Writ of Summons and Re-amended Statement of Claim for the Action. Mayer is claiming against HISL for damages for, among other things, breach of contract. HISL has sought legal advice on the alleged claims against it. Based on their understanding of the factual background concerning the alleged claims against HISL, the Directors consider that HISL has a defence of merit and will therefore direct HISL to defend the alleged claims strenuously. HISL was in the course of providing relevant information to the High Court and there was no substantial progress as at 30 June 2016 and up to the date of authorisation for issue of these condensed consolidated financial statements.

26. Events after the End of the Reporting Period

On 1 August 2016, the Group acquired notes with principal amount of US\$30,000,000, approximately HK\$232,770,000 equivalent issued by an independent third party, fixed interest rate of 3.8% per annum payable semi-annually and maturity on 2 August 2019.

On 8 August 2016, the Group acquired notes with principal amount of HK\$200,000,000 issued by an independent third party, fixed interest rate of 5% per annum payable semi-annually and maturity on 8 August 2017.

SUPPLEMENTARY INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2016, none of the Directors nor Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code").

Interests and Short Positions of Substantial Shareholders

As at 30 June 2016, so far as was known to the Directors and the Chief Executive of the Company, the following persons (other than any Director or Chief Executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholder	Note	Capacity/ Nature of interest	Long position/ short position	Number of Shares held	Approximate percentage of issued share capital
Camellia Pacific Investment Holding Limited ("Camellia")	1	Beneficial owner	Long position	1,702,435,038	51.00%
China Huarong Asset Management Co., Ltd. ("China Huarong")	1	Interests in controlled corporation	Long position	1,702,435,038	51.00%

Name of Shareholder	Note	Capacity/ Nature of interest	Long position/ short position	Number of Shares held	Approximate percentage of issued share capital
China Huarong International Holdings Limited ("CHIH")	1	Interests in controlled corporation	Long position	1,702,435,038	51.00%
Able China Investments Limited ("Able China")	2	Beneficial Owner	Long position	270,000,000	8.09%
Wong Pui Hoi	2	Interests in controlled corporation	Long position	270,000,000	8.09%
Cui Zhanhui		Beneficial Owner	Long Position	318,624,396	9.55%
Tong Liang	3	Interests in controlled corporation	Long Position/ Short Position	111,081,000/ 111,081,000	3.33% 3.33%
Tong Liang		Beneficial Owner	Long Position/ Short Position	60,120,000/ 15,247,000	1.80% 0.46%

Notes:

- 1,702,435,038 Shares were beneficially owned by Camellia which is wholly owned by CHIH. CHIH was in turn owned as to 11.90% by Huarong Zhiyuan Investment & Management Co., Ltd. and 88.10% by Huarong Real Estate Co., Ltd. both of which were wholly owned by China Huarong. Therefore, China Huarong and CHIH were deemed or taken to be interested in all the Shares beneficially owned by Camellia by virtue of the SFO.
- Able China was interested in 270,000,000 Shares. Able China was wholly owned by Mr. Wong Pui Hoi, therefore, Mr. Wong Pui Hoi was deemed to have interests in the Shares owned by Able China by virtue of the SFO.
- Super Century Investments Limited was interested in 111,081,000 Shares. Super Century Investments Limited was wholly owned by Mr. Tong Liang. Therefore, Mr. Tong Liang was deemed to have interests in the Shares owned by Super Century Investments Limited.

Save as disclosed above, the Company had not been notified and is not aware of any other persons who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30 June 2016.

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 Period.

Compliance with Corporate Governance Code

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016, save for the deviations as described below:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Liu Xiaodong assumed the roles of both the chairman and the chief executive officer of the Company from 14 March 2016 till 13 June 2016, the day on which Mr. Huang Rui was appointed as the chief executive officer of the Company and the Company re-complies with this code provision since then.

Pursuant to code provision A.5.1 of the CG Code, a nomination committee shall comprise of a majority of independent non-executive directors. However, upon Mr. Tse Yung Hoi ("Mr. Tse") ceasing to act as a member of the Nomination Committee on 13 June 2016, the Nomination Committee did not comprise a majority of independent non-executive directors. On 19 August 2016, Mr. Ma Lishan was appointed to act as a member of the Nomination Committee, the Nomination Committee of the Company has re-complied with this code provision since then.

Non-Compliance with Listing Rules

Following the resignation of Mr. Tse on 13 June 2016, the Board comprises of only two independent non-executive directors which fall below the minimum number required under Rule 3.10(1) of the Listing Rules. As Mr. Tse also served as a member of the Audit Committee, the number of members in the Audit Committee has decreased from three to two, which falls short of the minimum number required under Rule 3.21 of the Listing Rules.

On 19 August 2016, Mr. Ma Lishan was appointed as independent non-executive Director and a member of each of the Audit Committee and Nomination Committee of the Company in place of Mr. Tse. The Company re-complies with the requirements under Rule 3.10(1) and Rule 3.21 of the Listing Rules and the code provision A.5.1 of the CG Code.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors of the Company. In response to specific enquiry by the Company, all Directors confirmed that they have fully complied with the required standard as set out in the aforesaid Model Code throughout the six months ended 30 June 2016.



Change in Information of Director

Pursuant to Rule 13.51(B) of the Listing Rules, the change in information of Director of the Company subsequent to the date of the 2015 Annual Report of the Company is as follows:

- (i) Dr. Wong Tin Yau Kelvin (“Dr. Wong”), an independent non-executive Director of the Company, retired as independent non-executive directors of AAG Energy Holdings Limited and Xinjiang Goldwind Science & Technology Co., Ltd. with effect from 28 April 2016 and 29 June 2016, respectively;
- (ii) Dr. Wong ceased to act as convenor-cum-member of the Financial Reporting Review Panel with effect from 15 July 2016; and
- (iii) Mr. Ma Lishan, an independent non-executive Director of the Company, ceased to act as senior consultant in Hao Tian Development Group Limited with effect from 8 August 2016.

Review of the Interim Financial Statements

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016, including the accounting principles and practices adopted by the Group.

The Group’s external auditors have carried out a review of the unaudited interim condensed consolidated financial statements in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditors of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants.



華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED